235D

SENIOR ASSISTANT POSTMASTER GENERAL
SUPPORT GROUP
Washington, DC 20260

August 11, 1971

Dear Peter:

I think you should be familiar with the correspondence which is attached.

Sincerely,

Jim

J. W. Hargrove

Mr. Peter M. Flanigan
Assistant to the President
The White House
Washington, D. C. 20500

Attachment

SENIOR ASSISTANT POSTMASTER GENERAL
SUPPORT GROUP
Washington, DC 20260

August 11, 1971

Mr. John Gabusi
Staff Assistant
Subcommittee on Postal Service
Committee on Post Office and Civil Service
House of Representatives
Washington, D. C. 20515

Dear Mr. Gabusi:

This is in reply to your letter of August 10, 1971, asking for additional information with respect to your investigation of our selection of five underwriting firms as managers of a prospective offering of Postal Service Bonds.

The person called "Peter" in the letter from Daniel W. Hofgren of December 2, 1970, is Peter M. Flanigan, Assistant to the President.

The problem referred to in that paragraph is the question of convincing the Secretary of the Treasury that it would be appropriate and desirable for the Treasury not to exercise its option to purchase Postal Service Bonds in October of 1971.

The relationship of John Mitchell to that problem consisted of his background of experience in the bond business, his understanding of the purposes and aims of the new Postal Service, and his possible availability to share with the Secretary of the Treasury his opinions as to the desirability of a direct offering of Postal Service Bonds, rather than having the Treasury purchase them.

I never discussed this matter with Mr. Mitchell nor did I send him a copy of my memorandum setting forth our position. For your information, however, I am enclosing a copy of that memorandum, together with correspondence from Mr. Flanigan to me and from me to him.

The letter from Mr. Edward A. Fox of April 9, 1971, related in part to the size of the total underwriting syndicate. He believes that it is desirable to have a relatively small underwriting syndicate, since each of the underwriters has a bigger interest in that case and tends to work harder than if the interest is smaller. Most of the underwriters who would be "pruned" from a syndicate list would tend to be smaller underwriters in the category of independent regional investment banking firms. I had been told by others that the elimination of such firms engendered substantial pressure from Congress to reinstate firms representative of the particular Districts or States from which Members of Congress or Senators might come. Mr. Fox's comment was to the effect that such congressional pressure was not as severe as I had been told by others. The political pressure referred to by Mr. Fox was entirely related to the selection of the total underwriter syndicate and had nothing to do with the selection of managing underwriters.

With respect to the question about my contacting Mr. Flanigan in regard to the selection of a commercial bank in the managing underwriters group, Mr. Flanigan's expertise was viewed as important because of his long background as an investment banker and his familiarity with the matters we were considering. The question was not appropriate for discussion with other members of the investment banking community who were being considered as lead underwriters. Therefore, it was desirable to ask the advice of some party not so involved. The fact that he is a political appointee of the President did not, in my opinion, have any effect upon his ability to help us make a basically business decision. Mr. Flanigan has been following closely the Administration's proposal for postal reform and, I am sure, views the public financing as a part of the implementation of postal reform. There are really no further details on my inquiry of Mr. Flanigan, since it was quite brief and telephonic. I would not say that Peter Flanigan seemed to be the only person capable of advising me in this matter, but he did appear to be the most knowledgeable and available one.

There was no ranking done in my office as to the underwriters' capabilities as a result of the specific criteria requested in my letter of April 13. The selection of the five firms was made judgementally and without the establishment of a numerical rank order to eliminate various firms. No documentation in that regard is therefore available.

Sincerely,

JWHargrove

J. W. Hargrove
Senior Assistant Postmaster General
Support Group

Enclosures

U.S. House of Representatives

SUBCOMMITTEE ON POSTAL SERVICE
OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
122 CANNON HOUSE OFFICE BUILDING
Washington, D.C. 20515

August 10, 1971

Honorable James W. Hargrove
Senior Assistant Postmaster General
Support Group
U.S. Postal Service
Washington, D. C. 20260

Dear Mr. Hargrove:

In reviewing the information that you were so kind to provide our office, there were a couple of questions that came up and I am hopeful you can provide further information on them. On December 2, 1970, a letter was sent to you by Daniel W. Hoffgren of Goldman Sachs & Company. In that letter he said the following: "I will take the opportunity, with discretion, to talk to Peter about the problem we discussed. In the meantime, I strongly suggest you send a copy of your memo to John Mitchell as my experience has indicated he has an understanding of this problem."

We would appreciate knowing: (1) What Peter is referred to in that letter? (2) What is the problem referred to in that paragraph? (3) What is the relationship of John Mitchell to that problem? (4) Could we have a copy of your memo to Mr. Mitchell?

Another item of interest is a letter directed to you from Mr. Edward A. Fox, Director of the Federal Home Loan Bank Board. In that letter of April 9, 1971, he indicated that there was some political problem involved in the capabilities of the Federal Home Loan Bank Board's reduction of its syndicate size. Specifically he said, "Additionally, we are in the process of carefully analyzing our fiscal agent's syndicate and expect to reduce that list substantially as it appears the political pressure that has always threatened is not as severe as you were led to believe."

I would appreciate your comments on what political pressure you believed existed in that regard and how it may have had anything to do with the issuance of the Postal Service bonds or selection of the managers.

In your letter of August 6, 1971, concerning events leading up to the selection of the underwriters, you specifically make note of the fact that you contacted Mr. Peter Flannagan, Assistant to the President, in regard to his comments concerning the selection of the Morgan Guaranty Trust Company. The fundamental question Mr. Udall is interested in is why Mr. Flannagan's expertise was viewed as important -- inasmuch as he is a political appointee of the President. Obviously you are aware of the role Mr. Flannagan plays in the White House and what the public appearance of his position is. I attach an article in that regard which appeared throughout the investment banking industry. We would appreciate further details on that meeting and why Peter Flannagan seemed to be the only person capable of advising you in this matter.

The spread sheet that you prepared lists specific criteria requested in your letter of April 13 to the various underwriting firms. Was any ranking done in your office as to the underwriting firms' capabilities? We are specifically interested if the criteria you outlined in your letter was actually used in any rank order to eliminate various firms? Any information or documentations in that regard is most appreciated.

I hope this doesn't overburden you, but we would like to wrap this up for Mr. Udall as soon as possible.

With best regards,

Sincerely,

John Gabusi

JOHN GABUSI
Staff Assistant

ggn

Enclosure

UNITED STATES POSTAL SERVICE
U.S. MAIL

SENIOR ASSISTANT POSTMASTER GENERAL
SUPPORT GROUP
Washington, DC 20260

August 6, 1971

Mr. John Gabusi
Staff Assistant
Subcommittee on Postal Service
Committee on Post Office and Civil Service
House of Representatives
Washington, D. C. 20515

Dear Mr. Gabusi:

This is in reply to your letter of August 3 to Mr. Paul Carlin enclosing a request for information relating to our selection of managing underwriters for a proposed issue of bonds in October 1971. The items below correspond to the items in your Request #1, dated August 3, 1971.

