FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 81-54
March 13, 1981

PROCEDURES REGARDING CLEARING BALANCES, CHARGES FOR SYSTEM SERVICES, AND PRICING

TO THE CHIEF EXECUTIVE OFFICER OF
ALL FINANCIAL INSTITUTIONS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

Printed on the following pages is the text of a press release and attachment issued on February 27, 1981, from the Board of Governors of the Federal Reserve System announcing the adoption of three sets of procedures designed to implement the service pricing requirements of the Monetary Control Act of 1980. The procedures cover clearing balances, charges for System services, and pricing.

Questions regarding pricing and access to Federal Reserve services should be directed to E. W. Vorlop, Jr., Vice President and Controller, Ext. 6223 or Larry J. Reck, Vice President, Ext. 6337 at the Dallas Office; Robert W. Schultz, Assistant Vice President, (915) 544-4730 at the El Paso Office; Sammie Clay, Assistant Vice President, (713) 659-4433 at the Houston Office; or Thomas H. Robertson, Assistant Vice President, (512) 224-2141 at the San Antonio Office.

Sincerely yours,

William H. Wallace

First Vice President

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

FEDERAL RESERVE press release

For immediate release February 27, 1981

The Federal Reserve Board today announced its adoption of three sets of procedures designed to implement the service pricing requirements of the Monetary Control Act of 1980. The procedures supplement the pricing principles announced by the Board on December 31, 1980, and include: 1) procedures for the administration of clearing balances; 2) guidelines for billing cycles, service charge statements and payments for service charges; and 3) interim procedures for initiation and review of changes in fees and services.

A document containing these procedures, as approved by the Board, is attached.

FEDERAL RESERVE SYSTEM

PROCEDURES FOR ADMINISTRATION OF CLEARING BALANCES, SERVICE CHARGES, AND INTERIM PRICE AND SERVICE CHANGES*

FEBRUARY 27, 1981

CONTENTS

* These procedures supplement the pricing principles announced by the Board of Governors on December 31, 1980. The procedures will be modified, or additional procedures will be established, as the need arises.

I. CLEARING BALANCES: ESTABLISHMENT, EARNINGS CREDITS, MAINTENANCE, AND FEES FOR DEFICIENCIES

The Board of Governors has authorized Federal Reserve Banks to establish clearing balances for eligible institutions with zero or small required reserve balances, in order to facilitate access to Federal Reserve services. 1/ Clearing balances help to avoid account overdrafts and their associated costs, and will earn credits which may be used to offset charges for Federal Reserve services. Institutions that may establish a clearing balance include domestic depository institutions, United States branches and agencies of foreign banks, Edge Act corporations and Federal Home Loan Banks.

A. Establishing and Adjusting the Clearing Balance Level

In establishing the initial clearing balance a Reserve Bank will discuss with an institution its expected use of services. These discussions will focus on both the volume of services and the type of services the institution intends to use and the need to avoid account overdrafts. For example, use of the wire transfer service results in an irrevocable transaction which may require a greater clearing balance than another higher volume service involving revocable transactions.

Adjustments in the amount of an institution's clearing balance may result from changes in its overdraft experience or in its use of services. Satisfactory maintenance of the clearing balance with no overdrafts may, with Reserve Bank approval, enable an institution to reduce its clearing balance. Conversely, a pattern of repeated large overdrafts may be reason for a Reserve Bank to require an increase in an institution's clearing balance. Similarly, a decrease in the use of Federal Reserve services may be reason to consider decreasing an institution's clearing balances, whereas an increase in the use of services may be reason to consider increasing the clearing balance requirement. Adjustments in the clearing balance level will be discussed in advance with the financial institution. Such adjustments will be made no more than once a month and will be effective with the maintenance period beginning the first Thursday of each month.

For monetary control purposes it is important that an institution's clearing balance be maintained at its agreed upon (required) level. The Federal Reserve has developed procedures, including financial incentives, which are designed to encourage maintenance of a clearing balance at the required level. These procedures include earnings credits, account maintenance procedures and fees for deficiencies.

1/ An institution may elect to settle the credits and debits arising from its use of Federal Reserve services in one of the following ways: (a) through its own account at a Reserve Bank which may consist of a reserve balance and/or a clearing balance; (b) by means of prior arrangements, through an account maintained by a correspondent at a Reserve Bank; and (c) if it maintains reserves with a pass-through correspondent and has made prior arrangements, through the pass-through reserve account maintained at a Reserve Bank.

B. Earnings Credits

Earnings credits on clearing balances may only be used to offset charges for Federal Reserve services. The average federal funds rate for the weekly maintenance period will be the basis for calculating earnings credits. This rate is published weekly in Federal Reserve statistical release H.15(519), "Selected Interest Rates."

Credits will be computed on the lesser of the required clearing balance or the actual clearing balance maintained (after adjustments and carry-forwards). The calculation of earnings credits will be lagged two weeks beyond the close of the weekly maintenance period so as to minimize the number of times when earnings credits must be recalculated because of "as-of" adjustments to the base.1/ If an as-of adjustment affects the level of the clearing balance held during a period more than two weeks prior to the date that the adjustment is made, the Reserve Bank will analyze the effect on earnings credits calculated for that period. Any correction will be made to earnings credits available in the current or a future billing cycle.

