

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 82-13
February 1, 1982

PROPOSED REVISIONS TO THE SERVICE CHARGE SCHEDULE FOR WIRE TRANSFERS OF FUNDS AND NET SETTLEMENT SERVICES

TO ALL DEPOSITORY INSTITUTIONS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

Enclosed are copies of the text of a press release and Federal Register document issued recently by the Board of Governors of the Federal Reserve System announcing proposed revisions of the service charge to depository institutions for wire transfers of funds and net settlement services. This action by the Board of Governors is in compliance with the Monetary Control Act of 1980 requiring that the Federal Reserve charge explicitly for its services and that prices recover the System's full cost plus a mark-up reflecting the Private Sector Adjustment Factor (PSAF).

The Board proposed two principle changes in the structure of its charges for the wire transfer service for 1982:

- Receivers would be charged a fee. (This parallels the pricing procedures with private sector competitors.)
- A surcharge for inter-District transfers would be imposed.

The proposed new fee structure is delineated in both the press release and the Federal Register document. Final action on revised pricing for these services is not expected before the end of the first quarter of 1982.

Interested parties are invited to submit relevant data, views and other comments by February 10, 1982. Comments should be addressed to: William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, and should refer to Docket No. R-0382.

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.

Questions regarding these proposed changes should be directed to Thomas H. Rust at the Head Office, Ext. 6333; William L. Wilson, El Paso Branch, (915) 544-4730; Sammie C. Clay, Houston Branch, (713) 659-4433; or Tony G. Valencia, San Antonio Branch, (512) 224-2141.

Additional copies of this circular will be furnished upon request to the Department of Communications, Financial and Community Affairs, Ext. 6289.

Sincerely yours,

A handwritten signature in cursive script that reads "William H. Wallace". The signature is written in dark ink and is centered on the page.

William H. Wallace
First Vice President

Enclosure

FEDERAL RESERVE press release



For immediate release 1/

January 8, 1982

The Federal Reserve Board today proposed revisions of its charges to depository institutions for wire transfer and net settlement services.

The Board asked for comment by February 10, 1982.

The Board acted in compliance with the Monetary Control Act of 1980 requiring that the Federal Reserve charge explicitly for its services and that prices recover the System's full costs, plus an adjustment for costs that would have been incurred had the services been provided by a private business firm.2/

The wire transfer schedule proposed by the Board for 1982 is designed to recover \$56.1 million, or 33 percent more than pricing was designed to recover in 1981. Fees for net settlement services would also be substantially increased for 1982. These include a 16-percent private sector adjustment factor for 1982, for which the Board took final action.

The pricing principles underlying the Board's fees are unchanged from those announced last December 31, when the Board first announced its pricing structure and charges. The pricing principles are attached.

The Board proposed two principal changes in the structure of its charges for the wire transfer service for 1982:

--Receivers would be charged a fee. This parallels the pricing procedures of private sector competitors.

--A surcharge for inter-District transfers would be imposed.

1/ Revised

2/ The Private Sector Adjustment Factor (PSAF) -- A mark-up reflecting the taxes that would have been paid and the return on capital that would have been provided had the services been furnished by a private business firm.

The proposed new fee structure and prices for wire transfer are:

- Each originator of a wire transfer will pay 65 cents per transfer (80 cents in 1981).
- Originators will pay a 15-cent surcharge for inter-District transfers of funds by wire (transfers across Federal Reserve District lines). This is a new element of the fee structure.
- Each receiver of a wire transfer will pay a fee of 65 cents per transfer. This also is a new element of the wire transfer fee structure.
- Surcharges, per transfer, for off-line origination of wire transfers (by institutions not connected to the Federal Reserve's wire network directly) will be \$3.50 and the fee for telephone advices, when requested, (telephoned notice of receipt of a wire transfer) will be \$2.25. These prices compare to \$2.70 and \$1.80 respectively in 1981.

The proposed net settlement fee structure is:

- \$1.30 per settlement for an intra-District transfer, or \$1.45 per inter-District settlement (previously 80 cents), plus
- \$5.00 (previously \$2.70) per settlement for off-line originations, plus
- \$2.25 per telephone advice (if requested) (\$1.80 in 1981).

District Federal Reserve Banks may negotiate higher fees for net settlement arrangements, legal agreements or other services where warranted.

Separately, the Board has approved a revised schedule for annual revision of the pricing of its services, according to which revisions will be made generally coinciding with the anniversary of the start of pricing for a service. Price changes may be made, however, at other times as a result of circumstances. In the case of wire transfer and net settlement fees, final action on revised pricing is not expected before the end of the first quarter of the year, since proposed revisions are being published for comment at this time. Initial pricing of these services began at the end of January 1981.