I. Proposal submitted by 25+ firms indicating interest in managing the bond issues.

A. Letters, Memoranda, indicating methods by which original firms were solicited in regard to the bond issue and underwriting selection.

I (and John MacKinnon after he became an employee of the Postal Service) visited with a number of underwriting firms in the fall of 1970 and spring of 1971. A list of such firms and the people within those firms is enclosed. On April 13 I sent to approximately 30 of such firms a letter asking them to indicate their interest by replying to a series of questions. A copy of that letter and a list of the addressees who received it is attached.

B. Response data, letters, records of calls, etc. from firms to USPS

The responses to our request for proposals were furnished to Mr. C. M. Gold of the General Accounting Office on August 2. I presume he will make these available to you. If not, copies of the proposals can be provided directly.

Copies of all correspondence from such firms are enclosed. The record of visits with such firms is furnished in connection with Item I-A.

II. Selection Criteria used

A. Memoranda establishing selection committee: Exact details of the chronology of the procedures of the selection committee, including names of all persons involved, in regard to selection of underwriting firms

There was no selection committee formally established. I reviewed with Mr. Louis Cox, Deputy General Counsel of the U.S. Postal Service, the methods by which I planned to proceed in determining my recommendation of such firms. Mr. John MacKinnon participated in consideration of the appropriate firms, and Mr. James Blair assisted by analyzing the proposals and preparing a "spread sheet" indicating the responses of the firms to the various questions asked. I asked that responses be received by April 28, and most of the responses were received by that date, although some were received late. The responses received late were given equal consideration with those received by April 28. Following receipt of all of the responses and discussions with Mr. MacKinnon and Postmaster General Blount, I recommended the group of five underwriters who were subsequently selected.

I included in my recommendation Morgan Guaranty Trust Company, a commercial bank. I expressed to Mr. Blount some uncertainty on my part as to whether or not we should include a commercial bank in the managing underwriting group. There were advantages in identifying our issue as a government agency, and the inclusion of a commercial bank automatically accomplished this. Moreover, we planned to include a number of commercial banks as underwriters of the issue, and this made desirable the selection of a commercial bank as one of the managing underwriters. On the other hand, I had not had any underwriting experience with commercial banks, since they are not permitted to underwrite securities of private corporations.

Mr. Blount suggested that I ask the opinion of Mr. Peter Flanigan, Assistant to the President, in view of his previous career in the investment banking business. I subsequently contacted Mr. Flanigan and asked whether he thought we should include a commercial bank in the group and whether he agreed with me that, if so, the Morgan Guaranty Trust Company was a good selection. I did not ask him to function with respect to the other members of the group, and he offered no suggestions with respect to such other members. He responded to my request, through an associate, to the effect that under our circumstances he thought it desirable to include a commercial bank and that in his opinion Morgan Guaranty Trust Company was highly qualified to fill that position in view of their substantial involvement in government bond business.

The Board of Governors was informed of our progress at various times. There is a Standing Committee on Finance and Audit, and informal discussions were held with this Committee from time to time. The Committee is chaired by Mr. Crocker Nevin, Chairman of the Board, Marine Midland Trust Company of New York City. Other members are Mr. George Johnson, President, Johnson Products Company of Chicago, Illinois, and Mr. Frederick Kappel, retired Chairman of the Board of American Telephone and Telegraph Company. Mr. Nevin disqualified his bank from any participation in the underwriting.

On April 6 I outlined to the Board the alternatives for marketing Postal Service Bonds. This consisted in large part of a discussion of the merits of competitive bidding compared to a negotiated arrangement. I had had discussions with many underwriters on this subject, and had solicited the opinions of a number of knowledgeable people in government in Washington with respect to this question. For your information there are enclosed copies of memoranda from my files dated in March and April of 1971. These memoranda provide a record of conversations which I held with Mr. Elmer B. Staats, Comptroller General of the United States; seven representatives of various governmental agencies issuing securities; Mr. Bruce K. MacLaury, Deputy Under Secretary for Monetary Affairs of the Treasury Department, Mr. Edward P. Snyder, Director, Office of Debt Analysis, and Mr. Roland Cook, Assistant Director, Office of Debt Analysis, Treasury Department; Secretary of Commerce Maurice Stans; and Mr. John Scanlon, Treasurer of American Telephone and Telegraph Company, and his associate, Mr. William Burns.

The result of my discussions with the Board on April 6 was an authorization by the Board for the management to negotiate rather than consider competitive bidding, and we then proceeded to consider which firms we should engage as managing underwriters for such a negotiated marketing. On April 8 I sent to the members of the Finance and Audit Committee a draft copy of a proposed letter soliciting proposals. On April 13 a telephone conference call was held among the three members of the Finance and Audit Committee, Mr. Blount and myself. We reviewed the proposed letter and made one or two changes which were not substantive in nature. I also enclosed a list of the firms to whom we sent the letter, indicated that we would receive responses from other firms if additional interest were displayed, and asked the members of the Committee to let me know if there were additional firms they thought should receive our letter.

The letter was sent to all firms who had indicated an interest in participating in our financing, together with some additional firms who had not indicated such interest, but whose position in the government agency security or utility security business made them candidates for consideration, in our opinion.

At the meeting of the Board of Governors on May 4, 1971, I reported on the responses we had received from various investment banking firms. After a discussion, the Postmaster General was requested to submit recommendations on the selection of management underwriters at the next meeting of the Board. Thereafter, I made my recommendations to Mr. Blount as detailed above. He decided to approve my recommendations and submitted them to the Board at the meeting held on June 1. At that meeting both he and I explained the process of the selection and the reasons why we had chosen the five firms recommended. After a discussion the Board authorized the Postmaster General to retain the five firms named as managing underwriters.

Excerpts of the minutes of the meetings of the Board of Governors of April 6, 1971, May 4, 1971, and June 1, 1971, are enclosed.

My recommendation to Mr. Blount, and Mr. Blount's recommendation to the Board of Governors, proposed that Salomon Brothers be selected as the lead underwriter of the five-member group. The intention is to rotate the "lead" assignment among the managing underwriters, if the group remains intact in subsequent issues.

Announcement of the selection of the underwriters was made on June 3 in the form of a press release and letters to all of the firms who had submitted proposals.

B. Memoranda, working papers, recommendations flowing from meetings or proposals submitted

These matters are covered in reply to II-A above. Recommendations were made verbally. A copy of the "spread sheet" indicating the replies to the various questions asked by us was provided to Mr. Gold on August 2.

