

WRG  
April 30, 1942

## SUMMARY OF THE INTER-AMERICAN BANK DOCUMENTS

On July 5, 1940, the President transmitted to the Senate four documents relating to the Inter-American Bank. They were the Convention signed on behalf of nine countries including the United States, the proposed Charter and By-laws of the Bank attached to the Convention, and a Bill to implement United States participation in the Bank. The Convention, which required the advice and consent of the Senate to ratification, was referred to the Foreign Relations Committee with its attached documents. The Bill was apparently never introduced, but it is being considered along with the other three documents.

Since detailed banking legislation is involved, the Foreign Relations Committee has turned the documents over to the Banking and Currency Committee for an advisory opinion. Senator Glass, who was Acting Chairman of the latter Committee, has had the documents since last May without taking any Committee action upon them. On January 14, however, he is reported to have told the Senate Foreign Relations Committee that he considered hearings on the Inter-American Bank advisable and that he would hold them without further delay. No action by the Banking and Currency Committee has yet been taken.

### THE CONVENTION

The Convention was signed in May 1940 by the United States, Brazil, Mexico, Colombia, Bolivia, the Dominican Republic, Nicaragua, Ecuador, and Paraguay, and will come into effect upon proper ratification. It commits those who ratify it to take the necessary steps to establish the Bank, subscribe to its capital, and grant it immunities in accordance with the Convention and its attached documents.

The Convention specifically frees the Bank's assets from seizure, except upon admitted or adjudicated claims against it. It also frees the Bank and its personnel from taxation, although nondiscriminatory taxes upon nationals of the country concerned are permitted, and the Bank and its personnel are subject to customs duties with certain exceptions.

In addition the Bank is to be free of exchange control; and the government of each member country in which it operates is required to make gold and foreign exchange available to it on a basis as to rate, amount, and all other factors no less favorable than the most favored treatment extended under any circumstances to anyone. This latter provision is to guard against the danger that the Bank, while itself free of exchange control, would find all others in the market subject to that control and hence not in position to sell it foreign currencies that it was prepared to buy. In such a case the Convention requires the Government of the country concerned to supply exchange on the most favorable basis. It is a much stronger provision than that protecting Bank for International Settlements assets.

Strictly speaking, this most favored exchange treatment is applicable only when the local currencies being transferred have been derived from deposits, loans, and investments which the Inter-American Bank has made in that country. That is, the Bank could not receive deposits of local currency and transfer them out of the country on the privileged basis. It would, however, seem to be possible for the Bank to lend the proceeds of local deposits in the local market at short term and then transfer the funds abroad at maturity with all the privileges that the Convention grants, although the Bank could make such loans only if there were no "timely objection" by the country concerned and in any case it must be assumed that the Bank will be governed by the spirit of the Convention. Just how the Bank will handle its accounting so as to demonstrate that the particular funds that it wishes to transfer abroad have been derived from loans or investments in the country, and not from the ineligible operations that are continually drawing upon or feeding its cash holdings, is far from clear. Apparently it will either have to move its funds abroad immediately upon repayment of a loan or set up water-tight accounting compartments of a complicated character.

Each deposit of ratification of the Convention must be accompanied by the designation of a person to serve on the Organizing Committee. Once having ratified, a country remains bound by the Convention for one year after it ceases to participate in the Bank and ceases to be in any way obligated to the Bank.

The Convention remains open to the adherence of American republics which are not original signatories, and it is understood that Argentina and Venezuela, as well as a number of other Latin American countries, will be prepared to join the Inter-American Bank, when the United States has assured its existence.

#### PROPOSED CHARTER

By ratifying the Convention, the United States would agree to grant the Bank a charter substantially in accordance with that annexed to the Convention. This Charter creates a body corporate with the name "Inter-American Bank" to be governed by the By-laws which are also attached to the Convention. The Bank may begin operations when at least a total of 145 shares of the stock of the Bank are subscribed for by at least 5 governments adhering to the Convention. To date the Convention has been signed by 9 governments whose minimum subscription would be 205 shares.

The Bank is given succession for a period of twenty years and the United States agrees not to repeal or amend the Charter, except upon the request of the Bank. Provision is made under the Charter for amendment of the By-laws of the Bank other than Article 5A, which states purposes for which the Bank is established. Amendments may be made by a four-fifths majority of votes cast by the Board, except in two cases

which require the unanimous vote of the representatives of all participating governments (and not merely unanimity of the votes cast). A unanimous vote is required to change the minimum holdings of participating governments in the stock of the Bank and for amending the provisions authorizing "timely objection" to the transactions of the Bank by the participating government concerned.

