

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 82-40
April 7, 1982

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

TO ALL DEPOSITORY INSTITUTIONS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

Enclosed is the text of a press release and Federal Register document issued recently announcing revisions of the service charge to depository institutions for wire transfers of funds and net settlement services effective April 29, 1982. The new fee structure is explained in both the press release and the Federal Register document.

Questions regarding the changes in the fee structure should be directed to Thomas H. Rust of this Bank, 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 and enclosure will be furnished upon request to the Department of Communications, Financial and Community Affairs, Ext. 6289.

Sincerely yours,



William H. Wallace
First Vice President

Enclosure

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

March 25, 1982

The Federal Reserve Board today announced revision, effective April 29, 1982, of its charges to depository institutions for wire transfer of funds and net settlement services.

The Board acted after reviewing comment on proposals published in January. The Board is pricing its services to banks and other depositories in compliance with the Monetary Control Act of 1980. The Act requires that the Federal Reserve charge explicitly for its services and that the charges recover the System's costs of providing the priced services plus an adjustment^{1/} for costs that would have been incurred if the services had been provided by a private business firm. The fees are in accordance with pricing principles established by the Board and published in December 1980.

The 1982 fees for wire transfer services are generally above those for 1981, reflecting increased costs. The private sector adjustment factor adopted by the Board in January 1982 for use in determining 1982 prices, is 16 percent. There is, in addition, a structural change, imposing a charge on receivers of wire transfers.

The 1982 wire transfer fee schedule is as follows:

1. The originator of a wire transfer will pay 65 cents per transfer.
2. The receiver of a wire transfer will also pay 65 cents.
3. Surcharges for off-line origination of a wire transfer and for telephone advice of a wire transfer will be \$3.50 and \$2.25 respectively.

^{1/} The Private Sector Adjustment Factor (PSAF) -- An allocation of imputed costs taking into account taxes that would have been paid and the return on capital that would have been provided had the services been rendered in the private sector.

The Board regards division of charges for wire transfers equally among senders and receivers as appropriate since receivers benefit from the wire transfer by immediate availability and irrevocability of funds, receivers may request that senders use wire transfer and because the private sector wire transfer service most comparable to that of the Federal Reserve charges both senders and receivers.

The 1982 fee schedule for net settlement service is as follows:

\$1.30 per settlement entry, plus

\$5.00 per off-line settlement, plus

\$2.25 per telephone advice (if requested).

Reserve banks have the option of charging higher fees for net settlement amounts that result in higher or unusual costs.

The Board's fee schedule is set forth in detail in the accompanying notice. Also attached is a copy of the Board's pricing principles.

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: 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 proposed revisions to the 1981 fee schedule for wire transfer and net settlement services on January 7, 1982. The Board has now adopted a new fee structure and prices for these services.

EFFECTIVE DATE: April 29, 1982.

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); Daniel L. Rhoads, Attorney (202/452-3711); Robert G. Ballen, Attorney (202/452-3265).

SUPPLEMENTARY INFORMATION: The Monetary Control Act of 1980 ("Act") 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 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 entry 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 Board published for comment a new fee structure and new prices for wire transfer and net settlement services to be implemented in 1982 on January 7, 1982 (47 FR 2790). The proposed 1982 fee schedule for the wire transfer service provided for a basic charge of \$0.65 per

transfer on both the originator and the receiver of a wire transfer, a \$0.15 surcharge per interdistrict transfer on the originator, a \$3.50 surcharge for off-line origination, and a \$2.25 surcharge for telephone advice, when requested. The proposed 1982 fee schedule for the net settlement service provided for a basic charge of \$1.30 per intradistrict settlement entry or \$1.45 per interdistrict entry, plus a \$5.00 surcharge per off-line settlement and a \$2.25 surcharge for telephone advice, when 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 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 adopted a private sector adjustment factor on January 7, 1982 of 16 percent to be used in developing 1982 fee schedules for priced Federal Reserve services. This PSAF of 16 percent was used to develop the 1982 fee schedules for wire transfer and net settlement services.

The 1982 fees for the wire transfer services 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 1982 fee schedule for the wire transfer service reflects the following structural change from the 1981 fee schedule.

The Board proposed to charge both the originator and the receiver for each wire transfer of funds. Respondents were generally opposed to the proposal because they believe that the originator, not the receiver, generally makes the decision to use the Federal Reserve's wire transfer service. Furthermore, respondents noted that two private networks charge only the sender, and that it would be costly for users of the Federal Reserve's service to change their internal operations to accommodate this fee structure. After consideration of the comments received, the Board has adopted the proposal to charge both the originator and the receiver for each wire transfer. 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, receivers may have input into the decision to use the Federal Reserve

wire transfer service to transfer funds, such as by requesting that senders use the Federal Reserve's service. Further, correspondent banks may charge both parties involved in the transfer, and CHIPS, the private network that provides wire transfer services that are fairly comparable to the Federal Reserve's wire transfer service, charges both the originator and the receiver of a funds transfer. The Federal Reserve's charge for receivers is based on an even sharing between receivers and originators of the Reserve Banks' costs plus PSAF in providing basic wire transactions.

The Board also proposed a surcharge for interdistrict wire transfers. Respondents generally opposed this proposal because, in their opinion, the surcharge would be arbitrary since it is based upon Federal Reserve District boundaries that are arbitrary. Respondents also stated that the surcharge would be inconsistent with the principal of dividing the basic fee equally between the originator and the receiver because it would be imposed only upon the originator. Furthermore, respondents believed that the surcharge would regionalize the wire transfer service by penalizing institutions for making interdistrict transfers, no other wire service imposes such a fee, customers of banks most likely would not understand the variation in fees between intradistrict and interdistrict transfers, and the surcharge will cause users of the Federal Reserve wire transfer service substantial expense in making the requisite adjustments to their accounting and record keeping systems. Upon consideration of these comments, the Board has decided not to adopt the proposed surcharge for interdistrict transfers.

The fee structure adopted by the Board for the Federal Reserve's wire transfer service for 1982 is as follows:

- (1) Originator pays \$0.65 per transfer.
- (2) Receiver pays \$0.65 per transfer.
- (3) 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 believes it is appropriate to separate the fee schedules for these two services in recognition of the fact that these services create different rights and responsibilities for the System and its customers. The Board proposed 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 Board has determined not to adopt the proposed higher price for interdistrict settlements. The Board believes that the rationale for not adopting a surcharge on interdistrict wire transfers is applicable to interdistrict net settlements. Otherwise, the Board has determined to adopt the fee schedule for the net settlement service as proposed. This 1982 fee schedule is based on estimated 1982 costs of providing the service plus a 16 per cent PSAF. The Board has also determined to allow Reserve Banks to negotiate higher fees for those net settlement arrangements that create unique or unusual expenses, subject to review.

The fee structure adopted by the Board for the Federal Reserve's net settlement service for 1982 is as follows:

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

By order of the Board of Governors of the Federal Reserve System, March 24, 1982.

(Signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]