C. Listing of time frame, i.e. dates of meeting of selection committee, minutes of meetings, etc.

This is covered in the answer to II-A above.

D. Specific memoranda outlining criteria used by selection committee on selecting five underwriters

No specific memoranda were prepared. However, the criteria to be used in making the selection were discussed on several occasions with Mr. Blount and members of the Finance and Audit Committee and members of the Board of Governors. Mr. John MacKinnon also participated actively in considering appropriate criteria for selection.

We were interested in assembling a group of managing underwriters who would, first of all, have the ability through proven performance to market Postal Service Bonds on a wide distribution basis and at the most advantageous terms to us. We were further interested in demonstrating through our selection the "hybrid" nature of our particular security -- that is, a combination of a private public utility and a government agency bond. I dwelt at length on the "hybrid" nature of our security in a talk delivered to The Municipal Forum of New York on April 29, 1971. A copy of that speech is enclosed.

In order to emphasize our qualifications both as a government agency bond and as a viable public utility security, I wanted firms represented in the managing underwriting group who had favorable reputations and prestige in these areas. As indicated in the answer to I-A above, I considered the inclusion of a commercial bank to be an asset in establishing quickly the government agency identification of our bonds. Establishing our identification as a viable public utility was not so easily achieved. I consider it necessary to conduct an additional campaign among potential investors throughout the country in order to help accomplish this purpose. The ability of the managing underwriters to assist in that additional campaign was a significant criterion.

We considered the firms of Salomon Brothers and Merrill Lynch, Pierce, Fenner & Smith Inc. to be pre-eminent in the field of government agency underwritings. Enclosed is a copy of a study indicating the percentage extent to which these two firms have participated in selling certain government agency securities over the past years. In addition, both Salomon Brothers and Merrill Lynch, Pierce, Fenner & Smith Inc. are significant underwriters of private public utilities, although they are not usually cited as specialists in that field.

On the other hand, Dillon, Read & Co. Inc. is considered to be a firm specializing in innovative issues, with particular reference to public utilities and especially natural gas pipeline companies. The reputation of Dillon, Read & Co. Inc. as a "prestige" firm in this respect was a significant factor in their selection. In addition, I expected to be negotiating the sale of these securities personally, and I felt the United States Postal Service would be advantaged if I were able to negotiate with a firm where I had had much previous experience. My former company had, I believe, achieved considerable success in negotiating attractive terms on our issues of securities, and I felt this record of successful negotiation between me and Dillon, Read & Co. Inc. would lend credibility and strength to my negotiations with them on behalf of the United States Postal Service.

I have already dealt in Item I-A with the special criteria which entered into the selection of Morgan Guaranty Trust Company, one of the managing underwriters.

The selection of Kidder, Peabody & Co., Inc. was based largely upon our desire to include in the managing group a "generalist" firm with significant representation throughout the United States. Kidder, Peabody has a long and successful record in the investment banking business, and has a wider coverage through its own branch offices than most investment banking firms. Of course Merrill Lynch, Pierce, Fenner & Smith Inc. has by far the widest such distribution and that was one of the reasons for choosing Merrill Lynch, but neither Salomon Brothers nor Dillon, Read has an extensive field organization, and Morgan Guaranty Trust has no such operation outside New York. In addition, Mr. Ralph DeNunzio, Chairman of the Executive Committee of Kidder, Peabody & Co., Inc. is currently Chairman of the Board of Directors of the New York Stock Exchange and I felt that the prestige of this appointment would be helpful in bringing out our new security.

Obviously, all of the firms selected had to meet a criterion of adequate financial strength, expertise in the general area of investment banking, and the other points implied by the questions asked in our letter soliciting proposals. A review of the extent to which the firms met those requirements was a part of the selection procedure.

III. Personnel files on John McKinnon, John Falvey, James Hargrove, and James Blair

A. Letters of Recommendations; Form 57 (or equivalent) and all other data in Personnel folder

The personnel folders of the four individuals are available in my office for your examination whenever convenient.

NOTE: All call record sheets in the offices of the 4 names listed related to this matter should be included.

Mr. Falvey and I do not maintain call record sheets in our offices. The call record sheets for Mr. MacKinnon and Mr. Blair are available for your inspection in their offices. We will be happy to copy any portions you might wish to extract, but I do not think it is advisable to duplicate and send to you the entire records over the past year or so.

We will be happy to cooperate with you to the fullest extent in providing you with any further information you might need with respect to your investigations.

Sincerely,

J. W. Hargrove
Senior Assistant Postmaster General
Support Group

Enclosures

NINETY-SECOND CONGRESS

MORRIS K. UDALL, ARIZ., CHAIRMAN
WILLIAM D. FORD, MICH.
ROBERT N. C. NIX, PA.
JEROME R. WALDIE, CALIF.
LEE H. HAMILTON, IND.

EDWARD J. DERWINSKI, ILL.
ELWOOD HILLIS, IND.
WALTER E. POWELL, OHIO

EX OFFICIO:
THADDEUS J. DULSKI, N.Y.
H. R. GROSS, IOWA

Action - Harf...
Info - Nelson ...
Powell

U.S. House of Representatives

SUBCOMMITTEE ON POSTAL SERVICE
OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
122 CANNON HOUSE OFFICE BUILDING
Washington, D.C. 20515

August 3, 1971

Mr. Paul N. Carlin
Executive Assistant to
the Postmaster General
U.S. Postal Service
Washington, D.C. 20260

Dear Paul:

Pursuant to our phone conversation, I'm enclosing our first request for information concerning the study. We're on a very tight deadline so if we could have this stuff within 48 hours, it will be appreciated.

Let me know if you need anything.

Sincerely,

John Gabusi
Staff Assistant

glb
Enc.

NINETY-SECOND CONGRESS

MORRIS K. UDALL, ARIZ., CHAIRMAN
WILLIAM D. FORD, MICH.
ROBERT N. C. NIX, PA.
JEROME R. WALDIE, CALIF.
LEE H. HAMILTON, IND.

EDWARD J. DERWINSKI, ILL.
ELWOOD HILLIS, IND.
WALTER E. POWELL, OHIO

EX OFFICIO:
THADDEUS J. DULSKI, N.Y.
H. R. GROSS, IOWA

U.S. House of Representatives
SUBCOMMITTEE ON POSTAL SERVICE
OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
122 CANNON HOUSE OFFICE BUILDING
Washington, D.C. 20515

August 3, 1971

Data Required from U.S. Postal Service - Request #1

I. Proposal submitted by 25+ firms indicating interest in managing the bond issues.

  A. Letters, Memoranda, indicating methods by which original firms were solicited in regard to the bond issue and underwriting selection

  B. Response data, letters, records of calls, etc. from firms to USPS

II. Selection Criteria used

  A. Memoranda establishing selection committee; Exact details of the chronology of the procedures of the selection committee, including names of <u>all</u> persons involved, in regard to selection of underwriting firms

  B. Memoranda, working papers, recommendations flowing from meetings or proposals submitted

  C. Listing of time frame, i.e. dates of meeting of selection committee, minutes of meetings, etc.

  D. Specific memoranda outlining criteria used by selection committee in selecting five underwriters

III. Personnel files on John McKinnon, John Falvey, James Hargrove, and James Blair

  A. Letters of Recommendations; Form 57 (or equivalent) and all other data in Personnel folder

NOTE: All call record sheets in the offices of the 4 names listed related to this matter should be included.

