

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 4044]
[November 13, 1953]

VALIDATION OF GERMAN DOLLAR BONDS

*To all Banking Institutions in the
Second Federal Reserve District:*

On the reverse side is a copy of a letter from the Department of State to the Chairman of the Board of Governors of the Federal Reserve System. The letter states that German Government, Municipal, and Corporate dollar bonds cannot be enforced in this country unless they are validated by a Board, which has been established for this purpose. The text of the letter is being sent to financial institutions to apprise them of the validation program and to caution them against making loans on German dollar bonds that are not validated.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,
President.

(OVER)

DEPARTMENT OF STATE
WASHINGTON

October 26, 1953

The Honorable

WILLIAM MCCHESENEY MARTIN, JR.,
*Chairman, Board of Governors of the
Federal Reserve System.*

MY DEAR MR. CHAIRMAN:

Under date of April 1, 1953, this Government entered into a Treaty with the Government of the Federal Republic of Germany which renders unenforceable in the United States all German Government, Municipal and Corporate dollar bonds which are subject to validation, unless and until such bonds have been duly validated. This Treaty was approved by the United States Senate on July 13, 1953, and entered into force on September 16, 1953.

This Government also entered into an agreement with the Government of the Federal Republic of Germany on February 27, 1953, which established procedures for the validation of German dollar bonds in the United States. Under this Agreement, a Validation Board is established to determine the eligibility of bonds for validation. The Board has its seat in New York City and commenced operations on September 1, 1953. A certificate of validation will be attached to each bond validated by the Board.

The purpose of the program for the validation of German dollar bonds is to render invalid and worthless the large volume of such bonds, estimated at several hundred million dollars, which were purchased for redemption by the Germans prior to the war and which found their way into Soviet hands after the occupation of Berlin. The validation arrangements which have been worked out will permit debtors and creditors to proceed to the orderly settlement of the obligations arising from German dollar bonds with confidence in the stability of the procedures regarding validation and with assurance that claims prejudicial to such settlement will not be asserted on the basis of bonds which were unlawfully acquired.

The Department is informed that the Soviet Government has disposed of some of the looted bonds on several European markets and is attempting to do so in the United States. It would be extremely unfortunate if these looted bonds found their way into our securities markets.

Publicity has been given by the Validation Board and otherwise to the validation program and the public has been cautioned against dealing in non-validated dollar bonds of German issue. It would be helpful if the Federal Reserve Board would take such steps as may be appropriate to bring this information to the attention of financial institutions in the United States so as to avoid the possibility of such institutions making loans on non-validated German dollar bonds. Such action would aid in implementing the objectives of this Government as stated in the Treaty of April 1, 1953.

The Validation Board consists of two members, one appointed by this Government and one appointed by the German Federal Government, and a Chairman appointed by the two Governments jointly. Further information regarding the validation procedures may be obtained from the Validation Board and any inquiries should be addressed to the Validation Board for German Dollar Bonds, Suite 3601, 30 Broad Street, New York, New York.

Sincerely yours,

For the Secretary of State:

(Signed) THORSTEN N. KALIJARVI
*Acting Assistant Secretary
For Economic Affairs*