To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Gov. Mitchell
Minutes of the Board of Governors of the Federal Reserve System on Thursday, May 23, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Landry, Assistant to the Secretary
Mr. Collier, Chief, Current Series Section, Division of Bank Operations

Report on competitive factors (Greenwood-Barnwell, South Carolina). There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The Bank of Barnwell, Barnwell, South Carolina, into State Bank and Trust Company, Greenwood, South Carolina.

In a discussion Governor Mills suggested a rewording of the conclusion of the report, which was then approved unanimously for
transmission to the Federal Deposit Insurance Corporation in a form in which the conclusion read as follows:

As there is very little existing competition between State Bank and Trust Company, Greenwood, South Carolina, and The Bank of Barnwell, Barnwell, South Carolina, the proposed merger would not have unfavorable effects on competition between the two banks, and the city of Barnwell would retain a banking facility. There is no serious prospect that small banks operating in the area would be affected adversely by consummation of the proposed merger.

Loss of Treasury certificate (Item No. 1). There had been distributed under date of May 21, 1963, copies of a proposed letter to Chairman Patman of the House Committee on Banking and Currency and a memorandum to be transmitted with the letter regarding the apparent inadvertent destruction of a certain Treasury certificate of indebtedness at the Federal Reserve Bank of Richmond. The memorandum had been prepared by the Federal Reserve Bank of Richmond, with subsequent editing by the Board's staff.

Following agreement as to various modifications in wording, the letter and memorandum were approved unanimously for transmission to Mr. Patman. Copies are attached under Item No. 1.

Mr. Noyes, Director, Division of Research and Statistics, joined the meeting at this point and Mr. Hexter withdrew.

Reports of dormant funds (Item No. 2). There had been distributed copies of a letter proposed to be sent by the Fiscal Service of the Treasury Department to all insured banks requesting reports of dormant funds that were either of United States Government origin or apparently belonged to the Government. The letter would indicate that if dormant
amounts were reported, the Treasury would take appropriate action to
effect their withdrawal, and that the furnishing of the information
requested had the approval of the Office of the Comptroller of the
Currency, the Federal Deposit Insurance Corporation, and the Board
of Governors of the Federal Reserve System. A letter dated May 21,
1963, from the Assistant Fiscal Assistant Secretary of the Treasury
to the Board that transmitted the letter proposed to be sent to all
insured banks noted that the Comptroller of the Currency and the
Chairman of the Federal Deposit Insurance Corporation had approved the
proposed action, and similar approval by the Board was requested.

In a discussion Governor Mills inquired with regard to
reported resistance by certain banks to provision under State laws
of escheat of information of the kind requested by the Treasury.
Reply was to the effect that in the present case the United States
Government would be making the request of all insured banks regarding
dormant accounts to which it held title, whereas in the instances
referred to certain States had made inquiry with respect to dormant
accounts owned by other parties.

The proposed action to request the furnishing of information
regarding dormant accounts was then approved unanimously, with the
understanding that there would be returned to the Treasury Department
the original and a file copy of the letter to all insured banks that
had been initialed by Messrs. Saxon, Comptroller of the Currency, and
Cocke, Chairman of the Federal Deposit Insurance Corporation. A copy
of the letter is attached as Item No. 2.
Proposed revision of Regulation K. Pursuant to the understanding at yesterday's meeting, there had been placed on the agenda for today's meeting consideration of a proposed revision of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act, that had been published for comment in the Federal Register on March 16, 1963.

Chairman Martin noted that in the absence of sufficient time for Governor Mitchell to prepare a memorandum that would point out the several issues involved in the comments received on the proposed revision of the Regulation, it would be advisable to defer further consideration of the matter until such time as the memorandum had been completed and a full Board could be present. He expressed the view, in reply to a question, that it would seem desirable to postpone meetings with representatives from interested organizations until the Board had an opportunity to consider the memorandum that would be forthcoming from Governor Mitchell.

