DEPARTMENT OF STATE
WASHINGTON

August 8, 1942

AIR MAIL

Dear Leland:

Recently the Bank for International Settlements applied for a license to permit the transfer of $1,000,000 from its account with the Federal Reserve Bank to the account of the Swiss National Bank. The Treasury denied the application and the matter was then presented formally to this Department by the Swiss Minister. The Department upheld the Treasury's decision.

I believe that the positions taken by the Treasury Department and this Department and the underlying reasons therefor will be of interest to you, and I am therefore enclosing for your confidential information copies of the more pertinent documents from the Department's file on the case.

With kindest personal regards,

Sincerely yours, Dean Acheson

Dean Acheson
Assistant Secretary

Enclosures:

(For enclosures,
see following page.)

The Honorable

Leland Harrison,

American Minister,

Bern.

,R MAIL

Enclosures:

1. Memorandum to Swiss Legation, July 25, 1942.
2. Memorandum to Mr. Berle, from Financial Division, July 16, 1942.
3. Memorandum to Mr. Acheson, from Foreign Funds Control Division, July 15, 1942.
4. Letter from Acting Secretary of Treasury with report, June 26, 1942.
5. Letter to Secretary of the Treasury from Mr. Acheson, June 11, 1942.
6. Aide-mémoire from Swiss Legation, June 3, 1942.

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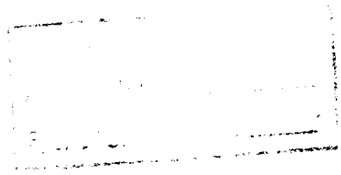

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MEMORANDUM

Reference is made to the aide-mémoire submitted by the Swiss Minister on June 3, 1942, requesting a further review of an application for a Treasury license to permit the transfer of $1,000,000 from the account of the Bank for International Settlements with the Federal Reserve Bank of New York to the account in the same bank of the Swiss National Bank.

It is noted that the transfer in question constitutes a partial repayment of a dollar demand deposit which the Swiss National Bank maintains with the Bank for International Settlements. It would appear from the aide-mémoire that the Swiss National Bank in requesting repayment of this deposit is motivated by apprehension as to the future of the Bank for International Settlements. This appears to be substantiated by the probable willingness of the Swiss National Bank to convert the dollars that would be received into gold to be left with the Federal Reserve Bank for the duration of the war.

The Department of State has carefully reviewed the proposed transaction with other interested agencies of this Government and is constrained to conclude that it is not in a position to intervene in the decisions which have already been rendered. This Government considers that it would not be in the interest of the United States to permit the depletion of the assets of the Bank for International Settlements held in the United States for the consummation of a transaction which is motivated by the considerations indicated in the aide-mémoire. It should also be pointed out that this Government does not consider itself responsible for the liquidity or safety of dollar deposit contracts entered into by foreign banking institutions. Depositors who open dollar accounts with non-American banks assume the risk that such dollar deposits may have to be repaid in their equivalent in other currencies.

Department of State,

Washington, July 25, 1942

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COPY

DEPARTMENT OF STATE

FINANCIAL DIVISION

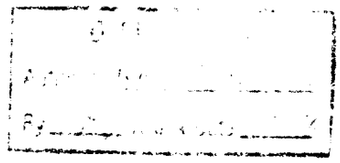
July 16, 1942

Mr. Berle: I agree--AAB

The action drafted on this case may be of some interest to you as a definite negation by the United States of the pre-war effort, embodied in treaties signed by several countries but repeatedly turned down by the United States, to guarantee funds of the Bank for International Settlements freedom in war as well as in peace from the financial controls imposed on other bank operations by governments of the countries in which it operates. Why the Swiss should raise this question over a little amount like a million dollars which they would merely transfer from the BIS account here to their own blocked account is not clear. Since they have done so, however, and since Germany's interests as controller and largest creditor of the BIS has become so predominant, there seems no good reason why the United States should not thus record the break down of the pre-war effort to make this particular bank a real international banking institution superior to national interests.

