D R A F T

MEMORANDUM TO: The Staff Committee

FROM: The Treasury

SUBJECT: Purchase of United States Government Securities by the International Bank.

In NAC Document No. 132 the U. S. Executive Director of the International Bank has requested the Council to determine whether U. S. dollar currency received by the Bank from various sources may be used for the purchase of U. S. government securities.

1. In the course of its operations the Bank will receive U. S. dollars in payment of commissions on direct loans made out of U. S. dollars borrowed by the Bank and on guarantees given on dollar loans. The Articles of Agreement provide (IV, 6) that such sums shall be set aside as a special reserve in liquid form and (IV, 8 (iv)) that for the maintenance of this reserve the Bank may buy and sell such securities as the directors may decide.

It is recommended that the Bank be generally authorized to buy U. S. government securities with these dollars without any special permission since such action appears to be entirely consistent with the Articles of Agreement In this and other recommendations below no attempt has been made to study the question of whether the Bank should be ~~able~~ permitted to buy only certain issues of U. S. government securities.

2. The Bank may acquire some U. S. dollars in the immediate future under the terms of Article II, 7, (i) which provides that 2 per cent of the price of each member's share shall be paid in gold or dollars, and, at a later date, U. S. dollars may be received as amortization of loans made from these funds. The right of the Bank to use these dollars without U. S. government permission depends upon the interpretation of Article IV, 2(a) and (b) which states that currencies paid into the Bank as payment of the first 20 per cent of the price

of each member's share shall be loaned only with the approval in each case of the member whose currency is involved. The U. S. Director points out that this restriction is intended to apply to the 18 per cent of the price of each member's share that is payable in the member's currency, and that the fact that the currency of one member (the U. S.) is acceptable in lieu of gold for the first 2 per cent payment should not be construed as giving the United States any special control over dollars so received, since so-doing would give the U. S. special control over sums contributed by other members.

In NAC Document No.   it is recommended that the Council clarify this point by stating that the United States considers dollars paid to the bank in payment of the first 2 per cent of the price of each member's share (including the United States' share) to be free from any limitations which the United States is authorized to impose upon the use of its currency payments on account of share payments. It is here recommended that the Bank be generally authorized to buy U. S. government securities with such dollars without any special permission.

3. During the course of its operations the Bank will receive U. S. dollars as interest on dollar loans made, or participated in, from its own capital, surplus, and reserves; it will receive dollars from the sale of its own debentures, gold, or other currencies, and from the amortization of loans originally made in the currencies of other countries; and it will receive dollars as amortization payments if dollar loans are made from such dollars.

It is recommended that the Bank be generally authorized to buy U. S. government securities with these dollars without any special permission.

4. One of the largest sources of dollars to the Bank will be the payment of the 18 per cent of the price of the United States' share and subsequent receipts of amortization payments on loans made from these dollars. The Articles of Agreement provide (V, 12) that when the currencies received from members in payment of this 18 per cent of the price of the shares, or received

as amortization payments on loans made from such currencies, are not required by the Bank, it shall accept, in lieu of currency, non-interest-bearing demand obligations of the member country. It appears to be the intent of this article to prevent this part of the capital funds of the Bank from being a source of expense to the member whose currency is involved, when it is not needed for the operations of the Bank (as defined in Article IV). The U. S. Director states that the investment of these funds in U. S. government securities might be inconsistent with the spirit of Article V, 12, and might raise criticism on the grounds that the U. S. was in this way making an additional contribution to the Bank.

It is recommended that the Council advise the U. S. Director that the United States intends to exercise the privilege granted by Article V, 12. In accordance with this recommendation, the U. S. Director should be advised that the exercise of this privilege will raise some questions about the advisability of holding U. S. government bonds or other dollar investments not purchased in pursuance of the purposes of the Bank (other than those in the special reserve provided for in Article IV, 6) when dollars have been called from the United States. It is felt that such holdings should be limited to reasonable working and casual balances, but it is not believed that any exact determination need be made on this point at this time.