

March 5, 1951

Mr. Arthur S. Blaser, Jr., Acting Chief
United Kingdom and Middle East Division
Room 5416, Main Treasury
15th and Pennsylvania Avenue, N. W.
Washington 25, D. C.

Dear Art:

Pursuant to our telephone conversation, we have looked over your conference memorandum with Mr. Christelow of the British Treasury Delegation and have made certain revisions which are incorporated in a redraft here enclosed with the original of yours.

Thank you for your cooperation.

Very truly yours,

Walter C. Louchheim, Jr.
Foreign Economic Adviser

Enclosures

By Messenger

CONFIDENTIAL

REDRAFT (SEC)
3/2/51

MEMORANDUM FOR THE FILES

Subject: Meeting February 6, 1951 with Mr. Christelow and SEC Officials re Certain
Problems on the British Holdings of U.S. Corporate Securities

This meeting was held in Mr. Christelow's office on February 6. Those present were Messrs. Louchheim, Block, and Lund of Securities and Exchange Commission, Mr. Blaser, Treasury Department, and Mr. Christelow, U. K. Treasury Delegation.

This meeting was arranged following a visit by Sir Sydney Caine to Mr. Willis, and a subsequent meeting of SEC officials with Messrs. Blaser and Widman of Treasury. The purpose of the meeting held on February 6 was to give SEC officials an opportunity to meet with Mr. Christelow and give him the benefit of their own thinking with regard to certain problems which might arise in connection with market transactions by the Government of the United Kingdom in U. S. corporate securities.

By way of background Mr. Christelow explained that it was not anticipated that the collateral pledged for the RFC loan would be released until approximately a year hence, that is, early in 1952. It was anticipated that the loan would be completely repaid at that time and that the U.K. Government would retain ownership of the marketable securities. Mr. Christelow explained, however, that the Government of the United Kingdom in the meanwhile desired to make some adjustments in its holdings of unpledged securities. Basically this would be only the clearing up of certain small holdings, in each case less than 500 shares, all of which are listed securities. The Commission officials indicated that there would probably be no problem as to such sales.

Mr. Christelow explained the voting practice of his Government in connection with all securities owned by the United Kingdom. These securities are all held in the name of a nominee

or nominees in order to centralize the flow of dividend payments, notices of rights, and other matters. In general, the Government of the United Kingdom has exercised its voting prerogatives in favor of the management in situations where no controversial issues were involved. In the latter event the U.K. Government refrained from voting. This practice was followed sometimes to the real disadvantage of the United Kingdom but was nevertheless adhered to in order to avoid any possibility of adverse criticism which might arise through the exercise of voting power in controversial corporate situations. After the release of the securities from the loan, however, Mr. Christelow felt that his Government might well wish to take a more active participation.

After these preliminary explanations by Mr. Christelow, Messrs. Lund and Block outlined for him some of the problems under U.S. securities laws which could arise in connection with the holding and trading of these securities by the U.K. Government. For example, it was pointed out that if they wish to make a distribution of securities of a company as to which they are in a control relationship, registration of such securities under the Securities Act would probably be necessary. In this connection the concept of "control relationship" was discussed. It was pointed out that this was essentially a question of fact; it included the power to control as well as actual control, whether alone or as part of a group in the company; and that there could be control even though they held less than a majority interest in the company. It was also pointed out that certain responsibilities and obligations may arise if the U.K. Government holds 5% or more of an operating electric utility company or gas utility company.

Commission officials inquired whether the U.K. Government intended to form an entity to hold the securities. If this were done it might involve the formation of what would technically be an investment trust as defined in the Investment Company Act. There are important regulations with regard to investment trusts or investment companies. It appeared that the United Kingdom did not have this in mind at the present time.

There was also some discussion about actual trading in the markets. Mr. Lund explained that the Commission employed a number of people to watch the market and to be alert to any

unusual action in the market. In view of some of the rather large holdings of the United Kingdom, it might be that any large-scale liquidations or purchases would have a very definite effect on the market. The U.K. Government might avoid embarrassing situations and the Commission would deem it wise if it could be informed in advance of any substantial transactions so that compliance with the securities laws could be facilitated. Such information would, of course, be held in strict confidence. Mr. Christelow agreed that the Government of the United Kingdom would, in fact, undertake to inform the Government of the United States in advance of any substantial transactions in U.S. securities markets.

It was agreed that the Securities and Exchange Commission could make a more precise appraisal of possible problems which might arise through the U.S. corporate securities holdings of the United Kingdom if it had available an up-to-date list of such holdings. Although there seemed to be no real urgency in the matter because the only contemplated action was the clearing up of the small holdings mentioned, Mr. Christelow agreed to furnish to the U.S. Government through its Treasury Department a list of all the holdings of the United Kingdom in any security in excess of 500 shares. This would take a little time, Mr. Christelow said, because of the necessity of giving effect to stock splits and other changes to bring the list up to date. This would be undertaken and the list furnished as agreed. This was the major conclusion of the meeting, aside from the fact that the Commission representatives were given an opportunity to indicate for Mr. Christelow some of the matters in which the Commission might be concerned in connection with the holding and trading of securities by the United Kingdom.