The Bank may sue or be sued in any court of competent jurisdiction.

#### BY-LAWS

##### Location

The principal office of the Bank must be in the United States, and at least one branch or agency must be established in every other participating country.

##### Capital Structure and Participation

The authorized capital is \$100,000,000, consisting of 1,000 shares having a par value of \$100,000 each, to be paid for in gold or dollars. Fifty per cent of the issue price must be paid at the time of subscription and the balance may be called up later at the discretion of the Board of Directors, provided, however, that with respect to Groups A, B, and C below only 25 per cent of the issue price need be paid at the time of subscription, and any part of the remaining balance which is called up shall not require payment of more than 25 per cent of the issue price in any one year. The minimum subscription requirement of the participating countries, determined in relation to the dollar value of the total foreign trade of each in 1938, is as follows:

GROUP A:	Costa Rica	
	Ecuador	
	El Salvador	
	Haiti	
	Honduras	
	Nicaragua	
	Paraguay	5 shares each
GROUP B:	Dominican Republic	
	Guatemala	
	Panama	10 shares each
GROUP C:	Bolivia	15 shares
GROUP D:	Uruguay	20 shares
GROUP E:	Peru	25 shares

GROUP F:	Chile Colombia Cuba	30 shares each
GROUP G:	Mexico Venezuela	35 shares each
GROUP H:	Argentina Brazil United States	50 shares each

Each government, upon subscribing to its minimum quota of shares, obtains twenty votes. If it subscribes to additional shares, it will obtain one vote for each such additional share purchased. No government, however, may acquire a voting power in excess of 50 per cent of the total voting power of all the other participating governments -- that is, it can never command more than one-third of the votes.

The shares of stock held by each government will be security for all its obligations to the Bank, and any government that violates any provision of the Convention as determined by a four-fifths majority of the Board will be liable with its shares for any resultant damages to the Bank and its participation in the Bank must cease.

#### Management

The administration of the Bank will be vested in the Board of Directors, composed of one director appointed by each participating government. A director's term is two years, subject to the pleasure of his government. The Board must meet at least four times a year and the President may call special meetings at any time.

The Board will select the President of the Bank, who will be chief of the operating staff and ex-officio Chairman of the Board, and one or more vice-presidents, who will be ex-officio vice-chairman of the Board. Their terms will be for two years, and they will be eligible for re-election or may be removed for cause at any time by the Board.

The Board may, at any meeting, by a four-fifths majority vote, authorize the President or a committee to exercise any specified powers until the next meeting of the Board and may delegate the power to make loans and extend credit in small amounts for such periods as it may determine. Before the Bank finally approves a loan in excess of one year, however, it must have a full written report on the merits of the proposed transaction, prepared by a committee of experts which may include outsiders.

Within a year after its first meeting the Board must prescribe a limitation, relative to its capital and surplus, on assets of the Bank with maturity in excess of one year. It must also prescribe reserves against demand deposits and other obligations of the Bank. After these

limitations and reserve requirements have been established, they can be altered only by a four-fifths majority vote of the Board. Most of the longer-term operations of the Bank also require a four-fifths majority vote.

The specific operations requiring a four-fifths majority are shown in the table on page 6. The United States will acquire a vote power over such operations if it obtains enough shares to give it more than twenty per cent of the vote. How many shares it must acquire for this purpose depends upon the extent of the participation by other countries. The number of shares is worked out on three representative assumptions in an appendix to this memorandum.

### Accounts and Profits

The accounts of the Bank will be kept in terms of dollars. Dividends paid may not be more than three per cent per annum on the paid-up amount of the stock and will be noncumulative. Before any dividends are paid 25 per cent of the net profits must be paid into surplus until surplus is equal in amount to the par value of the authorized capital stock of the Bank, and any profits remaining after dividends have been paid will be paid into surplus as a dividend reserve.

### Purposes and Powers

Nine purposes, many of them overlapping and repetitive, are stated for the Bank. The Bank is to assist in stabilizing currencies, to facilitate monetary equilibrium, to stimulate the full productive use of capital and credit, and to promote virtually all phases of economic activity in the Western Hemisphere. It is also to promote research on technical questions and contribute expert advice.

In order to carry out these purposes, the Bank is given power to engage in the usual banking and investment operations. Most of these operations in excess of two years require a four-fifths vote of the Board of Directors or a government guarantee or both. Other operations ordinarily require that an opportunity be offered to the government concerned to raise a timely objection. If such an objection is made, the operation cannot be carried out in that country. Furthermore, there is a general provision that the operations of the Bank shall at all times be conducted in conformity with the policies of the participating government directly concerned.