FD:FL:JD

XI-1/5



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DEPARTMENT OF STATE

FOREIGN FUNDS CONTROL DIVISION

July 15, 1942

A-A - Mr. Acheson: I agree--DA

While we do not agree with all the arguments presented by the Treasury Department in its memorandum, nevertheless it is the opinion of FD and FF that the request of the Swiss should be denied and the Treasury Department's decision upheld.

The Treasury's thesis is largely based on the theory that the Bank for International Settlements is an Axis-controlled institution and an agent of the Axis, and if it was forced to repay the Swiss National Bank dollar deposit in gold or Swiss francs, this would reduce the assets available for the extension of credit to the Axis. It is the view of FD and FF that the B.I.S. could continue to refuse to repay the deposit except in dollars, and consequently would not reduce the credit which could be made available to the Axis because of denial of the application by the United States Treasury.

On the other hand the Swiss build their case about a contingency, namely, the uncertain outlook for the B.I.S. and the possible loss they might sustain if it were liquidated. From the point of view of this contingency it would appear prudent for this Government not to permit this transfer, for in the event the B.I.S. were to become completely Germanized, this Government could place the assets the B.I.S. has in this country into the pool of German assets.

Moreover, if we continue to hold a substantial amount of the liquid assets of the B.I.S. under our control, we may at least within limits more effectively influence B.I.S. policies than would be the case if we permitted these assets to be transferred to other institutions. These considerations in our opinion outweigh any claim of the Swiss to be paid out of the dollar assets of the B.I.S. in this country merely because of uncertainties as to the future of the B.I.S.

In the light of the foregoing we have drafted the attached memorandum in reply to the Swiss aide-mémoire of June 3, 1942.

FD:GLuthringer
FF:JNPlakias

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840.51 Frozen Credits/6898

TREASURY DEPARTMENT

WASHINGTON

In reply please refer to: 18022

June 26, 1942

My dear Mr. Secretary:

Reference is made to Assistant Secretary Dean Acheson's letter of June 11, 1942 (FF), requesting a statement of the reasons underlying the Treasury Department's refusal to authorize the transfer of $1,000,000 from the account of the Bank for International Settlements with the Federal Reserve Bank of New York to the account in the same bank of the Swiss National Bank.

Attached hereto is a memorandum explaining the policy of the Treasury Department with respect to the matter under reference.

Sincerely yours,

E. H. FOLEY, JR.
Acting Secretary of the Treasury

The Honorable,

The Secretary of State.

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COPY

TREASURY DEPARTMENT

WASHINGTON

June 19, 1942

Memorandum on the Transfer of Dollar Funds
from the Bank for International Settlements
to the Banque Nationale Suisse

The Swiss National Bank carries two dollar accounts, approximating $3 million, with the Bank for International Settlements. In February, 1942, the Swiss National Bank requested repayment of $1 million by the transfer of that sum to its dollar account at the Federal Reserve Bank of New York. The application of the Bank for International Settlements for a license to make this transfer was denied by the Treasury. This decision was made in accordance with the policy of the Treasury not to license payments which facilitate commercial and financial transactions directly or indirectly beneficial to the Axis countries.

The Bank for International Settlements is owned by the central banks of Germany, Italy, France, Belgium, and Great Britain, and by some banking institutions in Japan and the United States. It is quite obvious that control is vested in the representatives of the Axis countries and the occupied countries. Furthermore, Germany is the largest creditor of the Bank for International Settlements. The German Government deposit and the Annuity Trust Account Deposits, in which there is probably a large reversionary interest in favor of Germany as well as a direct Italian interest, constitute 70 percent of the total liabilities (other than capital and reserves) of the Bank for International Settlements. Apart from this, Germany has a contingent interest in the profits of the Bank for International Settlements in excess of normal earnings. While the operating policies of the Bank may not be determined by Germany, it is submitted that Germany is now, and expects to be, an important beneficiary directly and indirectly of the Bank's operations.