MEMORANDUM FOR THE FILES

RE: RELATIONSHIP OF PETER FLANIGAN TO DILLON READ AND ITS SELECTION AS A MANAGING UNDERWRITER OF THE POSTAL SERVICE BOND ISSUE

1. At the time I entered government service I sold my entire interest in Dillon Read and put my holding in a blind trust subject to regulations covering Executive Branch employees and all my holdings remain in the blind trust. I have no continuing interest in Dillon Read and no understanding explicit or implicit that I will ever return to Dillon Read.

In my original responsibility during the transition for recomminding competent sub-cabinet level candidates to Cabinet appointees, I prepared voluminous files covering many hundreds of names. Among those recommended to the Post Master General was James Hargrove, then Senior Vice President of Texas Eastern Transmission Corporation, a long time client of Dillon Read. I knew Hargrove to be an exceedingly competent financial man and also knew that he was interested in leaving private live for public service. Post Master General Blount subsequently selected Hargrove to be Assistant Post Master General for Financial Affairs.

During the year leading up to the hearings on an independent postal service it was necessary for the Postal Service to provide expert witnesses on the independent financial viability of the Service. Hargrove, having a high regard for the professional competence of Dillon Read based on his former dealings with them, requested Dillon Read to testify that the bonds of the Postal Service would be marketable. I learned of this fact subsequent to Dillon Read's giving such testimony before the Congress.

I did not, to the best of my recollection, ever discuss the selection of Dillon Read as a member of the underwriters of the Postal Service issue either with Dillon Real or members of the Postal Service. I first learned of the selection of investment banking underwriting firms when the selection was made public.

Early in the Spring of 1971 the Treasury Department was discussing the desirability of having the Postal Service sell its bonds direct to the Treasury. The Post Master General and Mr. Hargrove knowing of my relationship with the Treasury and my interest in discussions then beginning regarding a Federal Finance Bank, urged that this course not be taken. Their rationale was that the independence of the Postal Service demanded that it stand on its own feet financially. I passed this information on to Mr. Volcker but was not involved in the final decision that the Treasury would not buy Postal Service bonds but the issue would be made to the public. Mr. Daniel Hofgren, an employee of Goldman, Sachs, also told me that the Postal Service was most concerned that it be allowed to sell its bonds directly to the public. I told Mr. Hofgren that I was aware of this desire on the part of the Postal Service. It was my understanding that Mr. Hofgren was attempting to secure the management position for Goldman, Sachs. Mr. Hofgren apparently wrote a letter to Mr. Hargrove which Mr. Hargrove subsequently submitted to the House investigator, indicating that he had discussed a matter in confidence with me. To the best of my knowledge it was this matter regarding Postal Service sale of bonds to the public to which Mr. Hofgren was referring.

In the Summer of 1971 Mr. Hargrove called to say that a commercial bank would be included in the managing group for the Postal Service bonds and that the Morgan Guaranty Bank was under consideration. He asked if I believed the Morgan Guaranty would be competent in this regard, to which I replied in the affirmative.

GRAHAM PURCELL
13TH DISTRICT OF TEXAS

120 HOUSE OFFICE BUILDING
PHONE: AREA CODE 202, 225-3605

DISTRICT OFFICES:
206 FEDERAL BUILDING
WICHITA FALLS, TEXAS 76301
PHONE: AREA CODE 817, 766-0286

ROOM 2804
6211 WEST NORTHWEST HIGHWAY
DALLAS, TEXAS 75225
PHONE: AREA CODE 214, 749-3889

Congress of the United States
House of Representatives
Washington, D.C. 20515

COMMITTEE ON AGRICULTURE
SUBCOMMITTEES:
CHAIRMAN, LIVESTOCK AND GRAINS
DEPARTMENTAL OPERATIONS

COMMITTEE ON POST OFFICE
AND CIVIL SERVICE

September 24, 1971

The Honorable Richard M. Nixon
President of the United States
The White House
Washington, D. C.

My dear Mr. President:

As an original co-sponsor of H. R. 11750, the Postal Reorganization Act of 1970 (P. L. 91-375), I was actively involved with the question of postal reform throughout months of public hearings and hours of executive sessions in the Post Office and Civil Service Committee.

With the dedication and non-partisan cooperation of literally dozens of Americans, the Kappel Commission on Postal Organization, The Citizens Committee for Postal Reform, and many other groups, we were able to send to you a bill which, among other things, removed this great public service from its traditional "political patronage" status among Executive agencies.

As of July 1, 1971, the United States Postal Service was no longer a Cabinet or Executive Branch agency. It was intended to be a wholly non-political service business of the federal government.

I have just read a confidential Committee Print prepared by the Postal Service Subcommittee of the House Post Office and Civil Service Committee which has in turn prompted this very serious letter to you. The Subcommittee, under the able Chairmanship of the Honorable Morris K. Udall, has uncovered, through months of exhaustive investigation, glaring inconsistencies between the charter of the new Postal Service and the circumstances surrounding the proposed sale of United States Postal Service Bonds.

As you know, the investigation, assisted by the General Accounting Office, commenced following the announcement that the firm of Mudge, Rose, Guthrie and Alexander were to serve as counsel to the underwriters of the Postal Service issue. Mr. President, the inference is literally automatic. Whether impropriety exists or not, I am sure you can understand what this selection signals to the American people.

Of less familiarity to the public, but certainly of no less importance, is the selection of five firms to underwrite the issuance of this first $250 million in revenue bonds. The Subcommittee investigation, which will be made public early next week, has raised very serious questions about the qualifications of two of them. More important than the question of qualification is the question of criteria upon which the selections were based.

Mr. President, your own assistant, Mr. Peter Flanigan, was formerly a Vice President of one of the firms selected. Additionally, Mr. James Hargrove, Senior Assistant Postmaster General for Support, is the former Treasurer of a private firm which utilized the same firm for its investment banking needs.

The selection of Dillon, Read and Company, Inc., has all the earmarks of a multi-million dollar scandal. An extensive chronology of meetings, memorandums, and correspondence clearly outlines some of the most questionable performance of public officials which this Nation has seen in years. It constitutes anything <u>but</u> an auspicious beginning for the new Postal Service.

