FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-51
March 28, 1983

FEE SCHEDULE FOR BOOK-ENTRY SECURITIES SERVICE

TO ALL DEPOSITORY INSTITUTIONS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has approved a new fee schedule for its book-entry securities service effective April 28, 1983.

Printed on the following pages is the text of the Board's press release and Federal Register notice, including the new fee schedule and responses received to the Board's request for comment on December 23, 1982.

Questions concerning the fee schedule or services may be directed to Lynn Vick, Extension 6263, at the Head Office; Larry Wilson, (915) 544-4730, at the El Paso Branch; Andrew Hogwood, (713)659-4433, at the Houston Branch; or Tony Valencia, (512) 224-2141, at the San Antonio Branch.

Additional copies of this circular will be furnished upon request to the Public Affairs Department, Extension 6289.

Sincerely yours,

William H. Wallace

William H. Wallace
First Vice President

FEDERAL RESERVE press release

For immediate release March 24, 1983

The Federal Reserve Board today announced revisions to the national fee schedule for its book-entry securities service (computer recording of government securities and related wire transfers), effective April 28, 1983.

The Federal Reserve is pricing its services to banks and other depositories in compliance with the Monetary Control Act of 1980. As required by the Act, the schedule is designed to recover the full costs of providing the service, plus a private sector adjustment factor (PSAF).[1/] The Board adopted its new fee schedule for book-entry securities service following comment received on proposals published in December 1982.

The Board's national fee schedule for book-entry securities service is as follows:

Component		
*On-Line Transfer Originated	Per Transfer	$ 3.00
Off-Line Transfer Originated	Per Transfer	10.00
Off-Line Transfer Received	Per Transfer	10.00
Account Maintenance	Per Account/Per Month	15.00
Issues in Accounts Maintained	Per Issue/Per Month	.50

*For all Federal Reserve Districts except New York. The fee schedule for on-line transfers originated through the Federal Reserve Bank of New York will be based on the time of day the transfers are originated.

The Board's notice is attached.

1/ 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 by other private sector firms.

FEDERAL RESERVE SYSTEM

(Docket No. R-0443)

FEE SCHEDULES FOR FEDERAL RESERVE BANK SERVICES

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: 1983 Fee Schedule for the Book-Entry Securities Service.

SUMMARY: The Board has approved a new fee structure and prices for the Federal Reserve's book-entry securities service.

EFFECTIVE DATE: April 28, 1983.

FOR FURTHER INFORMATION CONTACT: Charles W. Bennett, Assistant Director (202/452-2738) or Gerald D. Manypenny, Manager (202/452-3954), Division of Federal Reserve Bank Operations; or Gilbert T. Schwartz, Associate General Counsel (202/452-3625) or Daniel L. Rhoads, Attorney (202/452-3711), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: In accordance with the provisions of the Monetary Control Act of 1980 (Title I of P.L. 96-221) (MCA), the Board adopted a fee schedule for the Federal Reserve's book-entry securities service on July 17, 1981. 46 F.R. 37972 (July 23, 1981). This fee schedule was designed to fully recover the costs of providing the service, including a private sector adjustment factor (PSAF) of 16 percent.

On December 23, 1982, the Board requested comment on proposed revisions to the book-entry securities service fee schedule to more accurately reflect the costs of the service. 47 F.R. 58363 (December 30, 1982). The proposed schedule generally provided for increases in fees and the addition of a per issue account maintenance fee.

There were 62 responses to the Board's request for comment: 55 commercial banks, six Federal Reserve Banks, and one bank holding company. Eleven of the commenters expressed support for the proposed revisions, while the remaining commenters expressed concern with one or more aspects of the proposal. Concerns with the proposed revisions generally fell into four broad categories: (1) the magnitude of fee increases and the timing of fee changes; (2) whether the proposed fee structure fairly represented the costs of providing the service and the benefits of the service to users; (3) the apportionment of the costs of the Federal Reserve's book-entry system between the Federal Government and the private sector; and (4) the Federal Reserve's incentive to minimize the cost of providing book-entry services.

Approximately 64 percent of the commenters expressed concern in a variety of ways about the magnitude and timing of fee increases. Concern was expressed that the size of fee increases would make it difficult to pass the additional charges back to their customers and that increased fees may reduce Federal Reserve volume, thus necessitating future fee increases. Some commenters were also concerned that the increased fees might make Government securities less attractive and that the timing for implementing fee changes was inconvenient. A number of commenters suggested that the Federal Reserve utilize a portion of its net earnings returned to the Department of the Treasury to offset the costs of the services.

An increase in fees for this service is necessary to provide sufficient revenue to recover costs of providing the service, including PSAF, in accordance with the MCA. The System has incurred a shortfall in 1982 of approximately $6.5 million. This result is due, in large part, to a greater than expected shift from relatively more expensive off-line transfers to less expensive on-line transfers. Additionally, costs allocated to the book-entry securities service increased more than was anticipated. It is believed, however, that most of the transition to on-line facilities has occurred and that the rate of growth in costs for this service has stabilized. Based on these factors and on projections of modest growth in the use of certain components, the price increases represent only the amount necessary to recover fully the costs of this service, including PSAF, through 1983. Although commenters questioned the timing of the increases, the magnitude of the current shortfall makes adoption of the price increases appropriate at this time.

Approximately 62 percent of the commenters raised a variety of issues concerning whether the revised fee schedule accurately represented the costs of providing the book-entry service and the benefits of the service to users. Concern was expressed about the scope of services provided in account maintenance, the equity and application of "time of day" pricing, the cost of reserve requirements, the rationale for off-line pricing, volume pricing, and provisions for pricing issues of securities already in investor accounts.