Under any circumstances, the operations in Europe of the Bank for International Settlements adversely affect this Government in the prosecution of the war. On March 31, 1942, the Bank for International Settlements held assets of more than 475 million gold francs (32.7 cents per gold franc)--approximately $155 million. Included in these assets are Treasury bills amounting to 104 million gold francs, commercial bills and bankers' acceptances amounting to 114 million gold francs, and other bills, investments, and funds at

interest

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interest amounting to 183 million gold francs. By far the greater part of these 400 million gold francs of income-earning assets contribute to the financing of transactions in Europe directly or indirectly beneficial to the Axis countries.

The decision of the Treasury to deny the application of the Bank for International Settlements for a license to pay $1 million to the Swiss National Bank does not imply that there are any other immediate interests in this transaction, nor does it imply that there is any other purpose in this transaction than the repayment of a deposit. Nevertheless, the drawing down of the assets of the Bank for International Settlements in this country would of itself facilitate the extension of credit in Europe by the Bank for International Settlements. The Treasury Department cannot give its approval to a transaction which makes possible the extension of additional credit by the Bank for International Settlements to finance transactions in Europe.

There is ample evidence that the Bank for International Settlements has been systematically drawing down its assets in this country for the purpose of removing them from our control. While the Bank for International Settlements held $29.5 million in gold, deposits, and bills in New York on January 2, 1940, these assets have been reduced to about $21 million. We know that the Bank for International Settlements has attempted to initiate transactions involving the export of gold from this country, the switching of gold between this country and Latin America, and the holding of dollar deposits in Latin American banks. For example, the Bank for International Settlements recently attempted to transfer certain of its Brazilian gold holdings to Argentina. Apparently the Bank for International Settlements felt that with gold held in Argentina it could effect transactions which Brazil would not permit. Brazil properly refused to allow any such transfer. Such shifting of assets indicates a definite plan on the part of the Bank for International Settlements to escape and defeat the foreign funds control of this Government and of other governments cooperating with us. Ordinary business prudence suggests that a sound and unbiased banking policy would require the Bank for International Settlements to shift its assets from Europe to the United States rather than to draw down its safe holdings in this country.

The decision of the Treasury on this application is not directed against the Swiss National Bank. Precisely the same decision would be made on any application to transfer the funds of the Bank for International Settlements

to

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to European interests. In the aide-memoire of the Swiss Minister, it is stated that the Treasury decision has deprived the Swiss National Bank of the possibility of collecting its deposit from the Bank for International Settlements. Obviously, payment of this deposit can be made in a manner that will be approved by the Treasury. Nevertheless, it must be emphasized that this Government is not the guarantor of the liquidity and the safety of dollar deposits in banking institutions outside the United States. Depositors who open dollar accounts with non-American banks assume the risk that such dollar deposits may have to be paid in their equivalent in other currencies.

The Treasury Department has no wish to inflict any unnecessary hardship on the Swiss National Bank. The Bank for International Settlements has total assets of more than $155 million, of which only 10 percent are held in this country. Obviously, the European resources of the Bank for International Settlements are wholly adequate to effect the transfer of $1 million to the Swiss National Bank. The Treasury Department is prepared to grant any licenses necessary to authorize the payment of this dollar deposit out of the funds now held in Europe by the Bank for International Settlements.

APPENDIX I

United States Assets of the
Bank for International Settlements

(Millions of Dollars)

January 2, 1940	
Deposits and bills	18.2
Gold	11.2
Total	29.4
January 1, 1941	
Deposits and bills	21.3
Gold	7.2
Total	28.5
January 1, 1942	
Deposits and bills	16.1
Gold	4.0
Total	20.1

April 30,

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April 30, 1942	
Deposits and bills	14.8
Gold	6.5
Total	21.3

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APPENDIX II

BANK FOR INTERNATIONAL SETTLEMENTS
STATEMENT OF ACCOUNT AS OF MARCH 31, 1942

(In Swiss gold francs (units of 0.290 322 58...grammes fine gold) (Art. 5 of the Statutes)