A tabular statement of the Bank's powers, indicating the extent to which they are subject to these special controls, is given on the next page. In general the Bank may extend credit only to participating countries. It may, however, put funds at the disposal of non-participating countries by purchasing foreign exchange or placing deposits with them, and its resources may be drawn from any part of the world. The "timely objection" provision does not apply to operations with non-participating countries.

MAJOR CONTROLS OVER OPERATIONS OF THE INTER-AMERICAN BANK  
(Abbreviations used are explained in the footnote)

Subject to the conditions noted, the Bank may -	Term of operation	
	Two years or less	More than two years
1. Deal in precious metals and foreign exchange	T.O. (4/5)	T.O. (4/5)
2. Guarantee availability and rates of exchange	(4/5)	(4/5)
3. Make deposits	T.O.	T.O.
4. Make loans	T.O.	G.G. (4/5)
5. Guarantee loans	T.O.	G.G. (4/5)
6. Discount bills and other obligations	T.O.	G.G. (4/5)
7. Deal in securities	T.O.	G.G.; T.C. (4/5)
8. Accept deposits	T.O.	T.O.
9. Pay interest on deposits*	(4/5)	(4/5)
10. Borrow from governments and banks	T.O.	T.O.
11. Rediscount bills and other obligations with governments and banks	T.O.	T.O. (4/5)
12. Sell debentures and other obligations of Bank	T.O. (4/5)	T.O. (4/5)
13. Act as agent or correspondent	T.O.	T.O.
14. Operate custody accounts	T.O.	T.O.
15. Deal in cable transfers, accept bills, issue letters of credit subject, on one interpretation, to all three limitations; on the other, to only those limitations which apply to a similar operation.		

\* Interest may be paid only on deposits of central banks and governments.

EXPLANATION OF ABBREVIATIONS

G.G.: Government Guarantee (or direct Government obligation) required.

T.O.: Timely objection. Operation forbidden if timely objection is made by director of country concerned. He must be notified by Bank of its proposed action and be given a reasonable period of time (fixed by Bank) to object. Unanimous vote of all participating countries is required to amend this provision.

(4/5): Four-fifths of votes cast by Board of Directors required. When the four-fifths requirement appears only in the column headed "More than two years", it, in fact, applies to operations with a maturity of one year or more.

A four-fifths vote is also required to (1) determine violations of the Convention by participating governments; (2) establish or change the Bank's principal office or agencies; (3) select or remove the Bank's president and other officers; (4) determine official duties, committees, and departmental organization; (5) authorize officers or committees of the Bank to exercise specified powers of the directors for limited periods; (6) change regulations of

the directors governing reserve requirements and specifying the limitation on intermediate and long-term assets in relation to capital and surplus; (7) call up balances due on stock; (8) fix the issue price of the Bank's stock; (9) permit transfer of Bank's shares to the Bank or other participating governments; (10) declare dividends from dividend reserve in surplus; (11) change Bank's capital structure; (12) liquidate the Bank; (13) request that Bank's charter be repealed, amended or renewed; (14) amend the Bank's By-laws.

A unanimous vote of all participating governments is required to change minimum share holdings of such governments and to amend provisions relating to "timely objection" by any such government to transactions of the Bank. Section 5A specifying the purposes of the Bank cannot be amended.

DRAFT OF BILL RELATING TO  
ESTABLISHMENT OF THE INTER-AMERICAN BANK

Ratification by the United States of the Inter-American Bank Convention, with its attached Charter and By-laws, requires only the advice and consent of the Senate by a two-thirds vote. For the United States to grant a Charter to the Bank, however, and to determine the exact method of its participation, legislation by both the Senate and House of Representatives is necessary. A draft of a Bill to accomplish this was transmitted by the President to the Senate, along with the Convention and its attached documents, on July 5, 1940. The Bill appears to have gone to the Senate Committees without actually having been introduced in Congress.

The first half of the Bill grants the Bank a charter in the form in which it was attached to the Convention. Its second half covers participation by the United States. It grants the privileges and immunities enumerated in the Convention, and it creates an Inter-American Bank Committee consisting of the Secretary of State, the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Federal Loan Administrator (presumably the last-named will now be changed to Secretary of Commerce). This Committee is to appoint the American representative on the organizing committee of the Bank and also appoint and fix the compensation, if any, of the director to represent the United States on the Board of Directors of the Bank.