The revised fee structure differs from the current structure only by the addition of a per issue fee to a basic account maintenance charge. The basic account maintenance charge covers generally the expenses of maintaining a system, such as the lease/amortization and the operation and maintenance of hardware, equipment, software, and communication lines. Most of these costs would be incurred regardless of whether there was any account activity. Consequently, a basic charge is regarded as reasonable. The per issue charge reflects the fact that the costs of maintaining a book-entry account are directly related to the number of issues held in that account; accounts with a large number of issues are more costly to maintain than are accounts with only a few issues. The account maintenance charges therefore reflect the costs of account maintenance and the benefits of the service to users. Further, the System is considering a number of enhancements to the account maintenance component, such as portfolio analysis, respondent bank information, and expanded sub-accounting.

"Time of day" pricing was initiated to ensure that the Federal Reserve Bank of New York would have sufficient system capacity to provide adequate book-entry service at any time of the day. New York currently processes 70 percent of the System's book-entry transfer volume. "Time of day" pricing was adopted to provide incentives to shift some transfers away from afternoon peak periods, thus avoiding difficulties related to operational capacity constraints. At present, no other Federal Reserve Banks have indicated that they are experiencing heavy demands on existing transfers capacity. Any office experiencing excessive demands on system capacity at a particular time could consider intiating "time of day" pricing. In response to the comment that institutions were unfairly penalized when system failures resulted in transfers being delayed into a more expensive time period, it has been determined that if a message can be verified as having been received in an earlier time period, the institution is charged the lower price.

Some commenters suggested that the fee for off-line transfers was disproportionately high to discourage use. The higher fee for these transactions, however, relates directly to their higher costs, and fees do not exceed estimated costs. Concern was also expressed about applying the revised fee schedule to existing accounts. In view of the fact that the high cost and difficulty of segregating new and old issues for accounting and billing purposes would be disproportionate to any benefits depository institutions might receive, "grandfathering" existing accounts would not be practical.

Several commenters suggested that high volume users of the book-entry sytem be provided discounts. The fee structure provides a substantially lower price to those users with sufficient volume to justify being on-line, given the lower cost of providing on-line services. Also, the existence of an account maintenance fee that is the same for all users implies that the total cost per transaction for high-volume users is less than that for low-volume users. Moreover, within the on-line service, the same per-transfer cost is associated with a single transfer regardless of the number sent. Therefore, a "volume discount" would not be appropriate.

It was also suggested that the cost of providing the service be absorbed in part by the Federal Reserve to offset the lost return to depository institutions maintaining required reserve balances. The book-entry fee schedule has been designed to recover the full cost of providing this service, including PSAF, in accordance with established Board policy. Reducing the costs for depository institution maintaining reserves would be inconsistent with the MCA. Further, the Board has previously determined that member banks phasing into the lower MCA reserve requirements had already received significant benefits from the lower reserve requirements of the MCA and the delay in pricing to offset their relative disadvantage.

Approximately 20 percent of the commenters expressed the concern that the private sector was being required to bear the entire cost of the book-entry system although the system benefits the Federal Government in administering the public debt and supporting secondary market operations. The Treasury's share of the costs of operating book-entry services, including all costs associated with original issue, interest payment, and redemption, is not included in the calculation of the fees charged depository institutions. The distribution of costs of providing this service is currently being reviewed, as it has been several time during the last 15 years, to ensure that the banking sector and the Treasury are fairly sharing the costs of operating the book-entry system. At this time, the priced portion of the service has been determined to be fairly apportioned to the private sector and the fee schedule is designed for full recovery of the costs associated with the service.

Approximately 36 percent of the commenters expressed concern that there is no incentive for the Federal Reserve to minimize the costs of providing the book-entry service since the alternatives to the Federal Reserve's service are limited. There are, however, several alternatives to the Federal Reserve's service that are available to depository institutions as well as individuals. For Treasury bills, if an institution does not plan to trade in the secondary market, or trades infrequently, the institution has the alternative of maintaining an investor account with the Treasury Department and avoid any account maintenance fees. Alternatively, anyone, including active traders, has the option of maintaining an account with a correspondent to take advantage of lower fees that could result from the consolidation of accounts and issues. A third alternative for investors holding Treasury notes and bonds is to maintain securities in definitive form.

With respect to the concern that there is no incentive for the Federal Reserve to contain costs, the Federal Reserve believes that, as in all areas of Federal Reserve activities, there are sufficient safeguards for controlling costs. The oversight function of the Board through both the budgetary process and operational reviews encourages Federal Reserve Banks to seek actively to contain costs. Further, the Reserve Banks are studying several System-wide cost reduction initiatives, including the consolidation of book-entry transfer and securities safekeeping facilities to eliminate marginally utilized facilities. Finally, the General Accounting Office has authority to audit the pricing of the book-entry securities service, including the associated costs.

After review of the comments received and analysis of issues raised, the Board has determined to adopt the following fee schedule for the book-entry securities service, effective April 28, 1983.

Component		
*One-Line Transfer Originated	Per Transfer	$ 3.00
Off-Line Transfer Originated	Per Transfer	10.00
Off-Line Transfer Received	Per Transfer	10.00
Account Maintenance	Per Account/ Per Month	15.00
Issues in Accounts Maintained	Per Issue/ Per Month	.50

*For all Federal Reserve Districts except New York. The fee schedule for on-line transfers originated through the Federal Reserve Bank of New York is:

	Per Transfer
9:00 AM - 12:00 Noon	$1.00
12:01 PM - 2:00 PM	3.00
2:01 PM - Closing	5.00

By order of the Board of Governors of the Federal Reserve System, March 24, 1983.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]