In the interest of the American people--the customers of the new Postal Service--and as an immediate representative for over 500,000 of them, myself, I respectfully urge that an immediate investigation of Mr. Flanigan's current financial position be made and presented to the public. As a result of this confidential report, I have every reason to believe that Mr. Flanigan's fifteen years as a vice-president in Dillon, Read and Company have resulted in their selection.

Furthermore, there is reason to believe that Mr. Flanigan's relationship with the firm may not be completely severed. Unlike most high government officials, Presidential

Assistants are not required to disclose their financial situations, or to place their private holdings in blind trusts, etc. The circumstances surrounding this entire matter must countervail that privilege.

A second firm, Kidder, Peabody and Company, was selected in spite of the fact that it has no government bond department and no secondary market capability. It failed to rank within the top 18 firms handling government agency debt issues in 1970. Yet, of the thirty-three firms which submitted proposals to the Postal Service, this one was selected as one of the five best.

Kidder, Peabody and Company ranked poorly in all criteria except one, Mr. President. It was first out of all thirty-three in 1968 campaign contributions to the Republican Party. The Chairman of the Board of Kidder, Peabody and Company personally contributed $38,750 to the 1968 campaign. At least thirteen other Vice Presidents of Kidder, Peabody and Company contributed a total of $24,393. Mr. President, once again, the inference is automatic.

I will appreciate your prompt attention and response to the question of Mr. Flanigan's financial affairs and current relationship with Dillon, Read and Company. Additionally, I will appreciate your response with regard to the propriety of selecting Kidder, Peabody and Company on the grounds of the questionable criteria which I have outlined.

Respectfully,

Graham Purcell

GRAHAM PURCELL

GP/cw

cc: Postmaster General of the United States

September 24, 1971

The Post Office is apparently being charged with not asking an underwriter to fire its attorneys, because the President once was a principal in the firm; and for not disqualifying one firm out of a group of five, because a former partner is now working for the Administration.

Firms whose members go to work for government should not be given any special favors, nor should they be disqualified from government work.

Through a tremendous bipartisan effort, we finally took the post office out of politics. It's deplorable that anyone should now try to make the postal system a political football.

# # #

Draft 9-24-71
Letter to Purcell
from JWD

With reference to your concern about Mr. Flanigan's financial affairs and his possible involvement in the selection of Dillon, Read and Company, Inc., we have thoroughly investigated the matters you have raised and find them to be completely without substance. At the time Mr. Flanigan entered government service he severed all business relationships with and divested all of his interest in Dillon Read. He also placed all his other financial investments in a blind trust to avoid even an appearance of conflict of interest, a practice which I should note is consistent with this Administration's policy regarding the financial interests of the President's staff.

Further, our investigation and review of this matter convincingly demonstrate that Mr. Flanigan was in no way involved in the selection of Dillon Read as one of the banking underwriting firms. As a matter of fact his only involvement whatsoever with the bond issue was a discussion with the Treasury Department in early Spring, 1971, at the request of the Postmaster General to convey the Postal Service's views regarding that Department's proposed purchase of the bonds, and was in no way involved in the final decision on that issue.

Draft 9-24-71
Letter to Purcell
from JWD

With reference to your concern about Mr. Flanigan's financial affairs and his possible involvement in the selection of Dillon, Read and Company, Inc., we have thoroughly investigated the matters you have raised and find them to be completely without substance. At the time Mr. Flanigan entered government service he severed all business relationships with and divested all of his interest in Dillon Read. He also placed all his other financial investments in a blind trust to avoid even an appearance of conflict of interest, a practice which I should note is consistent with this Administration's policy regarding the financial interests of the President's staff.

Further, our investigation and review of this matter convincingly demonstrate that Mr. Flanigan was in no way involved in the selection of Dillon Read as one of the banking underwriting firms. As a matter of fact his only involvement whatsoever with the bond issue was a discussion with the Treasury Department in early Spring, 1971, at the request of the Postmaster General to convey the Postal Service's views regarding that Department's proposed purchase of the bonds, and was in no way involved in the final decision on that issue.

THE WHITE HOUSE

WASHINGTON

September 24, 1971

MEMORANDUM FOR: PETER FLANIGAN
JOHN DEAN

FROM: CLARK MacGREGOR CM

SUBJECT: U. S. Postal Service

The subcommittee of which Morris (Mo) Udall of Arizona is Chairman includes in addition to Udall the following:

Democrats	William Ford, Michigan Robert Nix, Pennsylvania Jerome Waldie, California Lee Hamilton, Indiana
Republicans	H. R. Gross, Iowa Edward Derwinski, Illinois Elwood (Bud) Hillis, Indiana

Any of the three Republicans might be of help to us if we consulted with them today or tomorrow; if we were to pick one, I would suggest Derwinski.

August 4, 1971

MEMORANDUM FOR: PATRICK BUCHANAN

FROM: JOHN DEAN

SUBJECT: Briefing book - Mudge, Rose controversy over Postal Service bond offering.

I think that in response to any press questions regarding Murris Udall's allegations that the Mudge, Rose law firm was improperly selected as bond counsel for the upcoming Postal Service offering, it would be best to keep the President out of the details to the greatest extent possible. Therefore, I would recommend a response along the following lines:

> As you know, before assuming the Presidency I resigned from the law firm and severed all my relations with it. Therefore, I do not know anything about its present activities or its new clients. With regard to the matter you have raised, I only have a newspaper knowledge, but it is my understanding that the firm's involvement comes through its representation of one of the underwriters selected on the basis of competitive bidding by the Postal Service.

For your information and background, I am advised that the Postal Service selected the underwriters to be involved in this issuance after review of the competitive bids of thirty-some firms. Of the five chosen, representing a balance of capabilities in the market, the "lead" underwriting firm is Solomon Brothers, who are represented by Mudge, Rose in bond work.

At the time of the bidding, each firm was asked to provide certain items of information, one of which was the bond counsel they would use if awarded the bid. Several firms listed Mudge Rose,and some firms listed several potential counsel.

Solomon Brothers was selected as the lead underwriter because of its expertise in the field of government bond work, and they felt that Mudge Rose, who has represented them in the past, was eminently qualified for this type of an issuance. The law firm will represent all five underwriters, as is the usual course in this sort of situation.

While it is true that the Postal Service did not select the law firm to be involved, as a practical matter they could have vetoed the selection of Mudge Rose by Solomon Brothers. However, although cognizant of the potential problems that could and have arisen, the Postal Service felt that Mudge Rose was most competent in this field and that its selection was a proper one.

