

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 22, 1946

To Chairman Eccles

Subject: Authority for investment by
International Bank in U.S.
Government securities.

From J. Burke Knapp



I am sending copies of the attached memorandum to the members of the N.A.C. Staff Committee with a view to clarifying the question of whether the International Bank needs to get N.A.C. approval for investment of its idle funds in U.S. Government securities and, if so, whether the N.A.C. should take formal action to grant this consent. It is my feeling that this matter has been badly mishandled between Pete Collado and the Treasury people with the result that the record as it now stands is very uncertain and confused. I shall inform you of progress on this matter.

Attachment



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 22, 1946

To: Members of National Advisory Council Staff Committee.

From: Mr. Knapp

Subject: Authority for investment by International Bank in
U. S. Government securities.

In his report No. 15, the U. S. Executive Director of the International Bank notified the National Advisory Council of a resolution of the Executive Directors authorizing the President to purchase short-term securities of the U. S. Government with the two per cent of the Bank's capital required to be paid in gold or U. S. dollars (NAC Document 229, dated September 24, 1946 contains the full text of the resolution). The resolution also authorizes the resale from time to time of such securities. Pursuant to the resolution, the Bank invested \$125,000,000 in U. S. Treasury certificates of indebtedness at the end of last month.

It would be desirable for the Council to learn the basis on which the Executive Directors determined that these transactions are within the powers of the Bank under its Articles of Agreement, and especially to learn whether this implies a similar determination regarding the Bank's power to invest the proceeds of its debenture issues (which may involve much larger amounts than are involved in the present transaction). This matter is of particular importance since the question of whether such transactions require specific approval by the Council is involved.

If the Directors have found that such transactions do not require the consent of the U. S., the basis for their finding should be made clear to the Council. Article IV, Sec. 8 (i) of the Bank's Articles of Agreement authorizes transactions very similar to those in question, but purchases (and sales) of U. S. Government securities under powers derived from this clause would require the approval of the N.A.C.

If the Directors have found that the consent of the U. S. is required, then the Council's Action No. 71 of July 2, 1946 should be re-examined to determine whether it constitutes the giving of such consent. The second paragraph of this action reads as follows:

"The Council advises the United States Executive Director that it sees no objection at this time to the use of dollars received in payment of the first 2 percent of the price of any member's share for the purchase of U. S. Government securities if the Bank finds that it has adequate authority to purchase U. S. Government securities. The Council also sees no objection at this time to the Bank's disposing of such securities from time to time as the Bank sees fit."

This action would appear on its face to constitute merely advice by the Council to the U. S. Executive Director, indicating to him the position that the Council would probably take if it should receive a formal request from the Bank. This appearance is confirmed by the following passage in the minutes of Meeting 32 of the Council:

"Mr. Szymczak suggested that Mr. Collado find out what the provisions of the Articles of Agreement require. If they require that investment of dollars in U. S. securities be approved by the United States Government (acting through the National Advisory Council), then the question will be submitted in a formal manner."

I would also add my personal recollection that the second sentence of the foregoing reflects a specific statement made by the Chairman of the Council which met with general agreement.

In short, it is suggested that if N.A.C. approval is required for these investments by the Bank, the request for and the granting of such approval might more appropriately have followed the formal channel of communication to and from the Chairman of the N.A.C. as provided in N.A.C. Action No. 79 of July 23, 1946.