ASSETS			Percent
I- GOLD IN BARS		42,082,396.06	8.9
II- CASH			
On hand and on current account with Banks		32,962,453.81	6.9
III- SIGHT FUNDS at interest		16,340,546.99	3.4
IV- REDISCOUNTABLE BILLS AND ACCEPTANCES			
1. Commercial Bills and Bankers' Acceptances	114,158,585.20		24.0
2. Treasury Bills	29,886,659.98		6.3
V- TIME FUNDS at interest		144,045,245.18	
Not exceeding 3 months		21,068,707.65	4.4
VI- SUNDRY BILLS AND INVESTMENTS			
1. Maturing within 3 months Sundry Investments	77,856,216.35		16.3
2. Between 3 and 6 months Sundry Investments	35,799,652.38		7.5
3. Over 6 months			
(a) Treasury Bills	74,464,835.62		15.6
(b) Sundry Investments	31,842,102.24		6.7
		219,962,806.59	
VII- OTHER ASSETS		183,979.08	0.0
		476,646,135.36	100
LIABILITIES			
I- CAPITAL			
Authorized and issued 200,000 shares, each of 2,500 Swiss gold francs of which 25% paid up	500,000,000.--	125,000,000.00	26.2
II- RESERVES			
1. Legal Reserve Fund	5,780,203.15		
2. Dividend Reserve Fund	4,200,538.73		
3. General Reserve Fund	13,342,650.13		4.9
		23,323,392.01	
III- LONG TERM DEPOSITS			
1. Annuity Trust Account Deposits	152,606,250.--		32.0
2. German Government Deposit	76,303,125.--		16.0
		228,909,375.--	
IV- SHORT TERM AND SIGHT DEPOSITS (various currencies)			
1. Central Banks for their own account:			
(a) Not exceeding 3 months	3,968,900.--		0.8
(b) Sight	13,354,565.86		2.8
		17,323,465.86	
2. Central Banks for the account of others: Sight		1,267,341.84	0.3

3. Other

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			Percent
3. Other depositors:			
(a) Not exceeding 3 months	24,344.68		0.0
(b) Sight	4,541,366.73		1.0
V- SHORT TERM AND SIGHT DEPOSITS (Gold)		4,565,711.41	
1. Not exceeding 3 months	1,464,753.74		0.3
2. Sight	27,579,932.38		5.8
VI- MISCELLANEOUS		29,044,686.12	
		47,212,163.12	9.9
		476,646,135.36	100

Note: Earmarked gold held in custody for the account of Central Banks and funds held for the service of International Loans, for which the Bank of International Settlements is Trustee or Fiscal Agent, are not included in the above Statement.

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APPENDIX III

EXTRACTS FROM THE
STATUTES OF THE BANK FOR INTERNATIONAL SETTLEMENTS

Art. 6. The subscription of the total authorised capital having been guaranteed in equal parts by the Banque Nationale de Belgique, the Bank of England, the Banque de France, the Reichsbank, Banca d'Italia, a banking group represented by the Industrial Bank of Japan acting in place of the Bank of Japan, and Messrs. J. P. Morgan & Company of New York, the First National Bank of New York, New York, and the First National Bank of Chicago, Chicago, the Bank may begin business as soon as a minimum of 112,000 shares has been subscribed.

Art. 15. The ownership of shares of the Bank carries no right of voting or representation at the General Meeting. The right of representation and of voting, in proportion to the number of shares subscribed in each country, may be exercised by the central bank of that country or by its nominee. Should the central bank of any country not desire to exercise these rights they may be exercised by a financial institution of widely recognized standing and of the same nationality, appointed by the Board, and not objected to by the central bank of the country in question. In cases where there is no central bank, these rights may be exercised, if the Board thinks fit, by an appropriate financial institution of the country in question appointed by the Board.

Art. 27. The administration of the Bank shall be vested in the Board.

Art. 28. The Board shall be composed as follows:

(1) The Governors for the time being of the central banks of Belgium, France, Germany, Great Britain, Italy, Japan and the United States of America (hereinafter referred to as ex-officio Directors), or if any of the said Governors are unwilling or unable to hold office, their respective nominees (hereinafter referred to as substitute nominees).

