

MEMORANDUM

May 19, 1944

To: The Commission

From: Walter C. Louchheim, Jr., Assistant Director
Trading & Exchange Division

Subject: Recommendation with respect to current reports on foreign
loans and investments of registered corporations.

In the course of yesterday's discussion at the State Department relative to the Commission's role in the solution of foreign investment problems Mr. Pasvolsky expressed the opinion that one of the most immediate and perhaps important channels for the export of U.S. capital would take the form of loans and investments by corporations. These transactions, in his view, might be either direct investments in foreign enterprises or extensions of credit to such enterprises or to foreign governments. He mentioned that there are reports to the effect that negotiations are already actively under way looking toward such credits and investments. The most frequently mentioned of such negotiations are those between certain large U.S. companies and representatives of the U.S.S.R.

Mr. Pasvolsky referred to the fact that there appears to be very little information available to this Government on such transactions, particularly of a current nature, and stated that the Department would welcome any help that this Commission could provide to remedy this deficiency. Data of this nature, he indicated, would have an important bearing upon the operations of U.S. government financial institutions, upon decisions of an international monetary or banking institution and upon the consideration of international trade and national security problems by State and other departments.

It was pointed out that the annual reports filed by corporations registered with the Commission would provide such information. It was, however, recognized that such reports would not fill the requirement for the kind of current information which is of utmost importance as an index of the volume and flow of such transactions. It was agreed that most of these corporate transactions would probably be effected by the large American corporations which are registered with this Commission under the Securities Exchange Act of 1934. The Commission was requested to give consideration to this problem and to furnish the State Department with such current information on the foreign loans and investments of domestic corporations as it could obtain.

Under Section 13(a) of the Securities Exchange Act of 1934 the Commission is empowered to require the filing of such information as may be necessary or appropriate for the

protection of investors and to insure fair dealing in the security of a registered corporation. It would appear that the foreign loans and investments of registered corporations might well be considered matters of such moment to investors and of such importance to the accurate appraisal of security values as to warrant the requirement that such transactions be currently reported to the Commission. In addition, it would seem that the U.S. government has a very real interest in the current reporting of these transactions.

The Commission's Rule I-13A-6 requires the filing of current reports with respect to certain events not more than ten days after the close of the calendar month during which occurred the event obligating the registrant to file the current report. It is suggested that this rule be amended so that the granting of loans by a registered corporation to a foreign government, person or company or the investment of corporate funds in a foreign enterprise or project be included among the events for which such current reports are required. Such an amendment would appear to be appropriate for the protection of investors and to insure fair dealings in the securities of registered corporations. By such an amendment the Commission would be able to furnish the State Department and other government agencies with information required in the formulation of foreign economic policy. The present rule would not appear to insure the provision of reliable information on the volume and flow of the foreign investments of U.S. corporations in view of its being limited to material amendments.

The above suggested amendment to Rule I-13A-6 has been briefly discussed with Mr. Bane.