Governor Mitchell remarked that Edge Act and agreement corporations, the Reserve Banks, and others had been given an opportunity to comment on the proposed revision. The letters thus far received had been distributed as attachments to a memorandum from the Examinations, Legal, and International Finance Divisions dated May 17, 1963, that presented a preliminary report covering such comments. ¹/ It was his intention, Governor Mitchell said, to supply the Board with alternatives to the

¹/ Under date of May 29, 1963, copies were distributed of a letter from the New York Reserve Bank commenting on the proposed revision of the Regulation.
published proposed revision that would take into account the various comments received. Governor Mitchell said further that following Board consideration of the alternatives that would be suggested in his memorandum, it was likely there would remain one or two non-controversial issues of a technical nature that representatives from the affected institutions would probably like to take up with the Board.

In discussion of the suggested procedure it was noted that if the Board contemplated liberalizing Regulation K in greater degree than in the published proposed revision, under the law it would not be necessary to publish a second proposed revision, although it would be useful to have it sent for comment to all Edge Act and agreement corporations, the Reserve Banks, and other interested parties.

After further discussion it was understood that consideration would be given to a second proposed revision of Regulation K, probably around the end of June when all members of the Board were expected to be present, following preparation of a memorandum on the subject by Governor Mitchell. It was also understood that a letter of acknowledgment would be sent to each Edge Act and agreement corporation at this time and to others regarding comments received on the proposed revision of Regulation K published in the Federal Register and indicating that upon completion of a further revision of the proposed regulation, copies thereof would be mailed to the parties concerned.

Messrs. Young and Furth then withdrew from the meeting.
Reduced reserves. In a letter dated March 22, 1963, to the Presidents of all Reserve Banks the Board requested (1) comments with respect to whether it would be appropriate for the Reserve Banks to take the initiative in inviting banks that would appear to be eligible to carry reduced reserves to apply for such permission, and (2) factors other than those mentioned in Regulation D, Reserves of Member Banks, and the Board's letter of July 31, 1959, that would be helpful in determining the question of competition for reserve purposes. A distributed memorandum dated May 17, 1963, from the Division of Bank Operations noted that the replies of the Reserve Banks to the Board's letter of March 22, 1963, indicated that with a few minor exceptions all of the Presidents apparently felt that the factors set forth in the Board's Regulation D and supplemented by its letter of July 31, 1959, were sufficiently clear and comprehensive for the purpose of evaluating applications for permission to carry reduced reserves. The Board's letter of March 22, 1963, stated that since July 1959 reduced reserves had been granted to a number of banks so small in size as to leave no doubt as to the character of their business but that in a few cases careful consideration had necessarily been given to other factors, including the extent of competition with other banks not eligible for reduced reserves. Consequently, the Bank Operations memorandum expressed the belief of the staff that possible guidelines for Board consideration of future applications might be as follows:
(1) Except possibly in very unusual cases, the Board accept size alone as indicative of character of business in approving applications for reduced reserves from banks with demand deposits of not more than $25 million, and in disapproving applications from banks with demand deposits of $200 million or more.

(2) In cases of applications from banks with demand deposits ranging between $25 million and $200 million, the Board consider, along with size, factors set forth in Regulation D and elsewhere, and in particular the nature and extent of the competition between the applicant bank and other banks not eligible for reduced reserves. (Implicit in this suggestion is the point that, except as provided in item (1), there would be no inter-city standards.)

(3) The question whether the initiative should be taken in inviting applications for reduced reserves be left to the discretion of each individual Reserve Bank.

(4) The same standards be applied in considering applications from banks in Federal Reserve Bank and branch cities as are applied to banks in other reserve cities, even though such a procedure might result in declassifying all of the member banks in a reserve city.

At the request of the Board, Mr. Farrell commented on the May 17 memorandum of the Division of Bank Operations.

