

December 31, 1937.

The Honorable,
The Secretary of State.

The Securities and Exchange Commission.

Sirs:

The Board of Visitors for the Foreign Bondholders Protective Council, Inc. has the honor herewith to transmit its report of a visit to the Council on December 17, 1937. This visit was made pursuant to the announcement, on July 22, 1937, of the Secretary of State and the Chairman of the Securities and Exchange Commission designating a Board of Visitors to visit the Council from time to time, with or without notice. That announcement stated that the principal function of the Board of Visitors would be to examine the internal financial operations of the Council, scrutinizing requests made by the Council for funds from foreign countries and from American bondholders in connection with debt readjustments which have been negotiated by the Council, and examining other sources of income and all the expenses and disbursements of the Council. It is with that phase of the Council's activities that this report primarily deals.

During its visit the Board was given full access to all the accounts of the Council and explanations on all points which it raised in connection with its work. The Council's accounts are so itemized as to permit full comprehension of its financial operations. They are summarized in the general account and the reserve account of the Council from January 1 to November 30, 1937, and the comparative figures for the calendar years 1934, 1935 and 1936. Copies of these are appended to this report.

Expenditures

The expenditures of the Council for the eleven months ended November 30, 1937, were \$82,630.44, as compared with \$75,065.75, \$77,027.49, and \$100,860.65 for the full years 1936, 1935 and 1934 respectively. The ordinary operating expenses for the Council for the eleven months ended November 30, 1937, (exclusive of charges directly allocable to negotiations with foreign governments) showed but a slight increase over the comparable figures for 1935 and 1936. The Council's payroll for its four officers (two at \$15,000 each, one \$7,000 and one at \$4,000) and for its five or six clerks is approximately \$50,000 per annum. Over \$4,000 was directly allocated to the cost of the annual report, for the year 1936, a useful and informative volume of 866 pages. Direct outlays for negotiations during the first eleven months of 1937 were, in round figures, \$14,800 as compared with \$8,900 for 1936, and \$4,100 for 1935, this increase accounting principally for the increase in total expenditures over these two years. These outlays were with respect to negotiations with twenty two foreign governments or subdivisions thereof. Slightly more than \$10,400 of this sum were expended during the period with respect to negotiations with Cuba and [_____]. In connection with those negotiations, Dana C. Munro, as the [_____]

The Council expended this year \$4,000 for "statistical service". Payments in the same amount appear on the Council's general account for the years 1935 and 1936, while in 1934 this payment was in the amount of \$4,501.38. These payments were made to the Institute of International Finance, an organization which is engaged principally in the collection and dissemination of statistical information concerning international loans and related matters and which is financed in part by the Investment Bankers Association of America. In 1934 the Institute furnished the Council with comprehensive data concerning foreign governmental loans which were utilized by the Council in its operations and were published in its Annual Report for that Year. When the Council was first organized it had no means to collect this essential information; gradually over the period of the last few years it has developed the means within its own organization of keeping the data up to date and expanding it where necessary. The Council informed the Board of Visitors that it was not the present intention to make any additional payments of this nature to outside organizations during the forthcoming year.

Use of Funds

The scope of the Council's operations, as financed by its total expenditures of \$82,630.44 for the first eleven months of this year may be briefly summarized. The Council has arranged two temporary adjustments with Poland involving eight bond issues, two permanent settlements with China involving two different issues, and one permanent settlement with Uruguay involving four issues. (The Council hopes to conclude another Uruguayan negotiation shortly.) It is understood that in two other cases prolonged negotiations have virtually resulted in debt settlements. The Council has also taken action with reference to many other debtors. These various negotiations involved four trips by the Council's officers or its representative to Cuba, two to Colombia and two to Europe.

The Council's correspondence with bondholders has included, in addition to numerous individual letters, the circulation during 1937 of certain printed statements and more than 150,000 sheets of mimeographed material issued by the Council containing information regarding developments of importance to the respective bondholders. The issuance of its annual report has already been mentioned. The office organization appears to be efficient and economical. Its total expenditures appear modest in view of the scope, volume and importance of its work.

Receipts

With respect to the Council's receipts payable into its general account, it is worthy of note that the contributions and advances from the Council's "contributing members" showed a very marked decrease from \$82,837 and \$80,182, for the years 1935 and 1936, respectively, to \$1,517 for the first eleven months of 1937. This decrease is a consequence of the reconstitution of the Council's membership during this year. Formerly there were included among the Council's "contributing members", investment banking houses which had issued foreign bonds and banks and other institutions which were the holders of short [_____] against foreign debtors. Following a report entitled "Prote[_____]"

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acceptance by bondholders of the benefits of debt settlements is in no way conditioned upon the making of any contribution.

In the opinion of the Board of Visitors the amount which the Council has solicited and received from bondholders in connection with these settlements is moderate and reasonable.

General Observation

The report of the Board of Visitors is not a review of the work of the Council except in so far as relates to its financial operations. However, an appraisal of the conduct of the finances of the Council during the year requires some consideration of its work.

The success of the Council's work is dependent on many conditions outside its control. Progress in general economic recovery and in the removal of impediments to international payments may be regarded as prerequisite to general termination of defaults by permanent adjustments. Still each debt remains a separate problem subject to national and local as well as international conditions. There is no uniform picture. A few countries have so improved their foreign payment relations that they were willing this year to undertake permanent debt settlements on terms which bondholders organizations could recommend as fair to the bondholders. However, there has been only limited progress toward removal of the network of the interdependent restrictions which many countries enforce on payments to residents of other countries whether for bond service or for other purposes. Regimes of partial payment of foreign bond service under temporary arrangements negotiated from time to time continue widely prevalent. During 1937 there have been cases of defaults in bond service which had previously been paid in full throughout the depression; cases of break-downs of temporary adjustments before their expiration and of failure to make new adjustments to succeed expired temporary adjustments; cases of direct tender to bondholders of partial payments by debtors long in default, and by debtors whose proposals for the current year have been viewed with disfavor by bondholders organizations; cases of debtors long in default which have shown in 1937 a disposition to negotiate, and cases of others which have not yet manifested readiness to discuss their indebtedness with bondholders or their organizations. In these varied circumstances the Board of Visitors believes that the Council has been earnestly and actively endeavoring to obtain adequate consideration for American bondholders and to accord them forceful and single-minded representation. Its active work and the recognition it has obtained as a competent spokesman for American bondholders have discouraged foreign governments from taking unilateral action adversely affecting American bondholders, and have been influential in several cases in obtaining the initiation of negotiations where default or unilateral action otherwise might have continued. The productiveness of its work for a year is of course not to be measured by the negotiations completed in the year. Besides these and the several incomplete negotiations in progress, which may soon result in settlements which the Council can recommend to bondholders, the Council has been of service to American bondholders in many ways less likely to come to the attention of persons not directly affected thereby.

In the above-mentioned report of the Securities and Exchange Commission dated May 14, 1937, the Commission examined at length the advantages and disadvantages of the Foreign Bondholders Protective Council, Inc., as compared with the Corporation of Foreign Security

Holders' envisaged by Title 2 of the Securities Act of 1933, and concluded that the Council was the more appropriate agency for the protection of the holders of defaulted foreign governmental bonds. In the opinion of the Board of Visitors the record of the Council's operations during the period subsequent to that report affords further evidence of the soundness of that conclusion.

Respectfully submitted,

William O. Douglas
Chairman
Securities and Exchange Commission

Herbert Feis
Advisor on International
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Department of State

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