

No. 6277

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
ISRAEL**

**Memorandum of Understanding in respect of the Letter of
Pledge to be delivered by the Bank of Israel to the
International Bank for Reconstruction and Develop-
ment (with the said Letter of Pledge annexed thereto).
Dated at Jerusalem, on 1 February 1962**

Official text: English.

*Registered by the International Bank for Reconstruction and Development on
3 August 1962.*

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
ISRAËL**

**Mémoire d'accord relatif à l'Acte de nantissement à
remettre par la Banque d'Israël à la Banque interna-
tionale pour la reconstruction et le développement
(avec, en annexe, le texte de l'Acte de nantissement).
Daté de Jérusalem, le 1^{er} février 1962**

Texte officiel anglais.

*Enregistré par la Banque internationale pour la reconstruction et le développement
le 3 août 1962.*

No. 6277. MEMORANDUM OF UNDERSTANDING¹ BETWEEN THE STATE OF ISRAEL AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT IN RESPECT OF THE LETTER OF PLEDGE TO BE DELIVERED BY THE BANK OF ISRAEL TO THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. DATED AT JERUSALEM, ON 1 FEBRUARY 1962

Reference is made to the Loan Agreement (*Port Project*) between the State of Israel and the International Bank for Reconstruction and Development ("the Bank") dated September 9, 1960,² to the Guarantee Agreement (*Potash Project*) between the State of Israel and the Bank, dated July 11, 1961³ and to the agreement for time deposit between the Bank of Israel and the Bank of America National Trust and Savings Association of California dated February 1, 1962 (hereinafter called "the Deposit Agreement"), of copy of which has been handed by the State of Israel to the Bank.

1. As soon as the Deposit Agreement becomes effective, or as soon as the Bank of Israel deposits the amount specified in the Deposit Agreement, whichever shall first occur, the State of Israel shall cause the Bank of Israel to deliver to the Bank a Letter of Pledge ("the Letter of Pledge") in the form of the draft⁴ attached hereto and to deliver to the Deutsche Bundesbank, Frankfurt/Main, Federal Republic of Germany, as nominee of the International Bank, and pledge to the International Bank, the bonds referred to in the Letter of Pledge having an aggregate Market Value (as therein defined) of not less than U.S. \$5,000,000.

2. The Bank will receive evidence satisfactory to the Bank of the authority of the person or persons who would take any action on behalf of the Bank of Israel under the Letter of Pledge.

3. The Bank will also receive a legal opinion or legal opinions satisfactory to the Bank of Counsel acceptable to the Bank establishing that the Letter of Pledge in the form of the draft attached has been duly authorized by and executed on behalf of the Bank of Israel and constitutes a valid and binding obligation of the Bank of Israel.

¹ Came into force on 13 March 1962, upon confirmation on behalf of the Bank.

² United Nations, *Treaty Series*, Vol. 406, p. 3.

³ United Nations, *Treaty Series*, Vol. 429, p. 3.

⁴ See p. 158 of this volume.

4. On the foregoing terms and conditions the Bank agrees to the arrangements set forth in the Deposit Agreement.

For and on behalf of the State of Israel :

L. ESHKOL
Minister of Finance

Jerusalem, February 1, 1962

Confirmed:

International Bank for
Reconstruction and Development :

By Alexander STEVENSON
Assistant Director
Department of Operations
South Asia and Middle East
March 13, 1962

BANK OF ISRAEL
Office of the Governor

Jerusalem, February 1, 1962

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington 25, D.C.

Dear Sirs,

1. The State of Israel by (a) its Loan Agreement (*Port Project*) with the International Bank for Reconstruction and Development (hereinafter called "the International Bank") dated September 9, 1960 (hereinafter called "the Port Loan Agreement") and (b) by its Guarantee Agreement with the International Bank dated July 11, 1961, (hereinafter called "the Potash Guarantee Agreement") being collateral to the Loan Agreement (hereinafter called "the Potash Loan Agreement") of the same date between the International Bank and Dead Sea Works Limited has agreed (except as the International Bank shall otherwise agree and subject to certain other exceptions), that if any lien shall be created on any assets of the State of Israel or any of its political subdivisions or any agency of the State of Israel or of any such political subdivision, including the Bank of Israel, to secure any external debt, it shall secure equally and ratably with such secured external debt the payment respectively of the principal of, and interest and other charges on, the loan provided for in the Port Loan Agreement and the bonds delivered thereunder and the loan provided for in the Potash Loan Agreement and the bonds delivered thereunder.

2. By Agreement dated February 1, 1962 (hereinafter called "the Deposit Agreement") between the Bank of Israel and Bank of America National Trust and Savings Association of California (hereinafter called "the Bank of America"), the Bank of Israel has agreed to deposit and maintain with the Bank of America, as collateral for a loan to be made by the Bank of America to the Dead Sea Works Limited the amount of U.S. \$5,000,000 (five million United States dollars), subject to reduction equal to any reduction below U.S. \$5,000,000 in the amount of the aforementioned loan by the Bank of America to the Dead Sea Works Limited.

3. By a Memorandum of Understanding dated February 1, 1962¹ between the State of Israel and the International Bank, the International Bank has agreed, on the terms and conditions therein provided for or referred to, to the arrangements set forth in the Deposit Agreement.

