

February 18, 1954

Mr. Judson C. Jones
Room 300
State Department Annex 5
22nd and C Streets, N. W.
Washington, D. C.

Dear Mr. Jones:

Pursuant to your request, I am enclosing herewith a photostat of a letter addressed to Chairman Demmler from Dr. Fechner, dated January 29, 1954, together with a rough English translation.

Your views with respect to the matters therein discussed will be very much appreciated.

Very truly yours,

Manuel F. Cohen, Counsel
Division of Corporation Finance

Enclosures

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Dear Mr. Demmler:

For your letter of January 19, 1954 I express sincere thanks.

I have noted with the greatest interest Release No. 4983 of the Securities and Exchange Commission. As I might have stated during my visit in the United States, particularly on the occasion of our conference on December 17, the ministry of finance is not qualified to write on questions relating to trading in German dollar bonds. I believe, if only for that reason, I should not go into the suspension just announced by the Commission of the hitherto existing restrictions of trading. In particular, I am inclined not to cite once again the considerations which often exist in this respect on the German side and which I had opportunity to point out to you, Mr. Demmler, in my conference with you. My competence has been granted, however, in so far as the interests of securities validation are affected by the release. In this respect I have noted with great satisfaction the release reiterates the readiness of the Securities and Exchange Commission to support energetically the validation proceeding for German foreign bonds. I see in the prohibition of trading in German bonds that are not validated a measure of very considerable importance that will surely contribute substantially to the success of the validation proceeding and, thereby, likewise serve the interests of the legal creditors as well as German industry. I must not fail to thank you again Mr. Demmler, and moreover the gentlemen of the Commission associated with you for that great understanding that you bring to bear on securities validation.

In addition, I am pleased that the bonds which passed into the soviet occupied zone shall remain henceforth shut out from trading. With some concern I realize that in this connection several additional bond issues have been named concerning which the considerations with respect to their inclusion in the validation proceeding in accordance with Article 1, paragraph 2 of the validation law for German foreign bonds in conjunction with Article 16 of the government agreement of February 27, 1953 and Article I of the agreement of April 1, 1953 have not yet been settled. It is a question of the participation certificates for the bonds of 1928 of the German Building and Land Bank, the Nassau Land Bank and the Provincial Bank of Westphalia, as well as the certificates of deposit that have been issued for the bonds of 1928 of Rudolph Karstadt A.G. Considerable amounts of these certificates were also lost during the war and the post-war events in Berlin, so that the necessity for their validation has become self evident. As far as I know, that is acknowledged from all American viewpoints. The particular legal features of the certificates have nevertheless given occasion to putting aside their inclusion in the validation proceeding chiefly for the purpose of a closer examination. Whether this inclusion is possible was also discussed in conferences at the State Department on the occasion of my visit in Washington. At that time a final decision could not be reached. It was, however, left to the government of the republic to pursue the matter further and for this purpose to propose the draft of a suitable regulation as to which the American side would then take a position. I would regret it exceedingly if the further discussions which are in prospect should come to naught, that in the meantime trading in the securities under consideration should again have been permitted to be resumed to such an extent and under such circumstances that the extension of validation proceedings to the securities in question would be rendered more difficult. I would therefore be

extraordinarily grateful to you, Mr. Demmler, if, after consideration of the matter, you could convey to me a reassuring opinion.

I may surely be permitted to use this letter to point out two further items which occurred to me on looking through Release No. 4983.

In the release it is directed that all dollar bonds required to be validated may only be traded in the United States after they have been furnished with a certificate confirming the validation. It apparently has not been taken into consideration that in the case of several dollar loans, not the United States but other countries are considered as the countries of offering and these loans are therefore not subject to the regulations which are applicable to the other dollar obligations. They are, accordingly, not examined by the validation office in New York and do not come under the stipulation of Article 5 of the second enacting ordinance to the validation law for German foreign bonds, according to which the bonds which are validated by the validation office in New York are as a matter of principle furnished with a certificate. So far as I see, the Kreuger Loan (6% Foreign Loan of the German Reich of 1930) – country of offering: Sweden – and the 7% Dollar Loan of the Osram Company of 1925 – country of offering: The Netherlands – come into question in this respect. The same regulations must be applicable for trading in these bonds as for trading in German foreign bonds that are denominated in another currency than dollars.

It appears to me also to be not entirely conclusive if it is established in the release that the approval of the validated dollar bonds will be made discernible by means of a certificate attached by the validation office in New York. As you will recall, certain differences of opinion exist on just this question which extend to the validation of bonds in the manner of collective validation and to the place of examination, or the German Chamber for the Settlement of Securities. To be sure, I consider this point of limited significance, since I confidently hope that in a short time a satisfactory reconciliation of these differences of opinion will have been found.

I take this opportunity to again assure you, Mr. Demmler, that I will be eager in the area of my authority to make my influence felt on behalf of the just interests of American creditors and American security trading. For any advice that you or the Commission are in a position to give in this regard, I shall be grateful.

Cordially,

(s) Fechner

Translation by
Geo. K. Hibbets