

**FEDERAL RESERVE BANK
OF DALLAS**

Dallas, Texas, August 20, 1941

**To All Banking Institutions
in the Eleventh Federal Reserve District:**

We are in receipt of the following telegram, dated August 18, 1941, from E. H. Foley, Jr., Acting Secretary of the Treasury:

“A completely efficient administration of Executive Order 8389, as amended, in every section of the nation is of the greatest importance to the economic and financial side of national defense. The fifteen thousand banks of this country are a vital link in the success of foreign funds control. Most American banks have kept themselves fully informed of every step taken under the Executive Order and have co-operated expertly with the Treasury and the Federal Reserve Banks.

“Foreign funds control significantly affects the country’s welfare. It places important responsibilities on every bank throughout the nation, no matter how small and no matter how few of its clients are foreign nationals or have financial transactions with foreign nationals. I believe that each bank should designate a senior officer to be in charge of foreign funds control problems affecting the bank, and to keep himself fully informed of all developments in this field. Kindly ask every bank in your district to furnish you with the name of its officer so designated by the bank.

“The banks can also perform a real service by keeping their customers fully informed with respect to foreign funds control.

“For the convenience of the banks and public generally, the Treasury has just issued in the form of a pamphlet a revised compilation of documents relating to foreign funds control and I would appreciate your sending a copy of this document to every bank in your district.”

Enclosed is a copy of the pamphlet referred to by the Acting Secretary of the Treasury and also a copy of an article reprinted from the August issue of “Banking” containing answers of Treasury Officials to a number of important questions on foreign funds control. Additional copies of these documents will be furnished upon request.

This bank will of course continue to mail to you all documents relating to foreign funds control as they are published by the Treasury Department from time to time and will also continue gladly to answer any inquiries you may have on this subject.

This bank would appreciate being promptly advised of the name of the officer designated by you to be in charge of foreign funds control problems.

Yours very truly,

R. R. GILBERT

President

The Control of Foreign Funds

Answers to Some Questions About "Freezing"

The "freezing" of certain foreign funds by the United States Government presents a number of problems vitally important to banks. In this interview with two Treasury officials the questions that are of first importance in this field are raised and answered.

The answers in the interview are by EDWARD H. FOLEY, JR., General Counsel of the Treasury Department, and JOHN W. PEHLE, Assistant to the Secretary of the Treasury. The questions were asked for BANKING by HERBERT M. BRATTER.

1. What is the purpose of "freezing" control?

THE two words most aptly answering that question are "economic defense". Beyond that, reference might be made to the press release issued by the White House on June 14, 1941, relative to the extension of "freezing" control. In such release it was stated:

"The Executive Order is designed, among other things, to prevent the use of the financial facilities of the United States in ways harmful to national defense and other American interests, to prevent the liquidation in the United States of assets looted by duress or conquest, and to curb subversive activities in the United States."

2. Does "freezing" control affect anything other than transactions in foreign exchange and similar transactions in the field of international finance and trade?

THE answer to this question is very definitely "yes". The "freezing" control imposed by Executive Order No. 8389, as amended, affects transactions of a purely domestic character as well as those of international scope if any blocked country or any national thereof has an interest in the domestic transaction. Thus a bank may not, except under general or specific license, permit withdrawals from blocked accounts even though the withdrawals are for purely domestic purposes or permit with-

drawals from a blocked account where the blocked national is in the United States rather than in Europe.

3. Is there any rule of thumb which might be employed by banks for their general guidance and protection in determining whether transactions require a license in order to be effected?

OBVIOUSLY there is no substitute for a thorough knowledge of the Order, regulations, rulings, general licenses and public circulars relating to freezing control. That is the only way for banks to protect themselves fully and at the same time perform a necessary service for their customers. Pending complete familiarity with the freezing regulations the following rule of thumb may be used as a general guide by banks:

"Any transaction which involves a banking institution and in which any blocked country or any national of a blocked country has any interest of any nature whatsoever, direct or indirect, is prohibited except pursuant to license."

