

~~Give~~ to Miss Egbert early  
and say it is extremely  
urgent. The Chairman  
will receive a call from  
Treasury concerning the  
matter.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date June 19, 1947

To Chairman Eccles

Subject: \_\_\_\_\_

From J. Burke Knapp

Late this afternoon while in the Treasury Department I was shown a proposed exchange of letters between the International Bank and Secretary Snyder as Chairman of the NAC by which the U.S. Government would grant certain authorities to the International Bank in connection with its security issues. I was informed that the International Bank required clearance of these letters by tomorrow in order to permit their proceeding with the filing of a registration statement covering their first issue.

The first two authorities requested by the Bank are perfectly straightforward and I had no hesitation in giving the Treasury our clearance on the proposed letter. The third point raised, however, presents difficulties and the matter will probably be taken up with you tomorrow.

With respect to the first two points the U. S. Government is asked

a) to confirm that it has no objection to the Bank's issuing debentures in this market in amounts up to 500 million dollars (you will recall that the Council instructed the U. S. Executive Director to inform the Bank that such a request would be granted), and

b) to approve the Bank's converting the dollar proceeds from debentures into third currencies to the extent that such currencies are required for the Bank's operations (it has always been understood that the United States would not try to "tie" the dollars borrowed by the Bank, although the earlier Council action did not specifically cover this point.)

With respect to the third point, the proposed letter from the Bank would read as follows:

"The Government of the United States is hereby further requested, pursuant to Section 8 of Article IV of said Articles of Agreement, to confirm its approval of the Bank from time to time buying and selling any such bonds or other obligations which shall be so issued by it."

and the draft reply prepared in the Treasury simply granted this authority to the Bank with respect to the first 500 million dollars of the Bank's issues.

I stated, however, that I could not clear this matter without consultation with you since this was a new request not hitherto considered by the Council and especially since I thought it might be desirable to

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make some reference to consultation with the Federal Reserve System (perhaps the Open Market Committee) in connection with the timing of these operations.

Following my return to my office I received a telephone call from the Treasury saying that this suggestion had been passed on to the Bank and that the Bank was perfectly willing to agree informally to engage in such consultation. They are anxious, however, not to have any qualification attached to the official letter of approval from the U. S. Government and urged that this matter be settled tomorrow. I further understand that somebody in the Bank or in the Treasury will be calling you on the matter.

I should only like to add that I do not see why we should be pressured into an immediate decision on this question. The first two points referred to in the above memorandum must be settled before the Bank files any registration statement. I am not sure, however, that the registration statement will contain any statements relating to the Bank's intentions with regard to buying and selling its debentures, and even if such statements are contemplated they could be incorporated by an amendment to the original registration statement to be filed, say, sometime next week. Alternatively, if we are forced to take action at once, perhaps the approval given to the Bank for operations in its own securities could be qualified by the words "until further notice" or some other phrase indicating that the authority now given is not irrevocable.

Incidentally, this same problem of consultation by the International Bank with the Federal Reserve System arises in connection with the Bank's operations in U. S. Government securities. This subject is covered on pages 4-6 of my memorandum to you dated February 4, 1947, which we have never found an opportunity to discuss. I should especially like to call your attention to the fact that the New York Bank has put the International Bank on notice that its operations in our market for U. S. Government securities must conform to System policy. From the point of view of money market effects, since the International Bank will be operating with "Federal funds", it is perhaps just as important to assure consultation on the Bank's operations in the market in its own securities.