The text of the Board's proposed revision of its fees for wire services and net settlement may be obtained from the Board or from the Federal Reserve Banks or Branches.

Attachment

Principles and Determinants of Pricing
for Federal Reserve Services

The Board has adopted the following principles as the basis for Federal Reserve fees:

1. All Federal Reserve Bank services covered by the fee schedule shall be priced explicitly.
2. All Federal Reserve Bank services covered by the fee schedule shall be available to nonmember depository institutions and such services shall be priced at the same fee schedule applicable to member banks, except that nonmembers shall be subject to any other terms, including a requirement of balances sufficient for clearing purposes, that the Board may determine are applicable to member banks.
3. Over the long run, fees shall be established on the basis of all direct and indirect costs actually incurred in providing the Federal Reserve services priced, including interest on items credited prior to actual collection, overhead, and an allocation of imputed costs which takes into account the taxes that would have been paid and the return on capital that would have been provided had the services been furnished by a private business firm,^{1/} except that the pricing principles shall give due regard to competitive factors and the provision of an adequate level of such services nationwide.
4. Interest on items credited prior to collection shall be charged at the current rate applicable in the market for Federal funds.

In addition, the Board has adopted the following pricing principles, in view of the recognition in the Monetary Control Act and its legislative history of the importance of encouraging competition and providing for an adequate level of services nationwide.

5. The Board intends that fees be set so that revenues for major service categories match costs (inclusive of a private sector mark-up). During the initial start-up period, however, new operational requirements and variations in volume may temporarily change unit costs for some service categories. It is the System's intention to match revenues and costs as soon as possible and the Board will

^{1/}Private Sector Adjustment Factor (PSAF)

monitor the System's progress in meeting this goal by reviewing regular reports submitted by the Reserve Banks. If, in the interest of providing an adequate level of services nationwide, the Board determines to authorize a fee schedule for a service below cost, it will announce its decision.

6. Service arrangements and related fee schedules shall be responsive to the changing needs for services in particular markets. Advance notice will be given for changes in fees and significant changes in service arrangements to permit orderly adjustments by users and providers of similar services.
7. The structure of fees and service arrangements may be designed both to improve the efficient utilization of Federal Reserve services and to reflect desirable longer-run improvements in the nation's payments system. Public comment will be requested when changes in fees and service arrangements are proposed that would have significant longer-run effects on the nation's payments system.

The Board has adopted the following price determinants:

- A Private Sector Adjustment Factor as a mark-up to the Federal Reserve's cost of providing services. This factor --16 percent for 1982-- will be reviewed annually and changed as appropriate.
- Prices will be based on full long-run costs, reviewed at least annually in the light of estimated costs for the ensuing year, using the Federal Reserve's Planning and Control System (PACS) to determine full costs.
- Fees will be national for services that are uniform across the Federal Reserve System. These are generally capital intensive items, and include wire transfer, automated clearing house services, net settlement and on-line securities transfer services.
- Where there are significant differences in costs among Federal Reserve Districts (or offices), differing District or office schedules will be used. Such prices include coin wrapping, and securities and noncash collection at the District level and currency and coin shipping at the office level.

The Reserve Banks have the option of setting fees for check services on either a District or office basis.

FEDERAL RESERVE SYSTEM

(Docket No. R-0382)

FEE SCHEDULES FOR FEDERAL RESERVE BANK SERVICES

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed 1982 Fee Schedules for Wire Transfer and Net Settlement Services.

SUMMARY: The Monetary Control Act of 1980 (Title I of Public Law 96-221) requires that schedules of fees be established for Federal Reserve Bank services. The Board adopted a fee schedule for 1981 for wire transfer and net settlement services effective January 29, 1981. The Board now seeks comment on a new fee structure and new prices for these services to be implemented in 1982.

DATE: Interested parties are invited to submit relevant data, views and other comments by February 10, 1982. Comments should be addressed to: William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N. W., Washington, D. C., 20551 and should refer to Docket No. R-0382. Comments received may be inspected in Room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in section 261.6(a) of the Board's Rules Regarding Availability of Information (12 C.F.R. § 261.6(a)).

FOR FURTHER INFORMATION CONTACT: Lorin S. Meeder, Associate Director for Federal Reserve Bank Operations (202/452-2738); Earl G. Hamilton, Assistant Director for Federal Reserve Bank Operations (202/452-3879); Elliott C. McEntee, Assistant Director for Federal Reserve Bank Operations (202/452-2231); Paul P. Burik, Economist (202/452-2687); Gilbert T. Schwartz, Associate General Counsel (202/452-3625); Daniel L. Rhoads, Attorney (202/452-3711).