Any member of the Committee or any other officer or employee of the United States or any director, officer, or employee of any Federal Reserve Bank or of any corporation the majority of the stock of which is owned or controlled directly or indirectly by the United States is made eligible, along with others, to serve on the organizing committee or as a director or in any other capacity with the Inter-American Bank. The director will serve for a period of two years, subject to the pleasure of the Committee. He will have full power to represent the United States on

the Board of Directors and to decide whether or not to enter a timely objection on behalf of the United States; but he must keep the Committee informed with respect to matters involving the Bank and must in any event enter a timely objection, pursuant to the By-laws of the Bank, when directed to do so by the Committee.

Various powers are given to existing financial agencies in the United States to facilitate United States participation in the Bank. The Reconstruction Finance Corporation is directed to subscribe to stock of the Bank on behalf of the United States up to an aggregate par value of \$25,000,000, and its borrowing powers are increased accordingly. The Corporation is also authorized to pay the compensation and expenses of the United States director, alternate, nominee, or proxy. Both the RFC and the Export-Import Bank are authorized to make loans to the Inter-American Bank and to purchase its debentures and other obligations.

The Treasurer of the United States is authorized to receive deposits subject to check by the Bank, provided that he pays no interest on such deposits.

Section 14 of the Federal Reserve Act is to be amended by adding the following paragraph at the end thereof:

"(h) With the consent of the Board of Governors of the Federal Reserve System and subject to such regulations and limitations as the Board of Governors may prescribe, each Federal Reserve Bank shall have power to act as depository, custodian, and financial agent for the Inter-American Bank, to establish correspondent relationships with and open and maintain banking accounts for and with the Inter-American Bank, to purchase, sell, and deal in any obligations of the Inter-American Bank, and to effect for or with the Inter-American Bank any transaction which such Federal Reserve Bank could effect if the Inter-American Bank were a member bank of the Federal Reserve System or a bank located in a foreign country."

#### LETTER FROM SECRETARY HULL TO SENATOR GEORGE

Early in 1941 a meeting was held in Washington between a group of bankers, who had been critical of the Inter-American Bank proposal, and Mr. Berle of the State Department, assisted by various experts including members of the staff of the Federal Reserve Board. As a result of this meeting the bankers agreed that they would cease their opposition to the proposal if Secretary Hull would write a letter, embodying the agreement reached at the meeting, to Senator George who was then Chairman of the Foreign Relations Committee, to which the Inter-American Bank Convention had been referred.

The agreement was to seek an amendment to the By-laws of the Inter-American Bank that would prevent what the New York bankers chiefly feared -- namely, possible competition between the Bank and commercial banks in direct loans to the public. As the By-laws now stand the only loans that can be made directly to the public without first obtaining a Government guarantee are those with a maturity not exceeding two years. Even these may be prevented by the timely objection of the Government concerned (see table on page 6). It was agreed at the meeting that after the Bank was established the United States would seek to obtain an amendment to the By-laws requiring that the Bank's credits or operations in securities with a maturity not exceeding two years be guaranteed by a participating government, central bank, or other acceptable banking institution. This procedure, if successful, would bring about the change without requiring the re-negotiation of the Inter-American Bank plan with all the participating governments before the Bank could be established. On March 8, 1941, Secretary Hull wrote Senator George a letter in which he stated that

"On my own behalf and on behalf of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Federal Loan Administrator, I am prepared to state, for your information and guidance in passing upon the above-mentioned convention that, should we participate in the Inter-American Bank Committee as provided in the proposed Bill, it would be our purpose, so soon as the bank is established, to undertake to have the representative of the United States of America on the board of directors exercise his best efforts to bring about an amendment of the bylaws of the bank as indicated above."

Should Congress now insist on further changes in the By-laws of the Bank, it is possible that the procedure embodied in this letter of Secretary Hull to Senator George could again be employed. That is, the members of the four-man Committee which will pick the American director could commit themselves formally in advance to have the United States representative use his best efforts to bring about the desired amendments of the By-laws. Since the power of the United States director will be very great if this country acquires more than one-fifth of the voting power, such a commitment might be regarded as sufficient assurance that any reasonable amendment could be obtained. Not only will the United States director have a substantial portion of the voting power, but the Board of the Inter-American Bank will be conscious of the fact that this institution is largely dependent upon the United States for the funds that will be needed in addition to capital. They will not be likely to reject any appropriate safeguards that this country considers desirable.

APPENDIX

INTER-AMERICAN BANK  
Capital Participation and Voting Power  
of United States and Other Countries on Various Assumptions

The By-laws of the Inter-American Bank provide for capital stock in the amount of 100 million dollars, consisting of 1,000 shares having a par value of 100,000 dollars each. The number and par value of shares may be increased or decreased by a four-fifths majority vote of the Board of Directors.