In the ensuing discussion Mr. Hackley referred to guideline 1, noting that both the language of the pertinent provisions of the Federal Reserve Act and Regulation D led him to question the proposal whereby the Board would use size alone as a criterion for disapproval of requests for reduced reserves. He recalled that at one time the Board had considered amending the Regulation in such a way as to provide that total demand deposits of $50 million would be the guideline below
Which requests for reduced reserves would automatically be granted, but that
the proposed revision of the Regulation as drafted had been along the
lines of proceeding on individual cases, taking into account all pertinent
factors, including total demand deposits. Mr. Hackley said that he
perceived no legal problem in approving requests for reduced reserves
based solely on size of applicant banks, but he would be disturbed by
a policy that would deny applications from banks with deposits in excess
of $200 million as was suggested. In discussion of this point it was
stated that there was no intention in guideline 1 to preclude considera-
tion of factors other than size where disapproval of an application for
reduced reserves might be indicated on the basis of size alone.

The discussion then turned to consideration of proposed guideline
3, namely, whether the initiative should be taken by each Reserve Bank
in inviting applications for reduced reserves. During the discussion
the suggestion was advanced that in lieu of invitations of the type
referred to from Reserve Banks to member banks, an article be prepared
for publication in the Federal Reserve Bulletin treating the whole
question of reduced reserves and listing banks already given permission
to carry reduced reserves, along with a list of factors considered by
the Board in evaluating such requests.

At the conclusion of the foregoing discussion, it was understood
that guidelines 1, 2, and 4 would be followed in considering future
applications for reduced reserves and that, in lieu of guideline 3,
there would be prepared for the Board's consideration either a letter
or an article of the type suggested during the discussion for publication in the Federal Reserve Bulletin on the question of reduced reserves, such letter or article to be designed to make clear to banks that believed they merited reduced reserves the procedure for making application in this regard.

Applications for reduced reserves (Items 3 through 6).

Attention was then directed to applications for permission to carry reduced reserves received from Federation Bank and Trust Company, Royal National Bank, and Trade Bank and Trust Company, New York, New York; and an application from American National Bank of Maryland (formerly American National Bank of Silver Spring), Silver Spring, Maryland, for continuation of permission to carry reduced reserves following consummation of its merger with The Canton National Bank of Baltimore and establishment of a branch in Baltimore.

After discussion unanimous approval was given to the applications. Copies of the letters sent to the aforementioned banks are attached hereto as Items 3 through 6, respectively.

Reduced reserves in Helena, Montana (Items 7 and 8). There had been circulated to the Board a file containing a letter dated April 30, 1963, from President Deming of the Minneapolis Reserve Bank that enclosed an application from Commerce Bank & Trust Company, Helena, Montana, for permission to carry reduced reserves. In his letter President Deming noted the desirability of the Reserve Bank's
saying to the other two Helena banks that they might consider making
similar application to the Board.

After discussion, unanimous approval was given to the application
of Commerce Bank & Trust Company, Helena, Montana, for permission to
carry reduced reserves and to the suggestion of President Deming that
the Minneapolis Reserve Bank inform the other two reserve city banks in
Helena that they might wish to make similar application to the Board.
Copies of the letters sent to Commerce Bank & Trust Company and to
President Deming pursuant to the foregoing action are attached hereto
as Items 7 and 8, respectively.

Deposit insurance bill. Mr. Hackley reported receipt late
yesterday afternoon of a request from the Bureau of the Budget for
the Board's views within twenty-four hours regarding a revised draft
of bill to increase deposit insurance coverage and for other purposes.
He noted that in most respects the revised draft of bill was similar
to the draft with regard to which the Board in a letter of May 16,
1963, to the Budget Bureau took the position that the proposed legisla-
tion would be acceptable only if it included provisions extending to
all commercial banks reserve requirements against both time and demand
deposits and also provisions for revising the existing structure of
reserve requirements. Mr. Hackley said that the principal substantive
differences between the revised draft of bill and the draft previously
considered by the Board were that the revised draft omitted provisions
(1) making reserve requirements against time and savings deposits
applicable to nonmember insured banks, (2) affording nonmember insured banks access to discounts by Federal Reserve Banks, and (3) requiring the maintenance of a cash reserve by members of the Home Loan Bank System.

