Canada

DEPARTMENT OF STATE

INCOMING TELEGRAM

DIVISION OF COMMUNICATIONS AND RECORDS

FMH-25
This telegram must be paraphrased before being communicated to anyone other than a Government agency. (RESTRICTED)

Ottawa

Dated June 13, 1944

Rec'd 9:20 p.m.

Secretary of State,

Washington.

23, June 13, 6 p.m.

Reference is made to Department's circular telegram of June 10, 7 p.m. regarding Monetary Conference.

Canadian representatives designated to attend informal committee meeting at Atlantic City are: John J. Deutsch, Special War Time Assistant Department of External Affairs; Louis Rasminsky, Executive Director to the Governors of the Bank of Canada; A. F. W. Plumptre, Financial Attache Canadian Embassy at Washington; Doctor W. A. MacKintosh, Special Assistant to the Deputy Ministry of Finance. First three will arrive Atlantic City June 19, MacKintosh June 24.

ATHERTON

REP NPL

MRE-68 RESTRICTED

Ottowa
Dated June 10, 1944
Rec'd 1:30 p.m.

Secretary of State
Washington

22, June 10, Noon

Reference is made to the Department's circular telegram dated June 3, 6 p.m. regarding Monetary Conference.

Preliminary estimate Canadian delegation 12 or 13 male officers, 2 female clerical. Minimum office space required, one room.

ATHERTON

EJH LMS

ef:copy
6-13-44

DEPARTMENT OF STATE

INCOMING TELEGRAM

DIVISION OF COMMUNICATIONS AND RECORDS

BJR - 526
This telegram must be paraphrased before being communicated to anyone other than a Government Agency. (RESTRICTED)

Ottawa

Dated June 5, 1944

Rec'd 8:28 p.m.

Secretary of State,

Washington.

20, June 5, 6 p.m.

Reference is made to the Department's circular instruction of May 26, 9 a.m., regarding the Monetary Conference. In a note number 53 of June 5, the Canadian Government accepts invitation and states that the Honorable J.L. Ilsley, Minister of Finance, will head the Canadian Delegation. Despatch follows.

ATHERTON

RB
RR

TELEGRAM SENT

FMH

PLAIN

April 19, 1944

U. S. URGENT

AMEMBASSY

OTTAWA

31, nineteenth

FOR THE AMBASSADOR FROM THE SECRETARY OF THE TREASURY.

1. Arrangements are being made for the simultaneous publication in Washington, London, and a number of the capitals of the United Nations of the joint statement by technical experts of the United and Associated Nations on the establishment of an International Monetary Fund. Copy of this joint statement has been given to Plumptre and we have telegraphed copy to you. We are discussing the issuing of a joint statement on the Bank for Reconstruction and Development, a copy of which has also been telegraphed to you.

2. I am to appear before the appropriate Congressional committees on Friday, April 21, to bring them up to date on our discussions regarding international financial cooperation and to present to them the joint statement. This joint statement on the Monetary Fund will be released on Friday, April 21, 8:00 p.m. Washington time for Saturday morning

#31, nineteenth to Ottawa

press. It is imperative that the statement should not (repeat not) be released elsewhere before it is released in Washington. It has not yet been decided when the joint statement on the Bank will be released. We will keep you informed.

HULL
(EGC)

Approved by phone
Mr. Parsons - BC 4/18/44

FMA:EGC:ecc
4/18/44

TELEGRAM SENT

BJR

PLAIN

April 18, 1944

U$ URGENT

AMEMBASSY

OTTAWA.

30

FOR THE AMBASSADOR

The following texts of proposed statements will be the subject of telegraphic instructions on Tuesday:

BEGIN QUOTE. PRELIMINARY DRAFT

A Statement on the Establishment of A Bank for Reconstruction and Development.

The technical experts of some of the United and Associated Nations who have participated in the discussions on international financial problems are of the opinion that the revival of international investment after the war is essential to the expansion of trade and the maintenance of a high level of business activity throughout the world. In their opinion, the most practical method of encouraging and aiding private investors to provide an adequate volume of capital for productive purposes is through the establishment of

a permanent

a permanent Bank for Reconstruction and Development. They have set forth below the principles which they, as technical experts, believe should be the basis for this Bank. Governments are not asked to give final approval to these principles until they have been embodied in the form of definite proposals.

