

February 26, 1946

M E M O R A N D U M

TO: Technical Committee

FROM: Subcommittee on Securities of the International Bank

SUBJECT: Recent Developments in Marketing of International Bank Securities

In NAC Document 69 the Technical Committee advised the National Advisory Council that initial steps had been taken toward the introduction of the necessary statutory amendments in New York, New Jersey and Massachusetts to make the International Bank's bonds eligible for purchase by institutional investors. The Committee indicated, however, that there were obstacles in the way of presenting such amendments to the respective legislatures in time for them to act upon the changes during the current session of those legislatures. It also pointed out that it could not be predicted whether the legislatures would, even if given the opportunity, act favorably upon the desired amendments.

In the light of more recent developments it now appears extremely unlikely that there will be action by the state legislatures of New York, New Jersey or Massachusetts at this session in the direction of making the Bank's bonds eligible for investment by insurance companies or savings banks. In fact, there appears to be little probability that proposals for amendment to state statutes will even be submitted for the consideration of any of these legislatures at this session. The bases for these conclusions are as follows:

On February 19 a letter was received from the Commissioner of Banking and Insurance of the State of New Jersey advising that any change in the statute relating to investment by insurance companies along the lines proposed would have to be postponed until the 1947 session of the legislature. Two reasons for this postponement were mentioned in his letter: (1) the fact that February 11 was the final date for the introduction of bills and (2) the advisability of learning more about the Bank's organization, the personnel selected and the operating policies which are adopted.

A letter received February 19 from Mr. Edward Scherr, Jr., Chairman of the Committee on Savings Bank Investments of New York, and subsequent telephone conversations with Mr. Scherr advised that the matter of legislation had been referred to the Committee on Legislation of The



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Savings Bank Association. It was indicated that obstacles were foreseen before submission of legislation to the New York State Legislature. The committee decided that the best procedure would be to discuss the proposed legislation with the New York banking authorities prior to submission, realizing, however, that the banking authorities were not well disposed toward sponsoring or supporting such an amendment.

Mr. Bruce Shepard of the Life Insurance Association of America on February 20th advised that the board of directors of the Association at a meeting on Friday, February 16, had decided not to take action toward sponsoring an amendment to the New York and other state statutes to make the Bank's bonds eligible for insurance company investment. He advised that among the reasons for this decision were: (1) the decision of the New Jersey Banking and Insurance Commissioner, (2) the fact that Massachusetts insurance companies might be permitted without amendment to make some investment, (3) that Connecticut companies also seemed to have some leeway and (4) that considerable doubt was expressed as to whether the New York State Superintendent of Insurance would act favorably upon the recommendation. The insurance company officials, therefore, took a position of "wait and see." Their attitude was described as being extremely conservative and as unwilling to assume the risk of recommending relaxation of the state statutes in favor of securities of an unknown calibre.

Advice from Boston is to the effect that no bill to admit the Bank's bonds to the legal list for savings banks will be submitted at this session of the Massachusetts legislature. In view of the attitude of the Life Insurance Association board it seems clear that the Massachusetts insurance companies will not act independently.

The sub-committee feels that there are no further steps which it could take to promote consideration by the legislatures now in session of the required amendments to state statutes. It is its impression from information received that the decisions of state insurance and banking authorities to withhold action have been prompted by their general conservatism as well as by some political considerations. It seems doubtful, therefore, that direct action by federal authorities would be favorably received by state authorities. This means that the largest institutional investors will probably be prevented from purchasing the Bank's bonds until 1947. It thus becomes even more important to canvass the potential market for the Bank's bonds among other types of investors.

In its previous report to the Council, the Technical Committee, in recognition of this contingency, stated that in view of the uncertainty of action by state legislatures at this session reliance should not be placed exclusively upon institutional investment in the Bank's bonds at

the start. It decided to explore steps to maximize distribution of these bonds to individual and other investors, and to continue discussions with investment men in the commercial banks.