Following discussion it was understood that the Budget Bureau would be informed that the Board was unable to express by the indicated deadline any final views with respect to the revised draft of bill because of insufficient opportunity to study its various provisions.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of San Francisco regarding arrangements for the assignment to the Board's Division of Examinations of Allen F. Goodfellow, an examiner for the Bank, for a period of approximately three months beginning June 17, 1963, with the understanding that during his assignment in Washington, Mr. Goodfellow would be designated as a Federal Reserve Examiner and that the Reserve Bank would absorb his salary and travel expenses.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Appointments

Professor Harold W. Guthrie of the University of Kentucky as Consultant in the Division of Research and Statistics, effective to December 31, 1963, on a temporary contractual basis, with compensation at the rate of $60 a day for each day worked for the Board and, when in travel status, transportation expenses and per diem in accordance with the Board's travel regulations; for purposes of travel, Professor Guthrie's headquarters would be Lexington, Kentucky.

Richard D. Raddock as Summer Research Assistant, Division of Research and Statistics, with basic annual salary at the rate of $5,540, effective the date of entrance upon duty.
Salary increases, effective May 26, 1963

Adeline R. Tweed, Budget and Planning Assistant, Office of the Controller, from $5,205 to $5,725 per annum.

Robert M. Steinberg, Economist, Division of Data Processing, from $8,310 to $9,475 per annum.
The Honorable Wright Patman,
Chairman,
Banking and Currency Committee,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

In response to your letter of May 17, 1963, there is enclosed a memorandum regarding the apparent inadvertent destruction of a certain Treasury certificate of indebtedness at the Federal Reserve Bank of Richmond.

No monetary loss has been suffered in connection with the disappearance of the certificate of indebtedness and, as discussed more fully in the report, the investigations of the incident lead to the conclusions that the certificate was destroyed and that no monetary loss was suffered by any party.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure
On August 16, 1962, during the course of an audit of the Securities Department of the Federal Reserve Bank of Richmond by members of the staff of the Bank's General Auditor it was discovered that a $100,000 U. S. Treasury Certificate of Indebtedness was not in its proper place. A thorough search and examination of all securities in the Bank was begun immediately by the General Auditor and by Examiners of the Board of Governors of the Federal Reserve System, who were at the time engaged in a regular examination of the Reserve Bank.

This search and examination was completed on August 24 without locating the certificate. The Treasury Department, the Secret Service and the insurers on the Bank's blanket bond were then notified, and the Secret Service subsequently investigated the matter. There has been no indication from any of the investigations that the certificate was intentionally removed from the Bank's custody.

The missing certificate was of Series B-1963, with interest at 3-1/4%, dated May 15, 1962, due May 15, 1963, and bore serial number 15496. Attached to the certificate were two interest coupons covering two semiannual interest payments and bearing a corresponding serial number.

One of the coupons attached to the certificate was due November 15, 1962, and the other was due May 15, 1963, the maturity date of the certificate. The November 15, 1962, coupon has not been presented for payment. The May 15, 1963, coupon and the certificate itself have also not been presented for payment. This lends further support to the conclusion indicated by the investigations that the certificate was accidentally destroyed and that there will be no monetary loss to anyone.
Events Preceding Discovery Certificate Was Missing

The missing certificate was issued to a commercial bank by the Federal Reserve Bank, acting as fiscal agent of the United States, on May 15, 1962, in connection with a Treasury exchange offering on that date. As instructed by the commercial bank, the certificate upon issue remained in the Reserve Bank to be held as part of the collateral pledged by the commercial bank for its Treasury Tax and Loan Account.

All securities of the May 15 Treasury issue of which the missing certificate was a part and which were to be held by the Reserve Bank in custody were delivered on that day by the Bank's Fiscal Agency Department to its Securities Department, which is responsible for the custody of securities held for commercial banks.

New securities issued by the Bank's Fiscal Agency Department and delivered to the Securities Department for safekeeping in the Bank are on delivery accompanied by sheets bearing a descriptive heading of the particular issue, a list by name of the banks for which the securities are being held, the amount each bank was allotted under its subscription, and the total of all securities in the issue being delivered. A 7-copy form is prepared by the Bank's Data Processing Department and attached by paper clip to each security (or group of securities) held for each bank before the securities are delivered by the Fiscal Agency Department to the Securities Department. The form shows the name and location of the bank owning the security and the purpose for which it
is held in safekeeping and describes the security by issue, number of pieces, denomination, and serial number. One copy of the form remains attached to the security when it is filed in the vault by the Securities Department and one copy is sent to the owner bank. The other copies are used for record-keeping and control purposes.