4. Accordingly, the Bank of Israel has delivered to the Deutsche Bundesbank, Frankfurt/Main, Federal Republic of Germany, as nominee for the International Bank, subject to the conditions hereinafter set forth, as security for the obligations of the State of Israel under the Port Loan Agreement and the Potash Guarantee Agreement, bonds of the issue of 5% Deutsche Mark Bonds of 1959 of the International Bank, set forth in the Schedule² hereto and having a Market Value (as below defined) of not less than U.S. \$5,000,000 (five million United States dollars).

5. Each of the International Bank and the Bank of Israel shall during the life of the Deposit Agreement promptly take all such steps as shall be requested in writing by the other to assure that, as nearly as may be, the aggregate Market Value of all bonds pledged at any time hereunder shall be not less than, not more than, the amount then deposited with the Bank of America pursuant to the Deposit Agreement, and, upon such request, the Bank of Israel shall deliver all such additional bonds, and the International Bank shall cause to be released from pledge hereunder all such bonds, as shall be necessary for such purpose. Any request for release of bonds from pledge hereunder shall be accompanied by a certificate of the Bank of America, dated not more than 10 days before the date of the request, stating the amounts then deposited under the Deposit Agreement.

6. The Bank of Israel reserves the right to substitute for any of the pledged bonds other bonds of equal Market Value issued by the International Bank.

7. Bonds to be pledged or substituted hereunder shall be denominated in U.S. dollars or in Deutsche Mark of partly in U.S. dollars and partly in Deutsche Mark, as the Bank of Israel shall elect, and shall be delivered to the International Bank or such nominee of the International Bank appointed by the International Bank, as the Bank shall specify. If any of the bonds so to be delivered shall be registered bonds, the Bank of Israel shall cause the same to be duly endorsed in blank for transfer, with such signature guarantees as may be deemed necessary by the International Bank; but, subject to the provisions of paragraph 10 hereof, no transfer of record title of any of the pledged bonds shall be made by the International Bank except with the consent in writing of the Bank of Israel.

¹ See p. 156 of this volume.

² Not reproduced in the copies of the Letter of Pledge submitted for registration.

8. For the purpose of this letter the Market Value of any bonds delivered and pledged hereunder shall be (a) in the case of bonds denominated in U.S. dollars (i) if such bonds are listed on the New York Stock Exchange, then the quoted sales price of such bonds on such exchange on the date of such valuation or, failing such price, the quoted bid price or (ii) if the bonds are not so listed or there is no such quoted sales price or bid price then such value as the International Bank shall reasonably determine; (b) in the case of bonds denominated in Deutsche Mark (i) if such bonds are listed on the Frankfurt Stock Exchange, than the equivalent in U.S. dollars as reasonably determined by the International Bank of the quoted sales price of such bonds on such exchange on the date of such valuation or, failing such price, of the quoted bid price or (ii) if the bonds are not so listed or there is no such quoted sales price or bid price then such value as the International Bank shall reasonably determine.

9. Subject to the provisions of paragraph 10 hereof, no rights of ownership to the pledged bonds shall be exercised by the International Bank and the Bank of Israel shall have and enjoy all rights arising out of ownership of the pledged bonds, including, but not limited to, the right to receive all interest, premiums and principal payments made upon or in respect of such bonds as though such bonds were not subject to this pledge.

10. In the event of a default in any payment required to be made under the Port Loan Agreement or the bonds delivered thereunder, or the Potash Loan Agreement or the bonds delivered thereunder, which default shall not have been cured by the State of Israel or waived by the International Bank within sixty (60) days thereafter, the International Bank directly or acting through its nominee shall have the right to transfer into its name or into the name of its nominee and to sell, assign, collect and convert into money and deliver at public or private sale without demand, advertisement or notice of the time or place of sale or of any adjournment thereof, which are hereby expressly waived, such amount of the pledged bonds (selected by the International Bank) as the International Bank shall deem to be required for the payment of all expenses of such sale or sales and for the payment of principal, interest and all other charges outstanding and unpaid (whether due or not) under the Port Loan Agreement or under the Potash Loan Agreement or under any bonds (by whomsoever held) respectively delivered thereunder. After deducting such expenses and applying the residue of proceeds of such sale or sales to the payment of such principal and interest and all other charges, the International Bank shall return the excess, if any, to the Bank of Israel.

11. Upon payment in full of the principal and interest and all other charges outstanding under the Port Loan Agreement and any bonds (by whomsoever held) delivered thereunder, and under the Potash Loan Agreement and any bonds (by whomsoever held) delivered thereunder (whether due or not) or upon termination of the Deposit Agreement, and release by the Bank of America of all amounts deposited and pledged thereunder, whichever first occurs, the International Bank shall release or cause to be released from pledge and deliver or cause to be delivered to the Bank of Israel the then remaining bonds pledged hereunder and this Letter of Pledge shall terminate.

12. Delivery of any bond or coupon to the Bank of Israel pursuant to this Letter of Pledge shall be made at the office of the International Bank or of its nominee at which such bond or coupon is held at the time of such delivery or at such other place as the International Bank and the Bank of Israel may agree.

13. The Bank of Israel shall pay all transfer taxes and expenses in connection with or arising out of this Letter of Pledge or any transaction contemplated thereby, incurred under this Letter of Pledge, including all expenses in connection with the administration, supervision, preservation and protection of or realization on default upon the pledged bonds.

14. Please sign the enclosed copy of this letter in the space provided below in confirmation of the foregoing and return it to the Bank of Israel.

Very truly yours,

D. HOROWITZ
Governor, Bank of Israel

Confirmed:

International Bank for
Reconstruction and Development :

By Alexander STEVENSON

Assistant Director
Department of Operations
South Asia and Middle East
March 13, 1962
