

June 8, 1948.

Governor Szymozak

Reserve Banks' Assistance

Frederic Solomon and
Lewis H. Dembitz

to ECA.

Pursuant to your instructions, the two of us and Mr. Norman Davis of the Federal Reserve Bank of New York met on Friday, June 4, with Mr. Eric Kohler, Comptroller, and Mr. Clarke L. Simpson, Assistant Comptroller of the ECA.

As you know, the ECA people wish to avoid the interest cost (and possible resulting criticism) that might follow if there were delay between the time when a commercial bank makes a payment under a letter of commitment and the time when it is reimbursed. They are especially anxious to work out an arrangement quickly in connection with paying for purchases for the U.S.-U.K. Zone of Germany, because they feel that an interest charge would be especially hard to defend in what amounts to a transfer between two Government agencies.

We met in Mr. Simpson's office, and the attached memorandum was agreed to at the end of the meeting as representing the tentative consensus.

Mr. Kohler checked over the phone with Mr. Bartelt of the Treasury who was agreeable, in general, to the outlined procedure. It was understood that Treasury and ECA would need to clear certain points with the General Accounting Office, and Mr. Simpson was to work on that.

The two of us and Mr. Davis agreed to pursue the matter further within the System, and with that in mind, the three of us discussed the matter with Mr. Smead. Mr. Myrick joined the discussion and so did Mr. McCreehy of the Philadelphia Reserve Bank who happened to be in Washington.

At Mr. Smead's suggestion, Mr. Davis will attempt to (1) have worked out promptly an arrangement whereby transactions for the Bizone of Germany can be handled at the Federal Reserve Bank of New York and (2) have set up at the New York Reserve Bank the broader arrangements in connection with letters of commitment to commercial banks.

The thought in the latter case was that the other Reserve Banks would be kept advised when developments begin to reach a more tangible

stage, and the arrangement might later be broadened to include other Reserve Banks if that seemed desirable.

Mr. Davis is to keep us posted on developments, and we have thought that the Board might wish to advise other Reserve Banks at appropriate stages.

You may be interested in a related but slightly different point. A good deal of procedure may be involved when a country's large "procurement authorization" (for example, for several million tons of steel) is broken down into individual orders and commitments for much smaller amounts. In the discussions with Mr. Kohler and Mr. Simpson, Mr. Davis suggested that it might help to keep procedures flexible and encourage the use of normal trade channels if the Reserve Banks would "keep books" on the breaking up of the "authorizations" into individual letters of commitment - and perhaps actually issue the individual letters on behalf of the ECA.

Mr. Kohler and Mr. Simpson showed little interest in the suggestion. However, Mr. Davis later happened to mention the idea to Mr. Charles H. Willard, a New York lawyer temporarily with ECA, and Mr. Willard expressed considerable enthusiasm. He said the proposal is not directly in the Kohler-Simpson field - they deal chiefly with the paying of commitments while this relates to the procedure for setting them up. He wanted to pass the idea along to those dealing with the latter subject, and we may hear more about it.

Attachment

FS/LND:sad

MEMORANDUM OF TENTATIVE PROCEDURE BETWEEN ECA AND FEDERAL RESERVE BANK

In connection with financing procurement the following suggestions were discussed at a meeting attended by Mr. Norman Davis of Federal Reserve Bank of New York, Mr. Dembitz and Mr. Solomon of the Board of Governors of the Federal Reserve System of Washington, Mr. Kohler and Mr. Simpson.

In connection with the Bizone Germany purchases consideration was given to drafts being drawn on the ECA payable at Federal Reserve Bank of New York with such drafts supported by required documents. In such case, the Federal Reserve Bank of New York would have to be authorized to charge the ECA account at the U.S. Treasury.

In the case of letters of commitment to commercial banks, such commercial banks would be authorized to obtain payment from the various Federal Reserve Banks and branches throughout the country on presentation of a certificate to be agreed upon as to their having made payment for the account of ECA and to the effect that the necessary documents would be immediately mailed by registered U. S. mail to ECA in Washington. This procedure, too, would necessitate the agreement with the U. S. Treasury as to the Federal Reserve Bank being in a position to charge the ECA account at the U. S. Treasury.

It should be understood that the Federal Reserve Bank would be reimbursed for their expenses in accordance with standard procedure applicable to reimbursable expenses for other government agencies.