Under the Reserve Bank's procedure for the delivery of securities to the Securities Department, a representative of that department and a representative of the Fiscal Agency Department check and count the securities for agreement with these forms and check them also against the sheets which accompany them from the Fiscal Agency Department. After all the securities have been counted and checked the sheets are added and the total checked to a total made from the securities themselves. If the totals are in agreement the sheets are then signed by a representative of the Securities Department and returned to the Fiscal Agency Department by its representative.

At this point the securities are placed under dual control in the Securities Department, verified again by two persons in that department and placed in a portable safe for transfer to the vault compartment assigned to that department.

All securities held in safekeeping by the Securities Department are kept in a vault compartment which is located on the third, or lowest, level inside the Reserve Bank's main vault. The door to the compartment has two combination locks and no person may hold both combinations. Within the compartment are file drawers in which the securities are filed in expansion-type filing envelopes of heavy paper stock, with each envelope containing securities belonging to only one bank. The envelopes are
grouped by states, with the envelopes for banks in each state then being filed alphabetically by the name of the city or town in which the banks are located.

Securities held for each bank are filed in separate envelopes according to interest dates, that is, all securities belonging to a bank which have interest coupons due in April and October are filed in an envelope under the bank's name and labeled "April--October," while securities which have interest coupons due in May and November are filed in a separate envelope labeled "May--November" and those with interest coupons due in June and December are filed in another envelope labeled "June--December." Securities which do not have interest coupons are filed in a separate envelope labeled "General."

Securities are ordinarily filed in the proper envelopes for each bank for which they are being held on the day they are received.

All securities issued on May 15, 1962, which were delivered to the Securities Department for safekeeping were filed on that day with the exception of securities issued to and being held for banks in North Carolina. The bank which owned the missing certificate is located in that state. The new securities being held for banks in North Carolina were not filed on May 15 because, for reasons explained below, the Securities Department was then in the process of transferring the securities of those banks to new envelopes and it was decided the filing could be done more efficiently if it was accomplished in connection with the transfer of securities from the old envelopes to the new ones. The unfiled securities were banded together and placed on top of a file cabinet within the vault compartment, which is a room with solid walls and to which access may be gained only through a double locked door.
The transfer of securities from old envelopes to new ones was being made in connection with a recent transfer of all securities held by the Securities Department to a larger vault compartment. Prior to March 1962 the Securities Department had been using several compartments containing eight file drawers each on the first floor level of the Bank's main vault. Because of a need for more space in which to file securities, a large, walk-in type compartment on the third, or lowest, level of the main vault was assigned to the Securities Department in March 1962, and beginning in that month all securities were transferred to the larger compartment.

The file drawers in the larger compartment are substantially larger, particularly in width, than those in the smaller compartments in which securities had previously been kept, measuring 11-1/2" high by 17-1/2" wide as compared to 10-3/4" high by 12-1/2" wide. Thus, the 9-1/2" by 11-3/4" envelopes which had been used for filing securities were nearly 6" narrower than the drawers in the new compartment. To conform with the larger drawers and because larger envelopes would accommodate a greater variety of certificate sizes without folding, it was decided to transfer all securities to new envelopes measuring 10" high by 15" wide.

By May 15, 1962, all securities had been transferred to the larger compartment and securities held for banks in all states except North Carolina had been transferred from the old envelopes to the new envelopes. As stated previously, securities issued on May 15 were filed on that date for all banks except those in North Carolina. The transfer of securities held for banks in that state from the old to the new
envelopes and the filing of securities issued on May 15 was accomplished approximately a week later, that is, about May 22.

Because of a lack of space in the vault and in the vault compartment, any extensive handling of securities such as is involved in the transfer of securities from old envelopes to new ones must take place elsewhere. The actual transfer was therefore accomplished in the Securities Department itself, on the third floor of the Bank.