Each participating government is required to subscribe for a minimum number of shares, fixed in relation to the value of the country's total foreign trade in 1938. The minimum holdings of participating governments may be increased or decreased only by unanimous vote of the Board of Directors. In return for its minimum subscription each government receives 20 votes. Every share purchased above the minimum subscription carries one additional vote, providing that regardless of the amount of stock it owns no government may have more than one-third of the total voting power.

Most of the long-term operations of the Bank require a four-fifths majority vote of the Board of Directors. For the United States to have veto power in such cases, it would be necessary to obtain somewhat more than 20 per cent of the vote. The cost of obtaining this portion of the vote, under various assumptions as to the total subscribed capital of the Bank, is given below:

Capital of Inter-American Bank  
(Assuming United States to acquire just enough shares  
to obtain veto power)

	Subscription by 9 present signa- tories: minimum by all but U. S.	Subscription by all 21 countries	
		Minimum by all but U. S.	All shares subscribed
Amount subscribed:			
United States	\$7,100,000	\$13,100,000	\$22,800,000
Other countries	15,500,000	38,500,000	77,200,000
Total	22,600,000	51,600,000	100,000,000
Amount paid in (1/2*):			
United States	3,550,000	6,550,000	11,400,000
Other countries	7,750,000	19,250,000	38,600,000
Total	11,300,000	25,800,000	50,000,000

\* Half the issue price of each share is to be paid in at the time of subscription, and the balance is subject to call on three months' notice at the discretion of the Board of Directors. Special provision is made,

however, for eleven of the smaller countries, which need pay in only one-fourth the issue price at the time of subscription, and an additional one-fourth within one year, no more than one-fourth being subject to call within any subsequent 12-month period. The full amount that the table shows as paid-in might not be received by the Bank until the end of its first year.

Detailed analysis of shares and votes

The number of shares subscribed and votes obtained by each country in the three cases shown in the table on page 10 are given in detail below. In each case the United States is assumed to purchase just enough shares to give it veto power in decisions requiring a four-fifths majority vote.

1. Assuming that the present nine signatory governments are the only subscribers for shares and that the United States is the only government taking more than its minimum subscription:

	<u>Shares</u>	<u>Votes</u>
Minimum subscription		
United States	50	20
Brazil	50	20
Mexico	35	20
Colombia	30	20
Bolivia	15	20
Dominican Republic	10	20
Ecuador	5	20
Nicaragua	5	20
Paraguay	<u>5</u>	<u>20</u>
Total minimum subscription	205	180
Additional U. S. subscription to obtain veto power	<u>21</u>	<u>21</u>
Total	226	201

2. Assuming that the governments of all 21 American Republics subscribe and that the United States is the only government taking more than its minimum subscription:

	<u>Shares</u>	<u>Votes</u>		<u>Shares</u>	<u>Votes</u>
Minimum subscription			Minimum subscription		
United States	50	20	Dominican Republic	10	20
Argentina	50	20	Guatemala	10	20
Brazil	50	20	Panama	10	20
Mexico	35	20	Costa Rica	5	20
Venezuela	35	20	Ecuador	5	20
Chile	30	20	El Salvador	5	20
Colombia	30	20	Haiti	5	20
Cuba	30	20	Honduras	5	20
Peru	25	20	Nicaragua	5	20
Uruguay	20	20	Paraguay	<u>5</u>	<u>20</u>
Bolivia	15	20			
			Total minimum subscrip-		
			tion	435	420
			Additional U.S. sub-		
			scription to obtain		
			veto power	<u>81</u>	<u>81</u>
			Total	516	501

3. Assuming that the governments of all 21 American Republics subscribe for the total authorized capital stock:

	<u>Shares</u>	<u>Votes</u>
All 21 countries:		
Minimum subscription	435	420
Additional subscription	<u>565</u>	<u>565</u>
Total	1,000	985
United States alone:		
Minimum subscription	50	20
Additional subscription	<u>178</u>	<u>178</u>
Total	228	198

Possible acquisition of veto power by other countries

If only the nine governments that have already signed the Convention participate in the Bank, the total capital stock will be sufficient for three governments besides the United States to acquire veto power over decisions requiring a four-fifths vote. If the governments of all 21 republics participate, the total capital stock will be sufficient for two governments besides the United States to acquire veto power. If the demand for additional shares exceeds the amount available, such demand must be met on an equal basis from available shares.