SUPPLEMENTARY INFORMATION: The Monetary Control Act of 1980 requires that fee schedules be developed for Federal Reserve Bank services based on pricing principles established by the Board. The Board, in accordance with the requirements of the Act, published for comment proposed pricing principles and fee schedules for services on August 28, 1980 (45 FR 58689). On December 30, 1980, after considering the comments received from the public, the Board adopted revised pricing principles and fee schedules for wire transfer and net settlement services (46 FR 1338). The wire transfer and net settlement fee schedules were effective January 29, 1981. The 1981 fee schedule for the wire transfer service provided for a basic origination charge of \$0.80 per origination plus a \$2.70 surcharge for off-line origination and a \$1.80 surcharge for telephone advice, when requested. A basic charge of \$1.80 for telephone advice

to off-line receivers became effective March 26, 1981. The net settlement fee schedule paralleled the fee schedule for wire transfers with a basic settlement charge of \$0.80 per settlement and a surcharge of \$2.70 when the settlement is originated off-line. A surcharge of \$1.80 was established where telephone advice was requested.

The Act requires that "[o]ver the long run fees shall be established on the basis of all direct and indirect costs actually incurred in providing the Federal Reserve services priced . . . except that the pricing principles shall give due regard to competitive factors and the provision of an adequate level of such services nationwide." The Act also requires that fees for Federal Reserve services take into account "the taxes that would have been paid and the return on capital that would have been provided had the services been furnished by a private business firm." This markup is referred to as the private sector adjustment factor (PSAF). In establishing 1981 prices for Federal Reserve Bank services, the Board used a private sector adjustment factor of 16 percent based on methodology explained in the Board's announcement of December 31, 1980. At that time, the Board stated that it would review the PSAF annually and would adjust it as appropriate. Using a methodology substantially similar to that used to derive the 1981 PSAF, the Board has adopted a private sector adjustment factor of 16 percent to be used in developing 1982 fee schedules for priced Federal Reserve Bank services. This PSAF of 16 percent was used to develop the proposed 1982 fee structure for wire transfer and net settlement services.

The proposed fees for the wire transfer service reflect estimated 1982 costs of providing the service plus a 16 percent PSAF. In general, 1982 wire transfer fees will increase from 1981 fees. Additionally, the proposed fee schedule reflects structural changes from the 1981 fee schedule. The Board proposes to charge both the sender and the receiver for each wire transfer of funds. The Board believes that imposition of a charge on receivers is appropriate since receivers benefit from the Federal Reserve's wire transfer service in the form of immediate availability and irrevocability of funds transferred by wire. Additionally, many receivers request that senders use the Federal Reserve wire to transfer funds. The proposed charge for receivers is based on an even sharing between receivers and senders of the Reserve Banks' costs plus PSAF for basic wire transactions.

The Board also proposes to impose a surcharge for interdistrict wire transfers. Interdistrict wire transfers are generally more costly than intradistrict transfers and imposing the surcharge would permit the System to recover the additional costs (labor, lines, computer, accounting and adjustment costs) generally incurred by such transfers. This price differential would also be more equitable to local users.

The proposed fee structure for the wire transfer service for 1982 is as follows:

- (1) Originator pays \$0.65 per transfer.
- (2) Receiver pays \$0.65 per transfer.
- (3) Originator pays a \$0.15 surcharge per interdistrict transfer.
- (4) Surcharges for off-line origination and telephone advice will be increased to \$3.50 and \$2.25, respectively.

The 1981 fee schedule for the net settlement service paralleled the 1981 fee schedule for the wire transfer service. The Board proposes to separate the fee schedules for these two services in recognition of the different costs involved and the fact that these services create different rights and responsibilities for the System and its customers. Therefore, the Board proposes the following 1982 fee schedule for the net settlement service:

- (1) \$1.30 per intradistrict settlement entry or
\$1.45 per interdistrict entry, plus
- (2) \$5.00 per off-line settlement, plus
- (3) \$2.25 per telephone advice (if requested).

The fee for on-line settlement will be determined by whether the entry is intradistrict or interdistrict with the fee being \$1.30 or \$1.45, respectively. This fee structure is based on estimated 1982 costs of providing the service plus a 16 percent PSAF. The Board also proposes to permit Reserve Banks to negotiate higher fees for those net settlement arrangements that create unique or unusual expenses, subject to review.

By order of the Board of Governors of the Federal Reserve System, January 7, 1982.

(Signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]