The tenure of office of a substitute nominee shall be within the discretion of the Governor by whom he is appointed, but shall terminate in any case when that Governor vacates office.

Any ex-officio Director may appoint one person as his alternate who shall be entitled to attend and exercise the powers of a Director at meetings of the Board if the Governor himself is unable to be present.

(2) Seven

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APPENDIX III

(2) Seven persons representative of finance, industry or commerce, appointed one each by the Governors of the central banks mentioned in sub-clause (1) and being of the same nationality as the Governor who appoints him.

During the continuance of the liability of Germany to pay Reparation annuities, two persons of French and German nationality respectively, representative of industry or commerce, appointed by the Governors of the Bank of France and of the Reichsbank respectively, if they so desire.

(The rest of this article on directors is omitted.)

Art. 53. The yearly net profits of the Bank shall be applied as follows:

(a) [Legal Reserve Fund]; (b) [Dividends]; (c) [Further dividends]; (d) [General Reserve Fund];

(e) "as long as the Plan is in force any remainder of the net profits after meeting the foregoing requirements shall be disposed of as follows:

(i) as to seventy-five percent to such of the Governments or central banks of Germany and the countries entitled to share in the annuities payable under the Plan as have maintained time deposits at the Bank subject to withdrawal in not less than five years from the time of deposit or after four years on not less than one year's notice. This sum shall be distributed annually in proportion to the size of the deposits maintained by the respective Governments of central banks in question. The Board shall have the power to determine the minimum deposit which would justify the distribution provided for:

(ii) as to twenty-five percent. as follows:
If the German Government elects to make a long-term deposit with the Bank withdrawable only on the terms specified under sub-clause (i) above and amounting to the minimum sum of 400,000,000 reichsmarks, the said twenty-five percent. shall go into a Special Fund, to be used to aid Germany in paying the last twenty-two annuities provided for in the Plan.

If the German Government elects to make such long-term deposit amounting to a sum below 400,000,000 reichsmarks, the participation of the German Government shall be reduced in proportion, and the balance shall be added to the seventy-five percent. referred to in sub-clause (i) above.

If

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APPENDIX III

If the German Government elects not to make any such long-term deposit, the said twenty-five percent. shall be distributed as provided in sub-clause (i) above.

The Special Fund referred to above shall carry compound interest, reckoned on an annual basis, at the maximum current rate paid by the Bank on time deposits.

If the Special Fund should exceed the amount required to pay the last twenty-two annuities, the balance shall be distributed among the creditor Governments as provided for in the Plan;

(f) at the expiration of the period referred to in the first paragraph of sub-clause (e) the disposal of the remainder of the net profits referred to in sub-clause (e) shall be determined by the General Meeting on the proposal of the Board.

XI-1/16

840.51 Frozen Credits/6852

In reply refer to
FF

June 11, 1942

My dear Mr. Secretary:

During a recent visit of the Swiss Minister, Mr. Bruggmann, and Mr. Gautier of the Swiss National Bank, the Minister expressed appreciation of the recent action of the Treasury Department in permitting the transfer of $1,300,000 from the Swiss blocked account to a Spanish account.

During this visit the Swiss Minister and Mr. Gautier brought up the question of transfers from the account of the Bank for International Settlements to the account of the Swiss National Bank with the Federal Reserve Bank of New York. There is enclosed a copy of the aide-mémoire presented by the Swiss Minister on this subject.

The Swiss National Bank indicates that it has several dollar demand deposits with the Bank for International Settlements in Switzerland, and wishes to reduce these deposits by transferring $1,000,000 from the account of the Bank for International Settlements with the Federal Reserve Bank of New York to its account with the same bank. The Bank for International Settlements is willing to permit the withdrawal and the Swiss National Bank is apparently

prepared

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

XI-1/17

prepared to accept the transfer in earmarked gold to be held by the Federal Reserve Bank for the duration of the war.

