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Meeting of the Formal Agenda Conference
Binnacle Room
June 30, 1944
10:30 A.M.

The report of the Agenda Sub-Committee was submitted. There will be three Commissions at the Conference. Commission I will deal with the Fund, Commission II will deal with the Bank, and Commission III will deal with other means of international financial cooperation. The Secretariat of the Conference will be from the United States.

It was requested that resolutions for discussions at the Third Commission be submitted to the Secretariat. Mr. de Iongh (Netherlands) suggested that the freezing controls might be discussed in the Third Commission.

Lord Keynes, Acting Chairman, accepted the report of the Agenda Sub-Committee.

The discussion of the U.K. draft of the Bank proposal which was begun at yesterday's meeting was continued.

IV,6,b The first part of section 6(b) is necessary because the use of an international monetary unit has been dropped. The second part of this section replaced IV, 10,c of the U.S. draft.

Mr. Bernstein (U.S.) remarked that if member countries are allowed to repay in any "convertible" currency rather than in the currency borrowed ~~from~~ that the Bank will be burdened with conversion operations. Furthermore, there will be a serious problem if the currency in which the loan was made is a scarce currency in the Fund and the Bank wishes to convert the "convertible" currency which it receives in repayment. Lord Keynes thought that this provision would work out in about the same manner as the corresponding provisions in the U.S. draft. Mr. Bernstein (U.S.) requested a further discussion of this provision, of the corresponding provisions of the U.S. draft of November 1943 and of the gold repurchase provision of the U.S. draft of November 1943 (II,7). Lord Keynes deferred this discussion until we have completed the explanation of this draft.

Mr. Rasminsky (Canada) pointed out that in order for the Bank to convert currency acquired in repayment of loans through the Fund it will be necessary to set up a special definition of "current transaction". Lord Keynes agreed.

IV,6,c Section 6(c) replaces IV, 10,d of the U.S. draft. Mr. Bernstein (U.S.) remarked that provision 6(c)(i) which provides that if the service of a loan is paid in local currency the Bank may require part or all of such currency to be transferred to another member country in whose hands it shall be freely available to make payments or to purchase exports in the borrowing country, could operate as a mild sanction against the borrowing country, forcing it to cut down imports, and increase exports. Therefore, great discretion would have to be exercised by the Bank in connection with this provision.

Mr. Bernstein also suggested that the Bank might require member countries to take portions of this local currency instead of calling up guarantees. In reply to a question by Mr. Basch (Czechoslovakia), Lord Keynes stated that the rate of exchange used in such cases would be the normal rate of exchange.

Ambassador Varvaressos (Greece) suggested that this provision might be mitigated by specifying time limits for the period during which a borrowing country which pays service on loans in local currency shall repurchase this local currency from the Bank. He suggested that this period might be longer than three years. Lord Keynes (U.K.) stated that the three-year period referred to was not the period of repurchase but the period during which the Bank may accept local currency in respect of payments for service on a loan.

Mr. Bernstein (U.S.) suggested that some definite rate of repurchase, such as is provided for under the provision on liquidation of the fund, might be provided for. Lord Keynes agreed that this was a possibility. Ambassador Varvaressos (Greece) also felt that this was a possibility. Mr. Mladek (Czechoslovakia) remarked that this could lead to temporary forced investment in a country with an adverse balance of payments, but that he felt that, on the whole, the paragraph had a great deal of merit.

IV,7 In regard to section 7, Mr. Louchheim (U.S.) remarked that the wording seems to limit the loans which the Bank may guarantee to loans to national governments.

Lord Keynes then called attention to the fact that the proceeds of loans made through the usual investment channels and guaranteed by the Bank must be fully transferable for purchases in any member country. Mr. Bernstein (U.S.) stated that he agreed that there was a difference between direct loans and guaranteed loans in this respect but that there are political implications to be considered and that he was not qualified to comment on this point.

Mr. Gardner (U.S.) commented upon the flat rate commission provided for in this section. Lord Keynes (U.K.) pointed out that there will be a wide range of risks in connection with which the market will have little to base its judgment upon. Therefore, the pattern of the insurance factor in the rate of interest will be very erratic. The Bank will be asked to guarantee the unpopular loans but that will not mean that the risk of default on these loans is greater than on other loans. Mr. Bernstein (U.S.) pointed out that the fact that the Bank charges a flat rate commission does not mean that the rate of interest on all loans will be the same.