I. Purposes and policies of the Bank.

1. The Bank will assist in the reconstruction and development of member countries by facilitating provision of long term investment capital for productive purposes through private financial agencies. It will do so by guaranteeing and participating in the loans made by private investors.

2. The Bank will supplement private financial agencies by providing capital for productive purposes out of its own resources, on conditions that amply safeguard its funds, when private capital is not available on reasonable terms.

3. The Bank will promote the long-range balanced growth of international trade by encouraging international investment for the development of the productive resources of member countries.

4. The Bank will take into consideration, in its

operations,

operations, the effect of international investment on business conditions in member countries. In the immediate post war years, its policy will be to assist in bringing about a smooth transition from a wartime to a peacetime economy.

II. Capital of the Bank.

1. The capital of the Bank will be the equivalent of $10 billion, to be subscribed by member governments. Liability on shares will be limited to the unpaid portion of the subscription.

2. A substantial part of the subscribed capital of the Bank will be reserved in the form of unpaid subscriptions as a surety fund for the securities guaranteed or issued by the Bank.

3. The initial payment on shares will be 20 percent of the subscription, some portion of which should be in gold and the remainder in local currency. Further payment on subscriptions will be made as the Board of Directors may determine, but no more than 20 percent of the subscription may be called in any one year.

III. Operations of the Bank.

1. The Bank will deal through the governments of member countries and their fiscal agencies, the Inter-

national

national Monetary Fund, and other international agencies owned predominantly by member governments.

It may also deal with the public and private institutions of member countries in the Bank's own securities or the securities which it has guaranteed.

2. An appropriate limit will be placed on the outstanding obligations of the Bank; and all the resources of the Bank will be available to meet its obligations.

3. The Bank will not finance the local currency needs of a borrower except in those special circumstances where facilities are not available for borrowing investment funds at home.

4. The Bank may guarantee, participate in, or make loans to any member country, its political subdivisions, and business and industrial enterprises in a member country, under the following conditions:

a. The national government, central bank or a comparable agency guarantees the payment of interest and principal.

b. The borrower is otherwise unable to secure the funds from other sources under conditions which in the opinion of the Bank are reasonable.

c. A competent committee, after careful study of the

merits of

merits of the project, reports that the loan would serve to raise the productivity of the borrowing country and that the prospects are favorable to the servicing of the loan.

d. Loans are made at reasonable rates of interest with schedules of repayment appropriate to the project and the balance of payments prospects of the borrowing country.

e. The Bank is compensated for its risk in guaranteeing loans made by private investors.

5. To encourage international investment in equity securities, the Bank may obtain a governmental guarantee of conversion into foreign exchange of the current earnings on such investments. It may also employ a small portion of its capital directly in equity investment.

6. The Bank will impose no conditions as to the particular member country in which a loan will be spent. The Bank will make arrangements to assure the use of the loan only for the approved purposes.

7. In providing the funds for loans made by the Bank its policy will be:

a. To furnish the currencies needed by the borrower in connection with the loan.

b. To make

b. To make available an appropriate part of the loan in gold or needed foreign exchange when a developmental program gives rise to an increased need for foreign exchange.

c. To furnish gold or needed foreign exchange for a part of the loan expended by the borrower at the request of countries in which portions of the loans are spent.

8. No loans may be guaranteed or made by the Bank without the approval of the country in whose currency the loan is made.

9. With the approval of the representatives of the governments of the member countries involved, the Bank may engage in the following operations:

a. It may issue, buy, or sell its own securities, securities taken from its portfolio, or securities which it has guaranteed.

b. It may borrow from member governments, central banks, or private financial institutions in member countries.

c. It may buy or sell foreign exchange where such transactions are necessary in connection with its operations.

IV. <u>Repayment Provisions.</u>

1. Payment of interest and principal on loans

participated

participated in or made by the Bank will be in currencies acceptable to the Bank or in gold.

2. In the event of an acute exchange stringency the Bank may, for brief periods, accept local currency in payment of interest and principal under conditions that safeguard the value of the Bank's holdings.