It appears that applications of the Swiss National Bank to effect this transfer were denied, although no explanation of the policy of the Treasury Department was given. It is assumed that the Treasury Department's actions were predicated on information which is not contained in the enclosed aide-mémoire. The Department of State would therefore appreciate being advised of the reasons underlying the policy adopted by the Treasury Department, as it would appear that on the basis of the given facts, the transfer referred to would not be injurious to the war effort of this country.

It would be appreciated if the views of the Treasury Department could be received at an early date so that an appropriate reply may be made to the Swiss Minister.

Sincerely yours,

For the Secretary of State:

DEAN ACHESON

Assistant Secretary

Enclosure:

From Swiss Minister,
June 3, 1942.

XI-1/18

840.51 Frozen Credits/6853

LÉGATION DE SUISSE

Washington D.C.

Aide-Mémoire

For some time the Banque Nationale Suisse has entertained with the Bank for International Settlements in Basle two dollar accounts on which the B.I.S. pays a current interest. One of these accounts, opened September 1940, is a demand deposit account, callable on sight, for an amount of $1,6[illegible]5,000; the second one is an account callable after three days sight, and amounts now to $1,300,000.

In February 1942, the Banque Nationale Suisse, desirous to reduce these deposits, asked the Banque for International Settlements to repay $1,000,000 on the sight account by transferring that sum to the Banque Nationale Suisse's dollar account with the Federal Reserve Bank in New York. An application for this transfer was immediately made by the B.I.S. through the Federal Reserve Bank but the license for the transaction was refused by the Treasury Department on February 21st without any indication of motive.

Upon instructions from Zurich, the representative of the Banque Nationale Suisse in New York asked the Treasury, in a conversation with Mr. John W. Pehle, to reconsider its decision. He gave the assurance that the transfer in discussion had nothing in common with another transaction between the same banks, made in May 1941 at the request of the B.I.S. which at that time had intended to sell dollars against Swiss francs to Banque Nationale Suisse. In the transaction of May 1941, for which the license has never been granted, the initiative came from the B.I.S., which, for reasons unknown here, wanted to buy Swiss francs against dollars. This time, the initiative belonged to the Banque Nationale Suisse which wished to be partially repaid by its debtor. The two transactions are, therefore, radically different in their origin and in their aims.

In spite of this, the Treasury Department, after reconsidering the matter, confirmed its first refusal and suggested that the Banque Nationale Suisse ask the B.I.S. to repay the wanted amount in gold in Switzerland or in Swiss francs. This, the B.I.S. refused to do, declaring

its

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its inability to settle its dollar debt in other exchange or in gold but confirming its readiness to repay in dollars.

In an endeavor to find a solution satisfactory to the Banque Nationale Suisse and to the Treasury, Mr. Gautier indicated that, if the transfer were authorized, the Banque Nationale Suisse would probably be willing to turn the dollars received into gold and to leave this gold at the Federal Reserve Bank for the duration of the war. This proposal was made on April 24th, but was rejected by the Treasury on May 23rd in a letter of Mr. Pehle in the following terms:

> "The application for a license to effect such a transfer has been reconsidered in the light of your letter, but it has been found that approval thereof would not be in accordance with the policy of this Department."

It is not clear how a repayment of $1,000,000 by the B.I.S. to the Banque Nationale Suisse can affect the policy of the Treasury Department and it is not understandable how a transfer of funds which would remain under the control of the Federal Reserve Bank in the account of a neutral central bank can be considered incompatible with that policy but attention is called to the fact that by this decision the Banque Nationale Suisse is deprived of the possibility of collecting its due. In the present conditions prevailing in Europe, it is certainly not exaggerated to say that the future of the B.I.S. is uncertain. Nobody can foresee what its assets will be worth after the war. If its creditors cannot be repaid in full, the loss sustained by the Banque Nationale Suisse will be the result of the refusal opposed by the Treasury to the application for transfer submitted by the debtor.

In such circumstances, this refusal given without any justification is incomprehensible and a review of the case would be highly appreciated.

Washington, D. C., June 3, 1942