We are also advised that Morris Udall has requested GAO assistance in an investigation of the selection of the underwriters. The Postal Service feels that the selection process was most thorough and can withstand any investigation without a resulting indicia of impropriety. Udall has advised that at present no public hearings on this matter are contemplated, but the Postal Service is very skeptical that he will not continue to feed the fires of the press if he thinks he can sustain interest in this matter.

cc: John Ehrlichman

JWD:FFF:bav

TON POST

' Home Journal

tells how to
t at a party
nese and 26
one Wants
articles and
ST

Partiality for 'Nixon Firm' Seen

United Press International

A congressman charged yesterday that underwriters managing a $250 million bond issue for the U.S. Postal Service have "insisted" that the old law firm of President Nixon and Attorney General John Mitchell handle legal details of the transaction.

Rep. Morris K. Udall (D-Ariz.) said in a news release that the New York law firm of Mudge, Rose, Guthrie & Alexander will receive a commission that "could be millions of dollars."

The bond issue is the first such borrowing by the new Postal Service.

Udall said that "technically, the bonding attorneys were hired not by the Postal Service but by the five New York bond houses which have agreed to underwrite the Postal Service bonds."

However, Udall quoted a Postal Service official, whom he would not identify, as saying the underwriters "told the Postal Service that Mudge, Rose had to be hired." A Udall aide said the underwriters "insisted" that the firm be hired.

A Postal Service spokesman said the underwriters had submitted a list of law firms that were being considered for the work and added "the selection was not made by the Postal Service nor was it influenced by the Postal Service except to the extent that all the law firms suggested by the underwriters were acknowledged as acceptable to the Postal Service."

"Mudge Rose will not be paid by the Postal Service but by the underwriters. The Postal Service does not have any information as to what the fee will be."

Attack Victim V
Aid to Assailan

PHILADELPHIA,
(AP)—The victim of a
last April has promis
prenticeship in the
union to the 15-yea
who beat him with a

"My father brou
not to hold gru
plained John Vicce
land, Bucks Count
whose truck was p
bricks before he w
ally assaulted. Vi
that his assailant, (
of Philadelphia, n
cent job and woul
could stay out of
he is 18.

THE WHITE HOUSE

WASHINGTON

Date 7/29

TO: JOHN Dean

FROM: William E. Timmons

Please Handle ______

For Your Information X

Other

Rep. Morris K. Udall
119 House Office Building
Washington, D.C. 20515

Contact: John Gabusi 225-7620

FOR IMMEDIATE RELEASE -- THURSDAY, JULY 29, 1971

The New York law firm that once included President Nixon and Attorney General John Mitchell as senior partners has been hired as the bond attorneys for the first issue of bonds by the new U.S. Postal Service, U.S. Rep. Morris K. Udall (D-Arizona) disclosed today.

The firm, Mudge, Rose, Guthrie & Alexander, will receive an undisclosed commission for handling the legal details in the issuance of $250 million in Postal Service bonds, scheduled for sale in October. Under prevailing practice, the commission could be millions of dollars. It will be the first of several bond sales, eventually totalling $10 billion, to finance modernization of Postal Service facilities.

Udall, chairman of the House Postal Service Subcommittee and one of the principal architects of the Postal Reorganization Act that created the semi-independent Postal Service, said he is considering an investigation into the circumstances surrounding award of the legal contract to the old Nixon-Mitchell firm.

In making the disclosure, Udall said:

"Under great pressure and with commendable determination, Postmaster General Winton Blount has resisted strong Republican Party efforts to inject politics into the new Postal Service.

-more-

He has done an excellent job of establishing the Postal Service's credibility. I consider it vital to maintain that credibility.

"I have defended the Postmaster General because I believe it is essential that the Postal Service be given a fair chance to make this experiment with reorganization work. But there is no way that this appointment of a law firm with close ties to both the President and the Attorney General can be explained or defended to the many Congressional critics who are already calling for repeal of the Postal Reorganization Act.

"Surely, somewhere among the 250,000 lawyers in the country, there is someone else who can handle this," Udall said. "And surely, with all its other business, this barefoot firm in New York can survive without this particular multi-million dollar contract."

Udall said he is considering an investigation by the Postal Service Subcommittee or the General Accounting Office. He said an announcement of what steps he will take probably will be made early next week.

The Arizona Democrat said he learned of the award of the legal contract to the firm two days ago and that information was confirmed Wednesday by Paul Carlin, executive assistant to Blount.

A Postal Service official met with Udall's staff today to explain the reasoning behind giving the contract to Mudge, Rose.

-more-

Technically, the bonding attorneys were hired not by the Postal Service but by the five New York bond houses which have agreed to underwrite the Postal Service bonds.

Udall quoted a Postal Service official as saying the five underwriters told the Postal Service that Mudge, Rose "had to be hired."

The law firm is considered among the foremost municipal bond attorneys in the country. It's reputation as experts in bonding matters was based largely on the work of Mitchell, who left the firm in 1968 to become Attorney General.

Udall said award of the contract to the law firm was negotiated privately and that he has no information on how much Mudge, Rose stands to gain from handling the Postal Service bonds. Bond attorneys usually are paid from the proceeds of the bond sales.

Mudge, Rose, Guthrie & Alexander maintains a Washington office at 1701 Pennsylvania Avenue, one block from the White House. According to the 1971 edition of the Directory of Municipal Bond Dealers of the United States, a publication of The Bond Buyer, the firm's full title is Mudge, Rose, Guthrie and Alexander (Caldwell, Trumble & Mitchell).

-30-

MEMORANDUM OF CALL

TO: Fred

☐ YOU WERE CALLED BY— ☐ YOU WERE VISITED BY—

Karl Ruediger

OF (Organization)

☐ PLEASE CALL → PHONE NO. CODE/EXT.

☐ WILL CALL AGAIN ☐ IS WAITING TO SEE YOU

☐ RETURNED YOUR CALL ☐ WISHES AN APPOINTMENT

MESSAGE

Fairly Urgent

RECEIVED BY JEL | DATE 3-18 | TIME 9:20

STANDARD FORM 63
REVISED AUGUST 1967
GSA FPMR (41 CFR) 101-11.6

GPO : 1969—O48—16—80341-1 332-389

63-108

Pg 4

Reg, 7

However, any employee appointee prior to ~~Nov~~ March 23, 1971 may continue an outside employ or prof practice w/ written consent of C, CSC &

DRAFT   CSC News Release

Regulations governing the ethics and conduct of members and employees of the Postal Rate Commission have been approved by the U. S. Civil Service Commission.

Prepared at the direction of the President, the regulations are "more specific and more all-encompassing than the ethics and conduct regulations applicable to any group of Federal employees," according to CSC Chairman Robert E. Hampton.

In an Executive Order directing that the regulations be drafted, the President said: "It is essential to public confidence in the United States Postal Service that the activities, procedures, decisions, and recommendations of the [Postal Rate] Commission be impartial and disinterested and free from taint or suspicion of favoritism of any kind whatsoever, both in fact and in appearance."

The regulations, which will be (were) published in The Federal Register on March 23, provide that Postal Rate Commissioners and employees will be guarded fully against involvement in conflicts of interest, and from ~~any~~ conduct that may lessen public confidence.

