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Authority *NND 29548*By *E* NARA Date *2-13-07**Foreign Investments*

MEMORANDUM

September 21, 1949

To: The Commission

From: *W.C.L.*
Walter C. Louchheim, Jr.
Adviser on Foreign Investment

Subject: Japanese Bonds

Following a meeting of June 14, 1949, at this office, attended by representatives of interested departments (see memorandum of June 24, 1949), a cable was sent from the Department of the Army to the Supreme Commander Allied Powers, as per the text enclosed in that memorandum. Reply was received from SCAP calling attention to Law No. 60, promulgated by the Japanese Government, on March 15, 1943, relating to the treatment of foreign bonds. Under this law the Japanese Government assumed all the foreign assets and liabilities of its enterprises and citizens. In effect this released Japanese entities having dollar bonds outstanding from further liabilities to holders of such bonds. There are several mortgage bonds of Japanese utility companies which were issued in the United States and are still outstanding in the hands of U. S. investors. SCAP further pointed out that this law has not been rescinded.

Question as to the effect of this law upon the problem of resuming trading in Japanese securities has been informally discussed with representatives of the State Department and the Department of the Army. Discussions have also been held with representatives of the New York Stock Exchange who are inclined to take the position that this law might be recognized, and that dealings should be resumed only in bonds of Japanese Government origin. Under this policy, bonds of private Japanese origin would not be dealt in, and this would imply the compliance of the United States in the unilateral action of the Japanese Government in voiding these bonds. The Foreign Bondholders Protective Council, on the other hand, with whom discussions have also been held, take the opposite view and insist that this Government should not recognize the unilateral action of any Government which voids a contract on an international obligation.

Recently, the chairman of the Foreign Business Committee of the Association of Stock Exchange Firms has called upon me to inquire

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as to the progress which was being made with respect to the resumption of dealing in Japanese securities. He advised me that it is his understanding that a recent Japanese law has made prewar Japanese dollar bonds eligible as legal reserves for banks, insurance companies, and other institutions in Japan. He is a member of the firm of Carl M. Loeb, Rhoades & Co., which has received an order to purchase a quantity of prewar Japanese bonds from a U. S. financial institution having a branch in Japan, which wishes to take advantage of this law. I have conveyed the purport of this discussion to the State Department and have had a further conference with representatives of the Department as to how progress might be made in this entire matter. We agreed that a further cable should be sent to SCAP inquiring as to the feasibility of rescinding Public Law No. 60 of the Japanese Government, and to the filing with the Commission of information required under the Securities Exchange Act, so that trading might be resumed.

I am also advised that the Department of the Army has already cabled to SCAP inquiring as to the validity of rumors to the effect that the Japanese Government is considering an offer of exchange to the holders of outstanding dollar and sterling bonds. This development would also have a bearing upon decisions as to the timing of the resumption of dealings in Japanese dollar bonds.

When answers have been received from these cables, it is expected that a further conference will be held with the interested government departments, as well as with the New York Stock Exchange representatives, the Foreign Bondholders Protective Council, and representatives of trustees under the bond issues.

cc Mr. Loss