3. Payment of interest and principal, whether made in currencies or in gold, must be equivalent to the gold value of the loan and of the contractual interest thereon.

V. Management.

1. The administration of the Bank will be vested in a governing board and an executive committee representing the members. The governing board may appoint an advisory council consisting of representatives of banking, business, labor and agricultural interests, and such committees as it finds necessary. Provision will be made for consultation with other interested agencies on matters of direct interest to them.

2. The distribution of voting power will be closely related to the share holdings of the member countries.

3. The Bank will publish regularly a balance sheet showing its financial position and a statement of earnings

showing

showing the results of its operations. The Bank may also publish from time to time such other information as would be helpful to the sound development of international investment.

4. One-fourth of the profits would be applied to surplus until surplus equals 20 percent of the capital.

VI. Withdrawal and Suspension.

1. A member country may withdraw from the Bank by giving notice in writing.

2. A member country failing to meet its financial obligations to the Bank may be declared in default and may be suspended from membership, provided that a majority of the member countries so decides.

3. If a member country elects to withdraw or is dropped from the Bank, its shares of stock would, if the Bank has a surplus, be repurchased at the price paid, If the Bank's books show a loss, the country would bear a proportionate share of the loss. Appropriate provision should be made for meeting the contingent liabilities.

Joint Statement on the Establishment of an International Monetary Fund.

Sufficient discussion of the problems of international monetary cooperation has taken place at the technical

level to

level to justify a statement of principles. It is the consensus of opinion of the experts of the United and Associated Nations who have participated in these discussions that the most practical method of assuring international monetary cooperation is through the establishment of an International Monetary Fund. They have set forth below the principles which they believe should be the basis for this Fund. Governments are not asked to give final approval to these principles until they have been embodied in the form of definite proposals by the delegates of the United Associated Nations meeting in a formal conference.

I. Purposes and Policies of the International Monetary Fund.

The Fund will be guided in all its decisions by the purposes and policies set forth below:

1. To promote international monetary cooperation through a permanent institution which provides the machinery for consultation on international monetary problems.

2. To facilitate the expansion and balanced growth of international trade and to contribute in this way to the maintenance of a high level of employment and real income, which must be a primary objective of economic policy.

policy.

3. To give confidence of member countries by making the Fund's resources available to them under adequate safeguards, thus giving members time to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

4. To promote exchange stability, to maintain orderly exchange arrangements among member countries, and to avoid competitive exchange depreciation.

5. To assist in the establishment of multilateral payments facilities on current transactions among member countries and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

6. To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

II. <u>Subscription to the Fund.</u>

1. Member countries shall subscribe in gold and in their local funds amounts (quotas) to be agreed, which will amount altogether to about $8 billion if all the United and Associated Nations subscribe to the Fund (corresponding to about $10 billion for the world as a whole.)

2. The

2. The quotas may be revised from time to time but changes shall require a four-fifths vote and no member's quota may be changed without its assent.

3. The obligatory gold subscription of a member country shall be fixed at 25 percent of its subscription (quota) or 10 percent of its holdings of gold and gold-convertible exchange, whichever is the smaller.

The obligatory gold subscription of a member whose home areas have suffered substantial damage from enemy action or occupation shall be only three-fourths of the above.

III. Transactions with the Fund.

1. Member countries shall deal with the Fund only through their Treasury, Central Bank, Stabilization Fund, or other fiscal agencies. The Fund's account in a member's currency shall be kept at the Central Bank of the member country.

2. A member shall be entitled to buy another member's currency from the Fund in exchange for its own currency on the following conditions:

(a) The member represents that the currency demanded is presently needed for making payments in that currency which are consistent with the purposes of the Fund.

(b) The Fund

(b) The Fund has not given notice that its holdings of the currency demanded have become scarce in which case the provisions of VI, below, come into force.

(c) The Fund's total holdings of the currency offered (after having been restored, if below that figure, to 75 percent of the member's quota) have not been increased by more than 25 percent of the member's quota during the previous twelve months and do not exceed 200 percent of the quota.

(d) The Fund has not previously given appropriate notice that the member is suspended from making further use of the Fund's resources on the ground that it is using them in a manner contrary to the purposes and policies of the Fund; but the Fund shall not give such notice until it has presented to the member concerned a report setting forth its views and has allowed a suitable time for reply.