If available earnings credits exceed the Federal Reserve charges incurred during a given month, unused credits will be accumulated for use in subsequent months. Credits will be retained for a maximum of 52 weeks, and will be applied against service charges using the first-in, first-out method. Earnings credits are not transferable among accounts.

C. Account Maintenance Procedures

Account maintenance procedures generally will be the same whether balances in the account are clearing or reserve balances, or both, in order to aid in account administration for both financial institutions and the Reserve Banks. Similarities between administration of reserve and clearing accounts include:

- weekly maintenance period (from Thursday through Wednesday)
- carry-forward provisions (for any excess or deficiency which does not exceed 2 percent of the required account balance)
- provisions for "as-of" adjustments

1/ The term "as-of" and other similar technical terms used in this document are best explained by direct contact with the Federal Reserve office that serves the area in which an institution is located.

- provisions for monitoring daylight overdrafts

- charges for overnight overdrafts (overdrafts are penalized currently by charging a fee of 10 percent per annum)

- provisions for waiving charges for infrequent and small overdrafts

If an institution meets its reserve requirements with either vault cash or with a pass-through relationship with a correspondent, it may establish its own account at a Reserve Bank through which it settles the debits and credits arising from its use of Federal Reserve services. Such an account would contain a clearing balance only, and would be administered independently of the institution's required reserves. The account maintenance procedures listed above will apply to the account maintained for clearing purposes, and the carry-forward provision will be 2 percent of the required clearing balance.

If a depository institution has a reserve account with a Federal Reserve office and a required clearing balance is established for the institution, both the reserve balance and the clearing balance will be administered in a single account. The depository institution will be expected to maintain a daily average balance for the week equal to the sum of its required reserve balance and its required clearing balance. At the end of each weekly maintenance period, the balance held with a Reserve office (after application of any as-of adjustment and/or carry-forward) will be allocated first to the required clearing balance and second to the required reserve balance. Thus, if the average balance held with a Reserve office during the weekly maintenance period is less than the total required balance--clearing plus required reserve--the depository institution will be considered deficient in its required reserve balance. A clearing balance deficiency will occur only when the deficiency in the average total balance exceeds the required reserve balance. If the average balance exceeds the required total balance, the institution will be considered to be holding an excess reserve balance. The carry forward provision for excesses or deficiencies will be 2 percent of the total required balance (clearing plus reserve). Neither excess nor required reserve balances will generate earnings credits.

Of course, a depository institution that maintains its required reserves on a pass-through basis or in vault cash may obtain available Federal Reserve services directly from its Federal Reserve office without establishing a clearing balance account. (See footnote 1, Section I, page 1 and Section II. D., page 6).

D. Fees for Deficiencies

The notable exception between the administration of reserve and clearing balances is that a deficiency in a required clearing balance is charged for at a different rate than a deficiency in a required reserve balance. A charge of 2 percent per annum will apply to that portion of any clearing balance deficiency (after application of carryover) which does not exceed 20 percent of the required clearing balance. Any remaining deficiency (above the amount equal to 20 percent of the required clearing balance) will be subject to a charge at 4 percent per annum.

As in reserve administration, Reserve Banks may waive the charge for infrequent clearing balance deficiencies when the charge is small and the deficiency is not the result of negligence by the depository institution. Reserve Banks will monitor the incidence of deficiencies and will meet with a depository institution which demonstrates a repeated inability to maintain the required level to discuss how to manage better its total (reserve plus clearing) balance.

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II. SERVICE CHARGES: BILLING CYCLES, STATEMENTS, AND METHODS OF PAYMENT FOR FEDERAL RESERVE SERVICES

The Federal Reserve System has developed guidelines for statements of charges incurred for Federal Reserve services and for methods of payment for those charges by the responsible Reserve Bank customer. The guidelines include: uniform billing cycles (the periods over which service charges are incurred), uniform procedures for applying available earnings credits to offset service charges, a standard interval between the end of the billing cycle and the debiting of charges (not offset by earnings credits) to a designated account and minimum standards for descriptive information to be provided to customers about the services used and charges incurred.

These guidelines will be implemented with the start of the pricing of, and full access to, Federal Reserve check services, now scheduled for August, 1981. Prior to that time, each Reserve Bank will use its own procedures on an interim basis.

The guidelines will provide procedural consistency among Reserve Bank districts. However, the Reserve Banks will retain flexibility in the format of service charge statements and in the frequency of service charge notices to their customers.

Before implementation, the Reserve Banks will provide Federal Reserve customers with at least two summary statements of services used and charges incurred to test these procedures.

A. Uniform Billing Cycles

There will be twelve billing cycles per year over which charges for Federal Reserve services will be accrued. Each billing cycle will end on the last Wednesday of the calendar month, and will cover either a four- or five-week period.