Among the other requirements are those requiring that:

Members and employees of the Postal Rate Commission must file confidential statements of outside employment and financial interests with the Civil Service Commission;

Strict control will be maintained over ex parte contact on matters of substance at issue in contested proceedings before the Postal Rate Commission;

Members and employees are prohibited from accepting honoraria, travel expenses, entertainment, gifts (other than advertising gifts of nominal value), loans, or favors from individuals or organizations having or likely to have business with the Postal Rate Commission.

#

DRAFT   CSC News Release

Regulations governing the ethics and conduct of members and employees of the Postal Rate Commission have been approved by the U. S. Civil Service Commission.

Prepared at the direction of the President, the regulations are "more specific and more all-encompassing than the ethics and conduct regulations applicable to ~~any~~ other groups of Federal employees," according to CSC Chairman Robert E. Hampton.

In an Executive Order directing that the regulations be drafted, the President said: "It is essential to public confidence in the United States Postal Service that the activities, procedures, decisions, and recommendations of the [Postal Rate] Commission be impartial and disinterested and free from taint or suspicion of favoritism of any kind whatsoever, both in fact and in appearance."

The regulations, which will be (were) published in The Federal Register on March 23, provide that Postal Rate Commissioners and employees will be completely restricted from any ~~guarded fully against~~ involvement which would result in conflicts of interest, and from ~~any~~ conduct that may lessen public confidence or give the appearance of a conflict.

Among the other requirements are those requiring that:

Members and employees of the Postal Rate Commission must file confidential statements of outside employment and financial interests with the Civil Service Commission;

Strict control will be maintained over any ex parte contacts on matters of substance at issue in contested proceedings before the Postal Rate Commission;

Members and employees are prohibited from accepting honoraria, travel expenses, entertainment, gifts (other than advertising gifts of nominal value), loans, or favors from individuals or organizations having or likely to have business with the Postal Rate Commission.

#

THE WHITE HOUSE

WASHINGTON

March 15, 1971

MEMORANDUM FOR: KARL RUEDIGER
ASSISTANT GENERAL COUNSEL
CIVIL SERVICE COMMISSION

THOMAS E. KAUPER, DEPUTY
ASSISTANT ATTORNEY GENERAL
OFFICE OF LEGAL COUNSEL

LOUIS A. COX
DEPUTY GENERAL COUNSEL
POST OFFICE DEPARTMENT

FROM: JOHN W. DEAN, III
COUNSEL TO THE PRESIDENT

SUBJECT: Standards of Conduct Regulations - Postal Rate Commission

Richard Littell, General Counsel to the Postal Rate Commission has raised several points and requested several changes in regard to draft #2 of the proposed Standards of Conduct regulations for the Postal Rate Commission. Following is a summary of the major items raised by Mr. Littell, and my comments and recommendations on these points. I should also note that since the suggestions of the PRC were not submitted to me in writing, I am sending a copy of this memorandum to Mr. Littell in the event that he feels any point requires additional clarification or explanation.

- Section 301(b)
  PRC: The word "child" in each sentence should be modified by the word "minor" in accordance with statutory language.
  Comment: No objection; would also suggest including the term "associated or is" in second sentence, as has already been done in the first sentence.

- Section 302(a)

PRC: It will be difficult for an employee to know what interests "may be" in the future affected by the enumerated items; suggest changing "may be" to "are."

Comment: The objective is to avoid a financial interest which currently is significantly affected, or could be in the future by any action or inaction on the part of the employee; the current wording seems to accomplish both objectives.

PRC: Term "operation of the Postal Service" is too broad; suggest limitation to "changes in nation-wide service."

Comment: I think that the present language, which is all-inclusive, is preferable.

- Section 302(c)(3)

PRC: The definition should read "a financial interest includes the financial interest ...".

Comment: No objection.

- Section 302(d)(3)

PRC: This section should end after the phrase "as to interfere with the proper performance of his duties", with deletion of the remaining sentence and phrase relating to the appearance of speculative dealings. As presently worded this is unduly restrictive on the activities of employees, and precludes them from using normal investment techniques of margin, etc., in non-speculative trading. This section as drafted is of significant concern to several Commissioners.

Comment: As long as the objective is to preclude the appearance of speculative dealings by PRC employees, I do not think the language should be changed; it does not forbid margin trading, etc., but puts the employee on notice that such activity may be disqualifying if it creates the appearance of speculative dealing.

- Section 306(a)(1)

PRC: In this section, and in numerous other provisions in these regulations (e.g., 307(b)), an employee is restricted in his activities with a person or company doing business with the Postal Service. This is unrealistic and very difficult to enforce because the employee and/or the Counselor may not know of the business activities of the Postal Service. Also, this restricts an employee's activities with companies that may perform a function for or have a contract with the Postal Service which is totally unrelated to postal rates, etc. It is suggested that all such restrictions relating to the Postal Service in this and other sections, be deleted.

Comment: It may prove in practice that this coverage is unrealistically restrictive. However, I am not convinced at this point that this change should be made, and am convinced that PRC employees should be restricted from any dealings or employment with any corporation substantially dependent upon or affected by the mails. I also do not feel that the great concern about enforcement difficulties is necessary. In any restriction such as this, the possibility of unintentional violation exists. However, if it is unintentional, obviously the real conflict problem is largely negated since an employee can't be influenced if he does not know the relationship exists. I recommend no change be made.

- Section 306(b)

PRC: There is no exclusion dealing with the acceptance of advertising and promotional gifts of nominal value, such as calendars and pens. Thus, the receipt of such items generates a great deal of paper work, as provided in 306(e). Recommend inclusion of a provision permitting acceptance of such nominal items without requisite of reporting.

Comment: Agree; suggest that "nominal value" be defined as "value not exceeding $1.00."

- Section 306(b)(2)

PRC: Often more than one Commissioner is invited to be a guest at a conference, and yet only one is a speaker and thus covered by the present exception. Suggest that this exception be expanded to permit participation and acceptance of meals and accommodations by any employee who is a guest at a widely attended conference or convention.

Comment: This would be contrary to the drafters' intentions and normal practice. If it is useful to the Commission that more than one Commissioner be in attendance other than as a speaker, then the PRC should assume this cost. I recommend that the present provision be enacted, with the addition of the changes recently suggested by the Post Office to further clarify the circumstances under which flights, etc., may be accepted.

- Section 306(e)

PRC: Reference to 3000.735-314(1) should be deleted.

Comment: Agree

- Section 307(a)

PRC: This provision is an absolute prohibition against any outside employment or business activity by the Commissioners, with the exception of teaching, lecturing or writing under certain circumstances as set forth in paragraph (d). This is too restrictive, as it prevents Commissioners from continuing involvement in family corporations and certain former professional activity. Recommend that this provision be modified, to permit such activity upon waiver and approval of Civil Service Commission. This is of significant concern to some of the present Commissioners.