The Fund may in its discretion and on terms which safe-guard its interests waive any of the conditions above.

3. The operations on the Fund's account will be limited to transaction for the purpose of supplying a member country on the member's initiative with another member's currency in exchange for its own currency or for gold. Transactions provided for under 4 and 7, below, are not

are not subject to this limitation.

4. The Fund will be entitled at its option, with a view to preventing a particular member's currency from becoming scarce:

(a) To borrow its currency from a member country;

(b) To offer gold to a member country in exchange for its currency.

5. So long as a member country is entitled to buy another member's currency from the Fund in exchange for its own currency, it shall be prepared to buy its own currency from that member with that member's currency or with gold. This shall not apply to currency subject to restrictions in conformity with IX, 3 below, or to holdings of currency which have accumulated as a result of transactions of a current account nature effected before the removal by the member country of restrictions on multilateral clearing maintained or imposed under X, 2 below.

6. A member country desiring to obtain, directly or indirectly, the currency of another member country for gold is expected, provided that it can do so with equal advantage, to acquire the currency by the sale of gold to the Fund. This shall not preclude the sale of newly-

mined gold

mined gold by a gold-producing country on any market.

7. The Fund may also acquire gold from member countries in accordance with the following provisions:

(a) A member country may repurchase from the Fund for gold any part of the latter's holdings of its currency.

(b) So long as a member's holdings of gold and gold-convertible exchange exceed its quota, the Fund is selling foreign exchange to that country shall require that one-half of the net sales of such exchange during the Fund's financial year be paid for with gold.

(c) If at the end of the Fund's financial year a member's holdings of gold and gold-convertible exchange have increased, the Fund may require up to one-half of the increase to be used to repurchase part of the Fund's holdings of its currency so long as this does not reduce the Fund's holdings of a country's currency below 75 percent of its quota or the member's holdings of gold and gold-convertible exchange below its quota.

IV. Par Values of Member Currencies.

1. The par value of a member's currency shall be agreed with the Fund when it is admitted to membership, and shall be expressed in terms of gold. All transactions between the Fund and members shall be at par, subject to

a fixed charge

a fixed charge payable by the member making application to the Fund, and all transactions in member currencies shall be at rates within an agreed percentage of parity.

2. Subject to 5, below, no change in the par value of a member's currency shall be made by the Fund without the country's approval. Member countries agree not to propose a change in the parity of their currencies which will affect their international transactions unless they consider it appropriate to the correction of a fundamental disequilibrium. Changes shall be made only with the approval of the Fund, subject to the provisions below.

3. The Fund shall approve a requested change in the par value of a member's currency, if it is essential to the correction of a fundamental disequilibrium. In particular, the Fund shall not reject a requested change, necessary to restore equilibrium, because of the domestic social or political policies of the country applying for a change. In considering a requested change, the Fund shall take into consideration the extreme uncertainties prevailing at the time the parities of the currencies of the member countries were initially agreed upon.

4. After consulting the Fund, a member country may change the established parity of its currency, provided

the proposed

the proposed change, inclusive of any previous change since the establishment of the Fund, does not exceed 10 percent. In the case of application for a further change, not covered by the above and not exceeding 10 percent, the Fund shall give its decision within two days of receiving the application, if the applicant so requests.

5. An agreed uniform change may be made in the gold value of member currencies, provided every member country having 10 percent or more of the aggregate quotas approves.

V. Capital Transactions.

1. A member country may not use the Fund's resources to meet a large or sustained outflow of capital, and the Fund may require a member country to exercise controls to prevent such use of the resources of the Fund. This provision is not intended to prevent the use of the Fund's resources for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business. Nor is it intended to prevent capital movements which are met out of a member country's own resources of gold and foreign exchange, provided such capital movements are in accordance with the purposes of the Fund.

2. Subject

2. Subject to VI, below, a member country may not use its control of capital movements to restrict payments for current transaction or to delay unduly the transfer of funds in settlement of commitments.

VI. Apportionment of Scarce Currencies.

1. When it becomes evident to the Fund that the demand for a member country's currency may soon exhaust the Fund's holdings of that currency, the Fund shall so inform member countries and propose an equitable method of apportioning the scarce currency. When a currency is thus declared scarce, the Fund shall issue a report embodying the causes of the scarcity and containing recommendations designed to bring it to an end.

