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Confidential

AGENCY RELATIONS OF FEDERAL RESERVE BANKS WITH
INTERNATIONAL FUND AND BANK

The Bretton Woods Agreements Act specifically requires any Federal Reserve Bank which is requested to do so by the International Fund or the International Bank to act as its depository or fiscal agent; but the Board of Governors is required to supervise and direct the Reserve Banks in carrying out such functions.

Presumably, the chief purpose for which the Federal Reserve Banks would be used by the International Fund or Bank would be as custodians of gold, dollars, and securities held by the Fund and the Bank. In addition, the Reserve Banks will doubtless be requested to effect certain international monetary and exchange transactions on behalf of the Fund and the Bank.

For example, the International Fund presumably would have a dollar deposit, as well as gold under earmark, at the Federal Reserve Bank of New York, and also probably nonnegotiable demand notes of the United States. The Fund might request the Federal Reserve Bank as its agent to sell gold owned by the Fund for dollars, to make transfers from its dollar account to the account of some other foreign government, stabilization fund, or treasury, or to submit the nonnegotiable demand notes for redemption by the United States. In addition, the Federal Reserve Bank of New York might be requested by the United States stabilization fund to effect certain transactions between itself and the International Fund, such as the substitution of demand notes for part of the International Fund's dollar account or the payment of dollars to the account of the International Fund from the account of the United States stabilization fund.

As far as the International Bank is concerned, it also probably will hold at the Federal Reserve Bank of New York a dollar deposit, nonnegotiable demand notes, and a small amount of gold. Likewise, the International Bank might request the Federal Reserve Bank of New York as its agent to sell gold owned by the International Bank for dollars, to make transfers from its dollar account with the Reserve Bank to the account of a foreign borrower, to sell dollars for foreign currencies, to present nonnegotiable demand notes of the United States for redemption, or to request further payments on the subscriptions by the United States to the International Bank.

It seems probable that the Fund and Bank will deal principally with the Federal Reserve Bank of New York and that, if such is the case, the New York Reserve Bank will operate along substantially the same lines

as it now functions for the stabilization fund of the Treasury Department. It is assumed that the Federal Reserve Bank of New York will be prepared to enlarge its staff, as well as rearrange its vault space, to enable it to perform such fiscal agency functions as may reasonably be expected of it.

The law expressly provides that the Board of Governors of the Federal Reserve System "shall supervise and direct" the Federal Reserve Banks in carrying out their functions as depositories or fiscal agents for the International Fund and Bank. Apparently, if a particular Federal Reserve Bank did not wish to act as fiscal agent upon the request of the International Fund or the International Bank, the Board would have power to direct the Reserve Bank to comply with such request. It is clear that the Board will be charged with the responsibility of prescribing regulations or issuing instructions governing the operations of the Federal Reserve Banks. Such regulations or instructions might provide that the Federal Reserve Banks shall act as fiscal agents only upon certain conditions, for example, that they shall be reimbursed for the expense of their services or that they shall be exempt from liability other than for their own negligence.

In view of the broad supervisory powers conferred upon the Board of Governors with respect to the agency operations of the Federal Reserve Banks, it would appear necessary for the Board and its staff to keep themselves currently familiar with such operations. Presumably, the Board would obtain periodical and special reports from the Federal Reserve Banks as to the nature and extent of their activities on behalf of the International Fund and Bank.