Sir Theodore Gregory (India) asked whether the amount of the commission would continue the same throughout the life of a loan in spite of amortization. Lord Keynes replied that this had been intended. If the commission represented an actual rather than an average rate the charge would be heaviest at the outset. This would be undesirable. Mr. Bernstein (U.S.) remarked that a flat rate commission could prove very burdensome and that this burden would be different depending upon the length of the loans. Lord Keynes replied that this would depend partly upon whether the rate of interest was the same for all types of loans, and that he was more afraid of a country's being forced into a shorter term loan that would otherwise be desirable than of their defaulting because of overburdensome charges.

Mr. Bernstein stated that the U.S. Delegation would present a statistical tabulation dealing with this matter. Mr. de Iongh (Netherlands) pointed out that the formation of price for loans in the market will be very much complicated by the establishment of this Bank. Firstly, the credit of this Bank must be correctly rated or else its operations will be hampered. Secondly, the relation of the loans guaranteed by the Bank to other loans which are not guaranteed must be considered. He suggested, therefore, that extensive studies of such technical matters should be undertaken.

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IV,8 Lord Keynes pointed out that although the ~~meaing~~ meaning of this section, that lenders shall have no right to call upon the Bank to sell its non-liquid assets, is clear, the drafting is imperfect. Mr. Bernstein (U.S.) questioned the inclusion of profits derived from operations under 1(a) as part of the security against guarantees given under 1(b) and 1(c). Mr. Luxford (U.S.) suggested that it might be simpler to say that all defaults should first be met out of surplus and the guarantee fund. /RRR

IV,9 Section 9 explains how guarantees are to be implemented.

IV, 10 Section 10 replaces the first two paragraphs of provision V,8 of the U.S. draft.

IV,11 Section 11 replaced the third paragraph of provision V,8 of the U.S. draft. Mr. Bernstein (U.S.) remarked that the U.S. delegation had been working on this problem and would submit a redraft of this provision later today.

IV,12 Section 12 replaces provision V,9 of the U.S. draft. Mr. Luxford (U.S.) remarked that the U.S. delegation had also been considering a more conservative provision on this point. The problem of distribution of profit will not arise in connection with loans under IV,1(b) or IV,1(c). However, it will not be desirable to pile up profits resulting from loans under IV,1(a). Mr. Bernstein (U.S.) felt that a reserve limit should be set but agreed that if the income from such loans should be reserved, they should be reserved as is provided for here.

V,1
V,2
V,3
V,4 Article V, section 1 replaces provision IV,15 of the U.S. draft, section 2 replaces provision IV,16 of the U.S. draft, section 3 replaces IV,17 of the U.S. draft, and section 4 replaces IV,18 of the U.S. draft. It was pointed out that section 4 makes any country defaulting on one of the Bank's loans a financial outlaw. Mr. Bernstein (U.S.) replied that in the case of the United States a defaulting country would be prevented from use of the facilities of the Exchange Stabilization Fund, the Export-Import Bank and other governmental institutions but would not be prohibited from raising funds in the market.

V,8
V,9 Lord Keynes remarked that aside from provision V,8 and V,9 of the U.S. draft which have been included under the Article, Powers and Operations in the U.K. draft, the U.K. delegation have not yet considered questions of management.

SSS/ Mr. Bernstein (U.S.) remarked that one of the essential differences in the U.K. and the U.S. draft is the division of the Bank's capital into two distinct parts. He felt that this might involve legal difficulties. The U.S. delegation had intended to insert a clause limiting the amount of the Bank's capital which could be used for direct loans and had also intended providing that this part of the Bank's capital should eventually consist only of gold and gold convertible currencies so that there would be no necessity for tying loans. Lord Keynes remarked that Mr. Luxford (U.S.) had suggested that a provision might be worked out providing that such part of the Bank's capital as is set apart for direct loans and is not so used could be gradually made available for guaranteeing. He felt that the suggestion would be more acceptable to the U.K. delegation. Mr. Robbins (U.K.) requested a draft provision embodying Mr. Bernstein's suggestion. /TTT

D. F. Richardson

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