2. A decision by the Fund to apportion a scarce currency shall operate as an authorization to a member country, after consultation with the Fund, temporarily to restrict the freedom of exchange operations in the affected currency, and in determining the manner of restricting the demand and rationing the limited supply among its nationals, the member country shall have complete jurisdiction.

VII. Management.

1. The Fund shall be governed by a board on which

each member

each member will be represented and by an executive committee. The executive committee shall consist of at least nine members including the representatives of the five countries with the largest quotas.

2. The distribution of voting power on the board and the executive committee shall be closely related to the quotas.

3. Subject to II, 2 and IV, 5, all matters shall be settled by a majority of the votes.

4. The Fund shall publish at short intervals a statement of its position showing the extent of its holdings of member currencies and of gold and its transactions in gold.

VIII. Withdrawal.

1. A member country may withdraw from the Fund by giving notice in writing.

2. The reciprocal obligations of the Fund and the country are to be liquidated within a reasonable time.

3. After a member country has given notice in writing of its withdrawal from the Fund, the Fund may not dispose of its holdings of the country's currency except in accordance with the arrangements made under 2, above. After a country has given notice of withdrawal, its use

of the

of the resources of the Fund is subject to the approval of the Fund.

IX. The Obligations of Member Countries.

1. Not to buy gold at a price which exceeds the agreed parity of its currency by more than a prescribed margin and not to sell gold at a price which falls below the agreed parity by more than a prescribed margin.

2. Not to allow exchange transactions in its market in currencies of other members at rates outside a prescribed range based on the agreed parities.

3. Not to impose restrictions on payments for current international transactions with other member countries (other than those involving capital transfers or in accordance with VI, above) or to engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund.

X. Transitional Arrangements.

1. Since the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war, the agreement of a member country to provisions III, 5 and IX, 3, above, shall not become operative until it is satisfied as to the arrangements at its disposal to

facilitate

facilitate the settlement of the balance of payments differences during the early post-war transition period by means which will not unduly encumber its facilities with the Fund.

2. During this transition period member countries may maintain and adapt to changing circumstances exchange regulations of the character which have been in operation during the war, but they shall undertake to withdraw as soon as possible by progressive stages any restrictions which impede multilateral clearing on current account. In their exchange policy they shall pay continuous regard to the principles and objectives of the Fund; and they shall take all possible measures to develop commercial and financial relations with other member countries which will facilitate international payments and the maintenance of exchange stability.

3. The Fund may make representations to any member that conditions are favorable to withdrawal of particular restrictions or for the general abandonment of the restrictions inconsistent with IX, 3, above. Not later than three years after coming into force of the Fund any member still retaining any restrictions inconsistent with IX, 3 shall consult with the Fund as to their further retention.

retention.

4. In its relations with member countries, the Fund shall recognize that the transition period is one of change and adjustment, and in deciding on its attitude to any proposals presented by members it shall give the member country the benefit of any reasonable doubt. END QUOTE.

HULL
(DF)

FMA:EGC
S:DF:MCW
DFB

April 17, 1944

Please send the following cable to the American Embassy, Ottawa, Canada:

To Ambassador Atherton from the Secretary of the Treasury.

"1. Arrangements are being made for the simultaneous publication in Washington, London, and a number of the capitals of the United Nations of the joint statement by technical experts of the United and Associated Nations on the establishment of an International Monetary Fund. Copy of this joint statement has been given to Plumptre and we have telegraphed copy to you. We are discussing the issuing of a joint statement on the Bank for Reconstruction and Development, a copy of which has also been telegraphed to you.

"2. I am to appear before the appropriate Congressional committees on Friday, April 21, to bring them up to date on our discussions regarding international financial cooperation and to present to them the joint statement. This joint statement on the Monetary Fund will be released on Friday, April 21, 8:00 p.m. Washington time for Saturday morning press. It is imperative that the statement should not (repeat not) be released elsewhere before it is released in Washington. It has not yet been decided when the joint statement on the Bank will be released. We will keep you informed."

Sent to State 4/18

HDW:EMB/jm 4/17/44