<u>Comment:</u> This provision reflects the intention of the drafters that the business and outside activities of certain PRC employees, including the Commissioners should be restricted to certain types of teaching, lecturing and writing, in order to avoid any possibility of conflict or appearance of conflict. Granting a waiver of this provision weakens this posture, and negates the intention that these people have <u>no</u> other business activities. Recommend no change.

- <u>Section 307(b)</u>

<u>PRC:</u> See views set forth in comments to Section 306(a)(1) regarding inclusion of Postal Service.
<u>Comment:</u> I would only note that the restriction applies if the person or business is substantially dependent on its relations with the Postal Service, and I feel that this should be a disqualifying element.

- <u>Section 307(e)(3)</u>

<u>PRC:</u> Should be clarified that an employee is permitted to accept an award arising from his services with the PRC, so long as there is no conflict.
<u>Comment:</u> It is my understanding that the intention was to prohibit an employee from receiving any awards for his services with the PRC, since such organizations are often substantial users of the mails. Therefore, recommend no change.

- <u>Section 501</u>

<u>PRC:</u> This section, as drafted, precludes <u>any ex parte</u> communications regarding a particular matter at issue in contested proceedings. This is unrealistic, as it makes it illegal to call the docket clerk or even for trial attorneys to discuss the case.
<u>Comment:</u> I agree that this section does not totally accomplish the changes intended to be made in the second draft. Perhaps it would be more clearly stated if the provision read: "regarding (1) the <u>substantive merits</u> of a particular matter ...".

No reasonable realistic to believe

get into definition — procedural issues — tel

It should be emphasized that Executive Order 11570 specifically chartered the Civil Service Commission with the task of preparing the initial Standards of Conduct regulations for the PRC, and directed inclusion of special provisions and procedures which would insure the complete independence and impartiality of the PRC and would provide public confidence in its operations and the operations of the new Postal Service. The PRC has the power thereafter to amend these regulations, if need arises or if some of the terms prove to be unworkable. Therefore, although I think it is of considerable value to have the benefit of the PRC's comments, I do not think changes should be made on the basis of the immediate problems of current Commissioners or the possibilities that the regulations are too restrictive, unless the Civil Service Commission is convinced that the new proposals offer flexibility without diminishing the effect of the desired restriction.

cc: Richard Littell

UNITED STATES GOVERNMENT

Memorandum

U.S. CIVIL SERVICE COMMISSION

Subject: Draft #2 of "Standards of Conduct" regulations of the Postal Rate Commission

Date: Jan. 27, 1971

In Reply Refer To:

From: Karl Ruediger
Assistant General Counsel
Karl Ruediger

Your Reference:

To: John W. Dean, III, Counsel to the President.
Thomas E. Kauper, Deputy Assistant Attorney General, Office of Legal Counsel.
Louis A. Cox, Deputy General Counsel Post Office Department.

Attached are two copies of Draft #2 of the regulations of the Postal Rate Commission. The Draft has been prepared in marked-up form so that all concerned will be able to see just what has been deleted and what has been added. Deletions are shown by brackets with lined-out words; additions are shown by hand-printed insertions. Most of the changes made result from the highly beneficial suggestions submitted in the memoranda received from Messrs. Cox and Kauper. With very few exceptions (which are explained hereinafter) all the suggestions in the Post Office memorandum were adopted. All the Justice suggestions were adopted.

The purpose of submitting this Draft #2 is to ascertain whether any of the reviewers have any further comments. It is hoped that no further meeting on these regulations will be necessary but if any reviewer feels that one should be held, or if there are additional comments, please let me know no later than Thursday, February 4, 1971, as the regulations must be issued and published in the Federal Register by February 22, 1971, in order to comply with the 120-day issuance provision in section 103 of Executive Order No. 11570. Comments or a request for a meeting may be telephoned to me on 63-25421 (Government Code 101, Ext. 25421).

The suggestions made by the Post Office that were <u>not</u> adopted are discussed below:

- § 3000.735-302(e): The word "blood" in "blood relatives" has not been deleted because it was determined when the original Civil Service regulations were written that a mere reference to "relatives" would create difficult family problems making enforcement hard. The term "blood relatives" has worked well in all other agency regulations and with today's emphasis on the right of privacy we see no reason to extend this for the Postal Rate Commission (PRC) only.

- § 3000.735-305(b): The references to "profit-sharing" and "stock bonus" plans have not been deleted. These terms came from the statute (18 U.S.C. 209(b)) and as noted in Mr. Kauper's memorandum there is ample protection for the PRC in 18 U.S.C. 208(a) so that there is no need to have such an overly-restrictive condition of employment for this one agency.

- § 3000.735-306(b)(2): The so-called "inaugural flight provision" has not been deleted. In agencies that have such a provision it has proved to be an open and honest means of dealing with a delicate problem. The absence of such a provision causes considerable difficulty.

- § 3000.735-307(d): The prohibition in the last sentence has not been extended to all employees as it is in alignment with the Civil Service regulations (5 CFR 735-203(c)). We see no reasonable justification for treating regular employees of the PRC differently than other executive branch employees in the lecturing-teaching area. There is ample protection for the PRC in § 3000.735-307(f) which requires that an employee must have the prior written approval of the agency ethics Counselor before he may teach, lecture, etc.

- § 3000.735-307(e)(1): This provision would not allow a PRC employee to accept travel reimbursement from a large mail order house or publisher's association. To do so would violate not only this paragraph (it would compromise or appear to compromise the integrity of the employee and the PRC)but also amended § 3000.735-306(a). For these reasons no change in this provision is considered warranted.

- § 3000.735-307(e)(3): We have amended this provision to take care of the "award problem", but we feel it would be an unreasonable invasion of personal privacy to attempt to bar PRC employees from all participation in charitable, religious, and civic organization activities.

- § 3000.735-314: We have adopted most of the suggestions relative to this section by reason of the applicability of 5 U.S.C. chapter 73 to the PRC (appropriate citations have been moved to § 3000.735-313 and the text material deleted from § 3000.735-314--also we have recognized the enactment of P.L. 91-656 which (in § 8) made 5 U.S.C. 3110 applicable to the PRC). We have left renumbered paragraphs (a), (b), and (c) "as is" because we feel strongly that these statutory provisions concerning the improper use of Government vehicles and the Communist and subversive membership bars should apply to the PRC. We believe that 39 U.S.C. 410(a) clearly authorizes making these laws applicable to the PRC by having them "remain in force as rules and regulations" of the PRC.

- § 3000.735-402(f): See previous comment on § 3000.735-307(e)(3) re religious etc. organizations and participation therein.

If a reviewer has no additional comments please advise me of that by Thursday, February 4, 1971.