

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

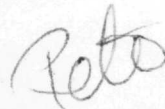
OFFICE OF THE
UNITED STATES
EXECUTIVE DIRECTOR

November 29, 1946

Dear Marriner:

There is attached the replies received from Mr. Edward E. Brown to a list of questions prepared by the N.A.C. staff committee, on the subject of commercial bank dealing in the obligations of the International Bank.

Sincerely yours,



Emilio G. Collado
U. S. Executive Director

Mr. Marriner S. Eccles,
Chairman, Board of Governors,
Federal Reserve System,
Washington, D.C.

1. With respect to dealing and distributing by the commercial banks:

(a) What present dealing and distributing facilities are available to the International Bank among (1) investment bankers, (2) brokers and dealers, (3) others?

(b) Would legislation to permit dealing and distributing of Bank's bonds by commercial banks generate any resentment or antagonism from the regular brokers and dealers?

(c) Would it be advantageous or disadvantageous from the point of view of the market stability of the Bank's bonds that there should be additional dealers, to wit the commercial banks?

(d) To what extent do commercial banks now deal and distribute municipal bonds and others of the exempt class?

(e) How many banks have distributing departments or facilities, and how are these banks located geographically?

(f) With what types of investors do commercial banks now place bonds of the exempt class? Is it anticipated that the same types of investors would be customers for the Bank's bonds?

(g) What kinds of selling methods do the commercial banks use in dealing and distributing--e.g. do they execute orders on a commission basis; do they execute orders as dealers on a discount basis; do they offer bonds for sale over the telephone; do they employ bond salesmen?

(h) What kind of selling methods would the banks use in dealing in and distributing the Bank's bonds?

(i) Approximately what commission would the commercial banks charge on orders or at what discount would they be interested in taking down for resale bonds of the International Bank?

(j) To what extent would commercial banks act as dealers and distributors in (1) short term bonds of the Bank, (2) medium term bonds, and (3) long term bonds?

(k) Would commercial banks as dealers carry substantial inventories of (1) short term bonds of the Bank, (2) medium term bonds, and (3) long term bonds? Would they take short positions in the Bank's bonds?

(l) Would commercial banks in distributing the bonds of the International Bank assume their liabilities as underwriters under the Securities Act of 1933?

- (a) There are approximately 2200 members of the National Association of Security Dealers, and it seems fair to assume that practically all of them would be interested in bonds of The International Bank.
- (b) While a great many brokers and dealers are pleased with the present prohibition against commercial banks dealing in corporate securities, bonds of The International Bank would be something new and unfamiliar to the investing public, and I believe the dealers would feel that it was helpful to public confidence in the bonds to have commercial banks dealing in them.
- (c) Permitting commercial banks to deal in the bonds would broaden the market and would be advantageous from the point of view of market stability.
- (d) There are about 100 commercial banks who are members of the Investment Bankers Association, and at least 75% of this number are active in the purchase and sale of municipal bonds. These banks distribute several hundred million dollars of municipal bonds annually, and those trading in Government bonds do a volume running into billions of dollars.
- (e) The commercial banks dealing in municipal bonds have regular departments for this purpose, and they are located in all of the larger cities in the country.
- (f) Commercial banks generally place exempt bonds with their larger commercial customers and with institutional investors. If the bonds are to be exempt from Income Taxes, the same types of investors would be customers for the bonds of The International Bank. If the bonds are not exempt from Income Taxes, the interest return would be higher and the commercial banks would reach a much larger group of investors by reason of their customer relationship in other departments of the bank.
- (g) Selling methods used by commercial banks are substantially the same as those used by dealers. The commercial banks take a position in the securities which they sell, and sell as principal in the great majority of instances. Occasionally orders are executed on a discount basis. Bonds are offered to customers by telephone, circularization by mail, and personal solicitation by the bond salesmen.
- (h) Presumably, the selling methods the commercial banks would use in distributing bonds of The International Bank would be similar to those described in (g) above.

- (i) At the present time the margin of profit in municipal bonds varies from $1\frac{1}{2}\%$ to $1\frac{3}{4}\%$; there are times when the spread is less. The attitude of the commercial banks as to the amount of discount would not differ greatly from that of the dealers.
- (j) Commercial banks probably would deal in any maturity of The International Bank bonds to the extent of their distributing capacity.
- (k) Most commercial banks as dealers would carry inventories of any maturities of The International Bank bonds, the size of the inventory depending on the market activity. It is unlikely that a commercial bank would take a short position in the bonds.
- (l) If it should be held that there was a legal liability on the part of banks for distributing bonds of The International Bank under the Securities Act of 1933, banks with bond departments undoubtedly would be willing to assume this liability.

Nov. 23, 1946