Taking into account all of these factors the Technical Committee feels that the following course of action seems advisable:

1. To continue discussions with representatives of investment bankers, of securities brokers and dealers, and of national securities exchanges with a view to preparing for the widest possible distribution of the Bank's bonds among investors. Besides institutions such as insurance companies and savings banks, the most important categories of prospective investors are individuals, general corporations, commercial banks, charitable and educational institutions, and trustees.

2. To initiate an educational program to acquaint the public with the purposes and operations of the International Bank and with the types of securities that it will offer. This step seems particularly important and timely in view of the relative unfamiliarity with the Bank shown by so many of the investment experts in discussions with them.

3. To continue our activities toward the relaxation of state laws to make the Bank's bonds eligible for investment by insurance companies and savings banks at the earliest feasible date.

4. If it appears from forthcoming discussions that the present 10 per cent limitation on member banks' investments in the securities of any one issuer is likely to restrict significantly their purchase of the Bank's bonds, to seek amendment of this limitation as to these bonds.

5. If it is found necessary in order to provide adequate distribution of the Bank's bonds, to consider amending (a) the banking laws to permit commercial banks to underwrite and distribute these bonds and (b) the Securities Act of 1933 to exempt distribution of these bonds from the civil liabilities of that Act.



Technical Committee  
of the  
National Advisory Council  
Documents Issued In February 1946

<u>Document Number</u>	<u>Subject</u>
18	Suggested By-Laws of the International Monetary Fund - February 5, 1946
19 <i>same as Nac 75</i>	Suggested By-Laws of the International Monetary Fund - February 7, 1946
20 <i>same as Nac 76</i>	Suggested By-Laws of the International Bank for Reconstruction and Development, February 7, 1946

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Documents Issued In January 1946

<u>Document Number</u>	<u>Subject</u>
11	Suggested By-Laws of the International Monetary Fund
12	Suggested By-Laws of the International Bank for Reconstruction and Development, January 15, 1946
13	Procedure at the First Meeting of the Board of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development, January 18, 1946
14	Suggested By-Laws of the International Monetary Fund, January 18, 1946
15	Suggested By-Laws of the International Bank for Reconstruction and Development, January 18, 1946
16	Initial Conclusions and Recommendations - Memorandum from Sub-Committee on Marketing of International Bank Securities to Technical Committee of National Advisory Council, January 22, 1946
17	Initial Report and Recommendations - Memorandum from Subcommittee on Investment by Banks in International Bank Securities to Technical Committee of National Advisory Council, January 23, 1946

## Technical Committee

of the

## National Advisory Council

Documents Issued Through October 31, 1945

<u>Document Number</u>	<u>Subject</u>
1	Suggested Matters to be Covered in By-Laws of International Monetary Fund - Submitted by State Department
2	Suggested Topics for By-Laws of the International Fund - Submitted by Bureau of Foreign and Domestic Commerce
3	International Monetary Fund - Matters for Action by Board of Governors at its First Meeting - Submitted by Securities and Exchange Commission
4	Suggested By-Laws of the International Monetary Fund - Submitted by Treasury
5	Suggested Rules and Regulations of the International Monetary Fund - Submitted by Treasury
6	By-Laws of the International Monetary Fund (Draft) - Submitted by Board of Governors of Federal Reserve System - September 12, 1945
7	Compilation of Alternative Suggestions for By-Laws of International Monetary Fund - September 17, 1945
8	Suggestions on By-Laws and Rules and Regulations of the International Monetary Fund - Submitted by Board of Governors of Federal Reserve System - September 19, 1945
9	Suggested By-Laws of the International Monetary Fund - September 27, 1945
10	Suggested Addition to NAC Technical Committee Draft of Fund By-Laws Dated September 27, 1945 - Submitted by the Board of Governors of the Federal Reserve System - October 15, 1945