

June 18, 1947

MEMORANDUM

Subject: SEC AND THE NAC

At the meeting of the NAC on Monday, June 16, I took the position that the NAC should not be put into the position of an arbitrator between the International Bank and the SEC, certainly with respect to technicalities. After some debate on my suggestion, it was agreed that Secretary Snyder would get Mr. Caffrey, Chairman of the SEC, down to discuss the matter informally, and I undertook to attempt to persuade him that the World Bank bonds should be in the middle ground between exemption which would be granted if they were U. S. Government bonds, and requirements which would be placed on them if they were speculative securities.

I talked to Mr. Caffrey on the phone Monday evening and found him quite reasonable and intelligent on the whole matter, though a little bit irked at the position taken by Mr. McLain, Counsel for the International Bank, and Mr. Garner, Vice President of the Bank. I tried to persuade him that the issue should be kept at the top level and not be permitted to get into dog fights between the staff of his Commission, the staff of the International Bank, and the staff of the NAC.

The following morning, I met with Secretary Snyder, Mr. O'Connell, Counsel for the Treasury, and Mr. Caffrey, and we went over all the points involved. On the only one of importance, namely, exemption of security dealers from liability under the Truth and Securities Act if they act as agents in the sale of World Bank debentures, Mr. Caffrey stated that he would find a way to invoke Section 19 and make a ruling authorizing this exemption. He pointed out, however, that in the opinion of their Counsel and of his Commission, which was now composed entirely of lawyers, technically they had no right to make such a ruling unless they had a clear-cut interpretation from Congress.

After discussion, he agreed that the International Bank came into being long after the Securities and Exchange Commission Act, and that he would make an effort to stretch the matter in order to make possible the first issue of the World Bank Bonds, now planned for the second week in July.

Whether the real role of the NAC with respect to the International Bank and the SEC was clearly defined or not will take some time to develop, but I am afraid that the general position is still not clear.

One difficulty in connection with the issue of the bonds is the fact that by statute, the officers and directors of the International Bank are relieved from liability with respect to misstatements or errors in connection therewith. If the dealers likewise are exempt from liability, then in the event of a bond going sour four or five years hence, there is no one the bondholder could sue except the U. S. Government proper. To sue the individual members of the NAC would achieve nothing and, while the question is largely academic at the moment, it looks to me as though a clarification by Congress of this interwoven relationship and specific determination of liability must be established before not too long.

Wm. McC. Martin, Jr.
Chairman