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National Advisory Council  
Technical Committee  
Document No. 17

January 23, 1946

To: Technical Committee of National Advisory Council  
From: Subcommittee on Investment by Banks in International Bank Securities  
Subject: Initial Report and Recommendations

The subcommittee has considered the Federal laws and administrative rules that may constitute obstacles to investment by commercial banks in securities issued or guaranteed by the International Bank for Reconstruction and Development. It also has under study the State laws and regulations on the same subject. State member banks (subject to both Federal and State rules) hold about 33 per cent of the commercial bank assets in the United States, and State nonmember banks hold about 12 per cent, making a total of 45 per cent subject to State regulation. While the subcommittee is not yet ready to report on these State laws it appears from a preliminary survey that they are unlikely to prove more limiting than the Federal laws to any significant degree. Should the Federal laws be liberalized, however, State laws might become a limiting factor.

The possible Federal limitations<sup>1/</sup> and the subcommittee's recommendations with regard to them are summarized below:

(1) Security purchases by member banks of the Federal Reserve System (which hold about 33 per cent of the commercial bank assets in the United States) are subject to a regulation of the Comptroller of the Currency which limits them to securities that are "not predominantly speculative". It seems evident that the proposed securities will meet this test, and on the basis of informal discussion with members of the Comptroller's office, the subcommittee is confident that that office will make clear in answer to bank inquiries that such purchases are permitted. No further action appears to be called for at this time.

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<sup>1/</sup> These limitations apply to securities of all issuers except the United States Government, State and municipal governments, and certain specified United States Government agencies.

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(2) The present statutes prohibit a member bank from investing more than 10 per cent of its capital and surplus in securities of any one issuer. This provision would limit total bank investments in International Bank securities to about 600 million dollars, even if every bank bought its maximum. The subcommittee believes that if this rule remains applicable to the securities, it is likely at some stage to be the limiting factor on many banks' purchases. The subcommittee suggests that informal discussion of the subject with responsible investment officers of representative member banks is now in order. If it appears from such discussions that the present limitation is likely to prove significantly restrictive on the banks as a whole or on individual banks capable of making substantial investments, the subcommittee would recommend that the law be amended, either to eliminate the 10 per cent limitation or to increase the percentage, for securities of the International Bank.

(3) The present statutes would also prohibit a member bank from acting as an underwriter or distributor for these securities. The subcommittee accepts the principle that in general it is desirable not to mix commercial banking with the underwriting and distribution of securities. Furthermore, it does not anticipate much need on the part of the International Bank for underwriting services. Distribution services, as distinct from underwriting, may be needed, however; and the subcommittee suggests that the whole subject should be discussed informally with selected member banks with a view to ascertaining whether the banks could perform any services in this field that would significantly widen the market for the International Bank's securities. A recommendation could then be made in the light of this information.