In taking securities from the vault compartment to the Securities Department, the envelopes containing the securities are placed in a portable locked safe which is transported by elevator to the Securities Department area on the third floor in the custody of two persons. The elevator is electrically controlled by an armed guard stationed in the vault area, access to which is controlled by other armed guards. On the third floor the elevator opens directly into a protected area which is adjacent to the Securities Department and which may be entered only through locked doors which are controlled by Securities Department employees. The area occupied by the Securities Department is completely enclosed by a steel wire mesh cage which can be entered only through locked doors controlled by those inside. The Bank's established procedure requires that at least two persons be present at any time securities are handled, whether in the vault compartment or in the Securities Department.

On May 22 when securities held for North Carolina banks were transferred from the old envelopes to new ones about one hundred of the old size envelopes which contained securities of North Carolina banks were taken from the drawers in the vault compartment and placed in a portable safe, together with the new securities issued on May 15 which were being
held for those banks and any new securities which had been received for them since that date. The portable safe was transported via the security elevator to the Securities Department on the third floor.

At the time the transfer of securities of North Carolina banks to new envelopes was made, the Reserve Bank was holding $300,000 in securities for the bank which owned the missing certificate -- a $100,000 Tax Anticipation Bill due June 22, 1962, in the bank's "General" envelope, five $10,000 Treasury bonds due October 1, 1969, in the "April-October" envelope, five $10,000 Treasury bonds due May 15, 1968, in the "May-November" envelope, and the $100,000 certificate, which was to be filed in the new "May-November" envelope as the transfer was made. No securities had been received for the bank since the certificate was received on May 15.

In transferring securities to new envelopes the procedure is to remove the securities from the old envelopes, place them in the new envelopes, and then place in the new envelopes any new securities to be filed, such as, in this instance, those received on and after May 15. Each old envelope is then split on both ends and opened flat. As stated previously, the Bank's procedure provides that at least two persons must be present whenever securities are handled and such procedure also requires, in connection with a transfer to new envelopes, that the old envelopes shall be inspected by two persons before being placed in the waste paper container. After such a transfer is completed the new envelopes containing securities are then put back in the portable safe, which is then returned to the vault compartment via the security elevator.
Under the Bank's established procedure waste paper accumulated in the Securities Department was emptied at the end of each day by employees of the maintenance department into canvas bags into which waste paper accumulated in the Fiscal Agency Department was also emptied. The canvas bags were segregated and left overnight in the Fiscal Agency Department. The prescribed procedure was for all waste paper in such bags to be examined the next morning by two persons from the Fiscal Agency Department before being turned over to the maintenance department. Employees in the maintenance department inspect all waste paper again before baling it for disposal.

At the time the certificate was discovered to be missing, the Bank required waste paper from the Securities and Fiscal Agency Departments to be held in the maintenance department until authorization to dispose of it was given by these departments. Under this procedure waste paper from these two departments was generally held in the Bank about six weeks.

From May 22 until August 16, 1962, the only activity involving securities held for the bank which owned the missing certificate occurred on June 22, when the $100,000 Tax Anticipation Bill due on that day was taken from custody and delivered to the Bank's Fiscal Agency Department for redemption. However, under the Bank's system of filing securities described previously the Tax Anticipation Bill was filed in the "General" envelope, since it did not have coupons attached, while the missing certificate would have been filed in the "May--November" envelope. Thus, there would have been no reason on that date to take any securities from the envelope in which the missing certificate should have been filed.
Examiners of the Board of Governors began a regular examination of the Reserve Bank at the close of business on Monday, August 13, 1962. Such an examination includes a comprehensive review of the Reserve Bank's internal audit function, and in this connection the Board's Examiners sometimes elect to make an on-the-scene observation and review of the internal auditing staff while the latter is engaged in the actual performance of a departmental audit, thus permitting the Examiners not only to review and inquire into the operating procedures of the department under audit, but also to obtain first-hand information on audit performance. In the instant examination, the Board's Examiners had the internal auditing staff assume control of the Securities Department and proceed with a regular audit of the Department under the observation of two Examiners. On August 16, during the course of the audit, it was discovered that the certificate and the Bank form referred to previously, which is attached to each security by paper clip, were not in the "May--November" envelope of the bank which owned the certificate.

