FEDERAL RESERVE BANK

OF NEW YORK 7

October 15, 1946.

Mr. M. S. Eccles, Chairman,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Marriner:

The question of the role of the commercial banks with respect to the securities of the International Bank for Reconstruction and Development seems to be to the fore at the moment. I have been considering this question and I thought you might like to know my present views.

It seems to me that the banks should do everything they can to educate the public with respect to these securities and to facilitate their distribution, but that too much reliance should not be placed on the commercial banks as a market for what must be essentially long-term obligations. There is an obvious role for banks to play in advising their customers, and for the larger banks in advising their correspondents. It also seems clear to me that the securities of the International Bank should be qualified as "investment securities" so that the commercial banks may purchase them subject to the general statutory limitation -- 10% -- on the obligations of any one obligor that a particular banking institution may acquire. This is important not only because it will permit some bank investment in the securities of the International Bank, but even more, perhaps, because it will help to establish the investment character of the obligations with other buyers. Finally, I think that the banks might well be authorized to buy and sell the securities of the International Bank on a brokerage basis (that is, "without recourse, solely upon the order, and for the account of, customers") for profit. As the administrative ruling of the Comptroller, if not the law, now stands, a bank may not charge any commission or fee in excess of the fair cost of handling such transactions. Banks would appear to run little risk in buying and selling the International Bank's securities on a brokerage basis for profit and it would facilitate the distribution of the securities if they were permitted to do so.

When you go beyond these things you enter a doubtful area, in which special privileges or concessions with respect to commercial bank participation in the marketing and distribution of securities of the International Bank may be unwise and might conceivably retard the development of a broad investment market. A borderline case is the question of dealing by commercial banks in the securities of the International Bank. There would be some leeway for bank dealing in the securities if they are qualified as investment securities. I would want to be convinced that it is necessary to go beyond that. The present exemptions in Section 5136, Revised Statutes, are tied up in one way or another with the credit of the United States Government or the credit of States and municipalities. We do not want to confuse this situation further. I would not favor increasing the 10% limitation specifically for the securities of the International Bank, and I think it would be unwise to suggest a major change

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in the legislative policy expressed in the Banking Acts of 1933 and 1935 which now prohibit commercial banks from engaging in the underwriting of securities.

Personally, I think there is too much concern about the marketability of the securities of the International Bank, and therefore too much of a tendency to seek special privileges for them. I am so convinced that the securities of the Bank will be a good investment that I think what is needed is a broad educational campaign and selling effort, not special privilege. Unless the Bank's securities are issued in too large amounts and within too short a time, which is unlikely and would be unwise, they should find a good market, assuming that they are not priced too fine and that adequate commissions are allowed on sales. It is important that these securities establish themselves with non-bank investors on their merits -- important for us and important for the International Bank. This I am confident they can do.

You will understand that these are my present views and that I am open to argument which might lead to their modification.

Yours sincerely,

Allan Sproul.

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OCT 21 1946

Mr. Allan Sproul, President,
Federal Reserve Bank of New York,
New York 7, New York.

Dear Allan:

I was very interested to receive your letter of October 15, 1946 stating your views concerning the proper role of commercial banks in relation to the securities of the International Bank for Reconstruction and Development.

In general I agree entirely with your conclusions and especially with your statement that "What is needed is a broad educational campaign and selling effort, not special privilege." I would be opposed to seeking any change in present legislation aimed at granting special privileges to the International Bank securities. I do not believe that such changes are necessary or desirable, or that Congress would accept them.

It remains possible, as you point out, for the Comptroller of the Currency to issue administrative rulings making some minor concessions to the commercial banks which desire to assist in the distribution of the Bank's securities in our market. I have some reservations as to whether even steps of this character should be taken; however, technical study is being given both here and at other governmental agencies concerned to the question of how much freedom of action the Comptroller of the Currency has under the law, and I expect that before any action is taken by the Comptroller the results of these studies will be discussed in the National Advisory Council. I shall keep you informed of the progress of the technical studies and of the results of National Advisory Council discussions concerning the matter.

Sincerely yours,

(Signed) Marriner S. Eccles

M. S. Eccles,
Chairman.

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