

## Appendix B

### Priced Services

The Monetary Control Act of 1980 requires the Federal Reserve to charge depository institutions for certain services that the Federal Reserve had previously provided without explicit charge and only to member banks. As the act requires, the fees charged for providing these priced services are fees set to recover, over the long run, all direct and indirect costs of providing the services plus imputed costs, including the interest on items credited before actual collection (float), and the private-sector adjustment factor (PSAF). The intent of the PSAF calculation is to impute the costs that would have been incurred, such as taxes that would have been paid; and the profits that would have been earned, such as the return on capital, had the Federal Reserve Banks' priced services been provided by a private firm. Table B.1 provides details on projected revenue from priced services.

#### Annual Pricing Process

To meet the requirement for the full recovery of costs, the Federal Reserve has

developed an annual pricing process involving projections of Reserve Bank expenses, volumes, and revenues, as well as the PSAF and net income on clearing balances, for each major service category.

Fees for Federal Reserve services must be approved by the product director for the respective service, by the Financial Services Policy Committee, and ultimately by the Board of Governors.<sup>1</sup>

The cost of float is estimated by applying the current federal funds rate to the level of float expected to be generated in the coming year. Estimates of income taxes and the return on capital are based on tax and financing rates derived using a model of the fifty largest U.S. bank holding companies. These rates are applied to the assets the Federal Reserve expects to use in providing priced services in the coming year.<sup>2</sup> The other components of the PSAF are derived from the budgets of the Reserve Banks and the Board: the imputed sales tax (based on budgeted outlays for materials, supplies, and capital assets); the imputed assessment for insurance by the Federal Deposit

Table B.1

#### Revenue from Priced Services, 2001–2003

Millions of dollars

Service	2001	2002 (estimated)	2003 (budgeted)
Funds transfers and net settlement .....	63.8	56.0	51.9
Automated clearinghouse ...	79.4	70.8	69.9
Commercial checks .....	793.2	757.9	781.0
Book-entry securities transfers .....	19.7	22.0	20.6
Noncash collection .....	2.0	1.6	1.9
Special cash services .....	2.3	1.4	0.4
<b>Total .....</b>	<b>960.4</b>	<b>909.6</b>	<b>925.8</b>

1. The product directors are the first vice presidents at selected Reserve Banks with responsibility for day-to-day policy guidance over specific services. The Financial Services Policy Committee (FSPC) is responsible for the overall direction of financial services and related support functions for the Federal Reserve Banks.

2. Beginning in 2002, a portion of depository institution clearing balances held with the Federal Reserve for processing transactions will be used as a funding source for priced-service assets. Equity will be imputed at 5 percent of total assets to meet the FDIC definition of a well-capitalized institution in its classification for assessing insurance premiums. The equity financing rate, or pretax return on equity, will be based on the average of the return-on-equity results of three economic models using data from the bank holding company model.

Insurance Corporation (FDIC) (based on expected clearing balances and amounts deferred to depository institutions for items deposited for collection with the Reserve Banks); and the portion of the expenses of the Board of Governors directly related to providing priced services. ■

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#### Annual Pricing Process

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Revenue from Priced Services, 2002–2004  
Millions of dollars

Service	2002	2003 (estimated)	2004 (budgeted)
Funds transfers and net settlement .....	58.8	51.3	59.7
Automated clearinghouse ...	71.8	68.6	74.8
Commercial checks .....	760.9	743.9	770.7
Book-entry securities transfers .....	23.8	21.8	22.3
Noncash collection .....	1.7	2.3	1.8
Special cash services .....	1.4	0.1	0.0
<b>Total .....</b>	<b>918.3</b>	<b>888.0</b>	<b>929.2</b>

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The cost of float is estimated by applying the current federal funds rate to the level of float expected to be generated in the coming year. Estimates of income taxes and the return on capital are based on tax and financing rates derived using a model of the fifty largest U.S. bank holding companies. These rates are applied to the assets the Federal Reserve expects to use in providing priced services in the coming year.<sup>2</sup> The other components of the PSAF are derived from the budgets of the Reserve Banks and the Board: the imputed sales tax (based on budgeted outlays for materials, supplies, and capital); the imputed assessment for insurance by the Federal Deposit Insurance Corporation (FDIC) (based on

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expected clearing balances and amounts deferred to depository institutions for items deposited for collection with the Reserve Banks); and the portion of the expenses of the Board of Governors directly related to providing priced services. ■