Such a certificate with two coupons attached measures 4-1/2" high by 11" long; the Bank form is 5-1/2" high by 9" long.

Events Following Discovery Certificate Was Missing

A search for the missing certificate was begun by the General Auditor's staff immediately upon discovery that it was not in its proper place. An inspection was made first of all securities then held in the Securities Department which had been issued on May 15, of all securities held for banks in North Carolina, and of all securities in the envelopes immediately preceding and following the envelopes holding securities of
North Carolina banks. The General Auditor's staff maintains a check of all securities sent outside the Bank and, since receipt had already been acknowledged by the recipients of all such securities of the May 15 issue, such receipt was not verified again. All other securities held in the Securities Department were then examined and a thorough physical search of the vault compartment itself and of the Securities Department area on the third floor of the Bank was made.

When this search and examination was completed without locating the certificate all issued securities in the Bank were then counted and verified by Examiners of the Board of Governors and all unissued securities in the Bank were counted and verified by the General Auditor's staff. This count and verification was completed on August 24 without locating the certificate or the Bank form attached.

The Treasury Department, the Secret Service and the Bank's bonding company were notified on that day, and the Secret Service subsequently conducted an investigation.

None of the investigations indicated that the certificate had been intentionally removed from the Bank's custody.

The Bank and the General Auditor concluded separately that the certificate had inadvertently gotten into the waste paper with the old envelopes at the time securities held for banks in North Carolina were being transferred to larger envelopes and, not being discovered in the regular inspection of all waste paper from the Securities Department, had been disposed of with such waste paper. This conclusion was indicated, after a review of the Bank's security and control procedures, by the fact there had been no occasion to handle any securities belonging
to the bank which owned the missing certificate since the transfer had been accomplished except on June 22. As explained previously, there was no reason on that date to handle any securities in the envelope in which the missing certificate should have been filed.

Waste paper accumulated during the period when securities were being transferred to new envelopes had been disposed of to a paper dealer and destroyed before the certificate was discovered to be missing. In this connection, a representative of the Bank and a Secret Service Agent investigated the manner in which waste paper is handled by the paper dealer. This investigation indicated there was little, if any, possibility that an employee of the dealer could have found the certificate. Baled waste paper, such as that from the Bank, is held by the dealer for a minimum period of time and is conveyed automatically from the unloading platform into a hydropulper, a machine which converts waste paper almost directly from waste to cardboard.

On August 28, 1962, the Treasury Department furnished all Federal Reserve Banks with the serial number of the missing certificate and asked that the Treasury Department be advised at once if the certificate was presented for exchange or payment. One of the coupons attached to the certificate was due November 15, 1962, and the other was due May 15, 1963, the maturity date of the certificate. The November 15, 1962, coupon has not been presented for payment. The May 15, 1963, coupon and the certificate itself have also not been presented for payment.

Security and Control Procedures

The investigations made in connection with the disappearance of the certificate included a review of the Reserve Bank's regular procedures
for issuing, handling and safekeeping securities and the handling and dis-
posal of waste paper.

In view of the conclusion reached by the Bank and the General
Auditor regarding disappearance of the certificate, the Bank's procedure
in disposing of waste paper from the Securities and Fiscal Agency Depart-
ments has been changed to provide that waste paper from these two depart-
ments, which, as stated previously, is inspected the following morning
by two members of the Fiscal Agency Department, is to be held overnight
in a locked book vault under dual control, and to provide further that
no waste paper from these two departments shall be disposed of except
after an audit of the departments.

As an added precaution, the Bank has decided to use vault
envelopes that will permit a ready visual determination whether they
hold any contents. This will be accomplished by appropriately spaced
perforations in kraft envelopes or by converting to envelopes fabricated
of a transparent material.