In applying this rule of thumb, banks should keep in mind that the terms "banking institution" and "national" are defined in section 5 of the Executive Order and are very comprehensive in scope. These definitions should be studied at once.

It cannot be emphasized too strongly that the freezing order affects the operation of every bank in the United States, and a thorough understanding of the documentation furnished each bank by the several Federal Reserve banks is imperative not only to protect the bank and its customers against violations of the Order but also to enable the banks to play the important role assigned to them in this vital defense measure. Many banks have a large staff engaged exclusively on freezing control matters. Other banks not having the need for a department of this character have found it highly desirable to assign to one of their senior officers the responsibility for keeping fully abreast of all developments in this increasingly important field and for guiding other members of the bank's staff, as well as the public, regarding such matters.

4. What is a "blocked account"?

THE term "blocked account" has been defined in General Ruling No. 4 as follows:

"The term 'blocked account' shall mean an account in which any blocked country or national thereof has an interest, with respect to which account payments, transfers or withdrawals or other dealings may not be made or effected except pursuant to a license authorizing such action. The term 'blocked account' shall not be deemed to include free dollar accounts of the type referred to in General License No. 32, as amended, or the accounts of generally licensed nationals."

The same general ruling defines the term "blocked country" as any foreign country designated in the Executive Order, i.e., any country to which the freezing control has been extended.

5. What are the obligations of a bank in connection with the blocking of accounts?

THE Executive Order imposes a definite obligation upon banking institutions in the United States to block, and thus to require licenses with respect to, every account in which any blocked country or any national thereof has an interest of any nature whatsoever, direct or indirect. In certain specified cases this obligation has been lifted by general and specific licenses, as for example General Licenses No. 42 and 51. In all other cases banking institutions should utilize all the resources at their disposal in determining which accounts should be blocked. This, of course, would include not only the information in their files but also the knowledge of the officers of the institution. A knowledge of the definition of "national" appearing in section 5 of the Order is a prerequisite to knowing which accounts are required to be blocked. In this connection attention is invited to the fact that such definition expressly provides that the term "national" includes:

"Any other person who there is reasonable cause to believe is a 'national' as herein defined."

The successful operation of the Executive Order requires the fullest cooperation, resourcefulness and initiative on the part of banks in blocking accounts.

6. What should a bank having an account for a certain person do when it learns that another bank has blocked the account of such person?

IF the first bank has not already blocked the account in question it is immediately placed on notice that the account should probably be blocked and, in the absence

of definite information to the contrary, it should accordingly block the account pending further study of the case. Certainly the fact that one bank has blocked the account of an individual will be cause for other banks to have reasonable cause to believe the party in question is a national of a blocked country. Having reasonable cause to believe that a person is a national of a blocked country requires a bank to block an account unless there is an outstanding general or specific license lifting such obligation.

7. What if a bank blocks an account and subsequently discovers information leading it to conclude that the account should not be blocked?

IN other than clear-cut cases the bank should advise the Treasury Department of the facts through the appropriate Federal Reserve Bank and if the Treasury Department agrees, it will authorize the account to be freed. Banks may assume that the Treasury Department will employ fully its large powers to protect them where they have blocked accounts in good faith.

8. Is it true that the Executive Order and Regulations require census reports, for instance with respect to British and Latin American assets in the United States, as well as those of all the blocked countries like Germany, France, Switzerland, the Netherlands, etc.?

YES. The Regulations require that census reports on Form TFR-300 be filed by banks and all other persons with respect to property in which *any foreign country*, or nationals thereof, have an interest. Of course General License No. 42 has specifically lifted this obligation in certain cases but banks and other persons must be satisfied that the general license applies before relying upon it to excuse them from filing a report in any given case.

9. What should banks do in cases where they are in doubt as to what they are required to do under the "freezing" orders with respect to a particular transaction?

IT is suggested that they either get in touch with the Federal Reserve bank in their district or write directly to the Treasury Department for advice. In most cases they probably will find it more convenient and expeditious to communicate with the appropriate Federal Reserve bank.