B. Minimum Standards for Statements of Service Charges

At minimum, a monthly summary statement of service charges incurred over the cycle will be provided directly or indirectly to Federal Reserve customers. The statement will be provided by the Reserve Bank no later than the Wednesday following the close of the billing cycle (i.e., no later than the first Wednesday of the subsequent month).

It is the intent of the Federal Reserve System to reflect on the statement the Federal Reserve services used during the billing cycle by type of transaction, with associated unit volume, unit price for the service and total charges for the service. However, some Reserve Banks may not be immediately in a position to provide this minumum detail on the monthly statement but will be able, during the interim, to provide adequate detail in some alternative form.

Each Reserve Bank will provide its customers with a list of persons who can respond to questions about each type of service charge.

C. Application of Earnings Credits

Earnings credits available at the end of the billing cycle will be used immediately to offset service charges accrued. (See Section I.B., page 2.) As of the end of the billing cycle in each calendar month, earnings credits available are defined as earnings credits imputed to clearing balances maintained through the reserve/clearing statement period ending two weeks prior to the end of the billing cycle. If available earnings credits exceed service charges, excess earnings credits may be carried forward for up to 52 weeks and applied to service charges incurred in subsequent billing cycles. If available earnings credits are insufficient to cover service charges, the remaining service charges will be debited to a previously designated account at a Federal Reserve Bank.

D. Debit of Service Charges to the Responsible Account

On the third Thursday following the close of each billing cycle (or on the next business day if that Thursday is a holiday), the account of the user of Federal Reserve services or the designated account of the user's correspondent will be charged for the amount by which service charges exceed available earnings credits.

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1981 FEDERAL RESERVE BILLING CYCLES

The following calendar depicts the guidelines for charges for Federal Reserve services. The noted dates are identified as follows:

-- indicates the last day of the service charge cycle; always falls on the last Wednesday of a month.

-- indicates the day by which the monthly statement of service charges for the previous service charge cycle should be provided by the Reserve Bank; is no later than the first Wednesday of the subsequent month.

-- indicates the day on which the designated account is debited for service charges in excess of available earnings credits incurred in the previous month.

1981

July (TEST PERIOD)

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

August

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23/30	24/31	25	26	27	28	29

September

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

October

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

November

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

December

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

III. INTERIM PROCEDURES FOR PRICING ADMINISTRATION

The pricing of financial services supplied by the Federal Reserve System to financial institutions will have a significant impact on both the Federal Reserve and the financial community. The System has a responsibility to adopt administrative procedures for pricing that will meet the needs of Reserve Banks in adjusting to a new environment and the needs of the financial community for advance information about changes.

In its December 31, 1980 announcement of pricing decisions, the Board of Governors outlined a procedure for pricing administration that contemplated eventually placing primary responsibility for initiation of price and service changes with the Reserve Banks, and review of certain proposed changes by the Conference of First Vice Presidents. During the initial phase of pricing, however, the Board anticipated that major policy issues would arise, and that the resolution of those issues could affect both Federal Reserve Banks and private suppliers of interbank services. To advise the Board on those major issues, a Pricing Policy Committee consisting of representatives from the Board and the Reserve Banks has been established.

The procedures outlined below are intended to retain flexibility for the Reserve Banks to undertake price and service changes in response to local conditions and, simultaneously, to develop a common Systemwide framework for pricing decisions. These interim procedures will be reviewed in 1982 after the System has gained experience with pricing administration.

A. The Role of the Board of Governors

The Monetary Control Act specifies that the Board must put into effect a set of pricing principles and a schedule of fees for Federal Reserve bank services to depository institutions. The Board's responsibilities for pricing administration are as follows:

1) to establish the initial fee structure for each service;

2) to approve proposed changes in the fee structure for each service;

3) to issue guidelines for the use of pricing techniques, such as peak-load pricing, designed to encourage efficient use of resources;

4) to determine annually the appropriateness of continuing to price ACH at its expected long-run average cost;

5) to approve proposed changes in services which raise major policy issues;

6) to provide oversight of the Reserve Bank implementation of access to, and pricing of, services in accordance with the Board's pricing principles. (The pricing principles are contained in the Federal Reserve press release of December 31, 1980.)

B. The Role of the Pricing Policy Committee

The Pricing Policy Committee, as the principal pricing policy advisory group to the Board of Governors, has three major responsibilities:

1) to advise the Board on all significant pricing issues, including operating procedures (such as billing and clearing balances), fee structures and service structures;

2) to monitor changes in fees and services, initiated either by a Reserve Bank or through the Conference of First Vice Presidents, to ensure that the pricing principles previously announced by the Board are interpreted consistently; and to submit to the Board of Governors for its approval any change that raises a major policy issue;

3) to assist the Board of Governors in its implementation of pricing and in the oversight of progress toward meeting the System goal of matching revenues and costs for priced services.

To fulfill these responsibilities, the Pricing Policy Committee will undertake the following specific assignments:

- Review, prior to announcement, the proposed 1982 fee schedules for all priced services;
- Review, prior to announcement, proposed significant changes in prices or services;
- Establish Reserve Bank reporting procedures necessary to provide data needed to advise the Board of Governors on pricing issues and progress in matching revenues and costs.