Audit and Examination Procedures

The Reserve Bank has an internal auditing department headed by
the General Auditor, who is independent of the operating management of the
Bank and is responsible to the Board of Directors. The auditing depart-
ment makes at least two complete audits of securities holdings each year.
In the course of such audits, a detailed count is made of the securities
in the vault and statements of the holdings are sent to the respective
owners with the request that they check such statements against their
records and confirm their accuracy to the auditors. In the course of
each audit, the procedures of the department under audit are reviewed and
any suggestions for improvement, either in the established procedures or
in their execution, are noted and brought to the attention of the Bank's
management for appropriate action.

The most recent regular audit of securities held by the Federal
Reserve Bank of Richmond prior to August 1962 had been made by the General
Auditor's staff on January 8, 1962.

The examining staff of the Board of Governors of the Federal
Reserve System also makes a complete examination of every Reserve Bank
and Branch each year, and such examination includes a verification of the
securities holdings and confirmation with the owners of record, an ap-
praisal of the internal controls, and an observation of employee perform-
ance.
TO: CASHIER OF BANK ADDRESSED

A number of cases have come to our attention recently wherein banks have maintained, for a number of years, dormant funds which were of Government origin or appeared to belong to the United States Government. These dormant funds were in the form of amounts due on deposits and amounts held or owing for the payment of certified checks or negotiable instruments.

In the circumstances, it is requested that you survey your dormant accounts and your records of dormant amounts held or owing for the payment of certified checks or negotiable instruments, and advise this Department of any such amounts maintained in the name of, or payable to, any United States Government department, agency, or officer, including quasi-governmental funds such as military organizational accounts.

For purposes of this survey, dormant funds are considered to be those accounts which have not had transactions within the last year, and certified checks or negotiable instruments on which the date payable, or the date of the instrument, if payable on demand, is more than one year old.

There are attached for your convenience three copies of a report form to be used in reporting this information. The original and one copy of the form should be returned, upon completion, to the Deposits Branch, Bureau of Accounts, of this Department.

Your cooperation in this matter will be appreciated. If dormant amounts are reported, this Department will take appropriate action to effect their withdrawal.

The furnishing of the information requested above by all banks meets the approval of the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System.

Fiscal Assistant Secretary

Attachments
May 23, 1963

Board of Directors,
Federation Bank and Trust Company,
New York, New York.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of New York, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Federation Bank and Trust Company to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
May 23, 1963

Board of Directors,
Royal National Bank,
New York, New York.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of New York, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Royal National Bank to maintain the same reserves against deposits as are required to be maintained by non-reserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
May 23, 1963

Board of Directors,
Trade Bank and Trust Company,
New York, New York.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of New York, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Trade Bank and Trust Company to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
May 23, 1963

Board of Directors,
American National Bank of Maryland,
Silver Spring, Maryland.

Gentlemen:

Pursuant to your request submitted through the
Federal Reserve Bank of Richmond, the Board of Governors,
acting under the provisions of Section 19 of the Federal
Reserve Act, grants permission to the American National
Bank of Maryland to continue to maintain the same reserves
against deposits as are required to be maintained by banks
located outside of reserve cities, upon its merger with The
Canton National Bank of Baltimore and establishing that office
as a branch.

Your attention is called to the fact that such
permission is subject to revocation by the Board of Governors
and that reconsideration of such permission will be necessary
whenever your bank opens an additional branch in a reserve
city.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Board of Directors,
Commerce Bank and Trust Company,
Helena, Montana.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Minneapolis, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Commerce Bank and Trust Company to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

Reference is made to your letter of April 30, 1963, concerning an application by the Commerce Bank and Trust Company, Helena, Montana, for permission to maintain the same reserves against deposits as are required to be maintained by banks located outside of reserve cities and to your proposal to invite applications from the other two Helena reserve city banks.

After consideration of the information submitted, the Board of Governors concurs in the recommendation of your bank and, pursuant to the provisions of Section 19 of the Federal Reserve Act, grants permission to the Commerce Bank and Trust Company, Helena, Montana, to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks effective with the first biweekly computation period beginning after the date of this letter. Please forward the enclosed letter addressed to the subject bank; a copy is enclosed for your files.

The Board has no objection to your letting the other two reserve city banks in Helena know that they may apply for permission to carry reduced reserves, and the Board will, of course, give careful consideration to any such applications that may be filed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures.