FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-115
September 28, 1983

FEE SCHEDULES FOR DEFINITIVE SECURITIES SAFEKEEPING AND NONCASH COLLECTION SERVICES

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

The Board of Governors of the Federal Reserve System has announced fee schedules for definitive safekeeping and noncash collection services, effective October 27, 1983.

Printed on the following pages is the text of the Board's press release and Federal Register notice including the new fee schedules.

Questions concerning the fee schedules or services may be directed to Lynn Vick, (214) 651-6263 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 September 23, 1983

The Federal Reserve Board today approved fee schedules for definitive securities safekeeping and noncash collection services, effective October 27, 1983.

Both definitive securities safekeeping and noncash collection are components of the Federal Reserve's securities service. Definitive securities safekeeping consists of vault storage, primarily of municipal and corporate securities. Noncash collection provides a payments mechanism designed to collect items that cannot be processed through normal check collection channels. These two services are interrelated as a large portion of bonds and coupons collected by the Federal Reserve Banks are derived from securities held by them in safekeeping. In accordance with the Monetary Control Act, the Federal Reserve began pricing these services in October 1981.

In June 1983, the Board proposed, for public comment, revisions of Federal Reserve fee schedules for definitive securities safekeeping and noncash collection services. Following review of public comment and further staff analysis, the Board approved the proposed changes to the fee structures. Some of the prices proposed in June were modified. The new fee schedules are attached.

The revisions to the definitive securities safekeeping service include --as proposed--the elimination of the account switch and bond redemption fees and a differentiation in account maintenance fees based on the number of receipts or issues held in an account.

The changes to the noncash collection service include adding an out-of-district component to the coupon collection fee and converting the bond collection charge from a per-item to a per-transaction fee. The out-of-district fee is a surcharge for coupons payable outside of the Federal Reserve District in which they are deposited for collection.

The Board's notice is attached.

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FEDERAL RESERVE SYSTEM

(Docket No. R-0475)

FEE SCHEDULES FOR FEDERAL RESERVE BANK SERVICES

AGENCY: Board of Governors of the Federal Reserve System

ACTION: 1983 Fee Schedules for the Definitive Securities Safekeeping and Noncash Collection Services

SUMMARY: The Board has approved new fee structures and prices for the Federal Reserve's definitive securities safekeeping and noncash collection services.

EFFECTIVE DATE: October 27, 1983

FOR FURTHER INFORMATION CONTACT: Gerald D. Manypenny, Manager (202/452-3954), or Mark J. Stewart, Senior Operations Analyst (202/452-2223), 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 fee schedules for the Federal Reserve's definitive securities safekeeping and noncash collection services effective October 1, 1983. (46 F.R. 37972 (July 23, 1981)). These fee schedules were designed to fully recover the costs of providing the services, including a private sector adjustment factor (PSAF) of 16 percent.

The System incurred a shortfall of approximately 25 percent in the recovery of costs plus PSAF for these services during the first half of 1983, based on costs and revenues of approximately $10 million and $7.5 million respectively. By June 1983, the shortfall had been reduced to 13 percent.[1/] The shortfall is due to the volume losses resulting from pricing these services. Despite rigorous efforts to reduce costs associated with these services, however, some Reserve Banks were unable to reduce costs sufficiently to offset volume losses. This was primarily due to the high fixed costs associated with providing these services, many of which could not be reduced in the short term.

1/ This reduction is the result of cost reduction efforts, stabilized safekeeping volume, and increases in noncash volume.

On June 27, 1983, the Board requested comment on proposed revisions to the definitive securities safekeeping and noncash collection fee structures and prices. (48 F.R. 30454 (July 1, 1983)). Proposed revisions to the definitive securities safekeeping fee schedule included the elimination of the account switch and bond redemption fees and a differentiation in account maintenance fees based on the number of receipts/issues held in an account. Proposed revisions for the noncash collection service included adding an out-of district component to the coupon collection fee and converting the bond collection charge from a per-item to a per-transaction fee. Public comment was also requested on the future role of the Federal Reserve in providing these services.

A total of 31 responses was received on the various elements of the request for comment -- eighteen depository institutions, one bank service company, one securities depository institution, one bank trade association, and ten Federal Reserve Banks. Twenty respondents, including ten Reserve Banks, expressed their support of the proposed revisions to the definitive securities safekeeping fee structure. Five respondents expressed opposition to some aspects of the proposal. Twenty-one respondents, including ten Reserve Banks, expressed support for the revisions to the noncash collection fee structure. Two respondents expressed some concern with various aspects of the noncash collection fee schedule. Further, twenty-three respondents, including ten Reserve Banks, believed that there were public benefits to be derived from the Federal Reserve's continuing to offer these services. Four respondents expressed reservations concerning a continuing role for the Federal Reserve in proving these services.

Fee Schedules

Respondents supporting these proposed revisions to the definitive securities fee structure generally stated that the revisions would result in a simplified fee structure. In their opinion, the resulting fee schedules would be fairer and more competitive and would enhance their ability to compare prices. Further, a number of respondents stated that it was important for the Federal Reserve to continue providing these services as a valuable alternative to correspondent institutions. Objections to the proposals focused on fees and fell into two categories:

1. The variance among Federal Reserve Districts in transaction fees.
2. Inability of some districts to recover costs.

1. Variance in fees. Four respondents expressed concern over the variations among Reserve Banks in fees for identical components of this service. In view of the comments received concerning these variances, the fee schedules, district cost/revenue information, and objectives of the Reserve Banks were reviewed. The Reserve Banks' basis for setting deposit, withdrawal, and bond collection fees were also reevaluated. This review generally confirmed that the fee schedules were designed to recover the aggregate costs of providing the definitive securities safekeeping and noncash collection services.

Variances in fees among Reserve Banks reflect the differing costs of some Banks in providing the services and the results in some districts of rigorous cost reduction efforts. Further, fees for individual components of the services vary among Reserve Banks because of regional differences in banking practices. For example, in some districts, depository institutions are believed to be particularly sensitive to the level of deposit and withdrawal fees. In these districts, the Reserve Banks attempted to be responsive to the local concerns and have priced these components accordingly. However, in view of the comments, the proposed fees were reevaluated and, in some instances, modified. In the aggregate, the revised fee schedules will provide Reserve Banks the ability to recover costs plus PSAF for these services.

One respondent expressed concern that several Reserve Banks were proposing low securities deposit fees and relatively high withdrawal fees in an attempt to induce deposits which would then be captive because of the high withdrawal fees. In order to preclude this possibility, the deposit and withdrawal fees have been modified so that these fees are equal.

2. Cost recovery concerns. Two respondents were concerned that several Reserve Banks had proposed significant reductions in service component fees. They stated that these reductions would not provide for recovery of the costs of providing the services.

The Reserve Banks have made significant progress in reducing costs for these services. Costs for definitive safekeeping were reduced Systemwide by 34.9 percent, or approximately $1 million, between the first quarter 1982 and the second quarter of 1983. Additional cost reduction efforts are being made by all Reserve Banks. Further, cost reduction projections and forecast growth should result in a cost/revenue match (excluding PSAF) by the end of the third quarter of 1984 and revenue sufficient to recover costs (including PSAF) a year later. Volume growth and the rate of cost reduction that

currently exist may make it possible to achieve these goals earlier. The Board will closely monitor Reserve Bank cost/revenue performance.

Based on a review of fees charged by correspondent banks it does not appear that the Reserve Banks are charging fees lower than those prevailing in their areas. It should be noted that several respondents indicated that even with price reductions by some Reserve Banks, the Federal Reserve fees would still be higher than those charged by others.

Another concern raised by one respondent was that the definitive securities safekeeping service would be subsidized with revenues from the noncash collections service. The MCA requires that the Federal Reserve recover the costs plus PSAF of providing each major service. Both noncash collection and definitive securities safekeeping are components of the Federal Reserve's overall securities service line. Further, both the definitive securities safekeeping service and noncash collection service are interrelated in that a large portion of bonds and coupons collected by Federal Reserve Banks come from securities held by them in safekeeping. Consequently, the Board believes that current System policy is appropriate and that Reserve Banks continue to be required to fully recover costs plus PSAF of these combined services. Each Reserve Bank is also required to at least recover the direct and support costs of each service.

With regard to the noncash collection fee structure, twenty-one respondents, including ten Reserve Banks, supported the revisions. These respondents generally regarded the revisions as resulting in simpler fee schedules which would permit better price comparisons and accountability. Several concerns were expressed by three respondents, however.

Two respondents expressed some concern over the impact on fees for postage and insurance of using ITS or other carriers for transporting securities and other noncash items for collection. The ITS network is not used to transport these items. Reserve Banks currently ship these items by registered or insured mail, thus achieving a greater level of security than is possible with alternative transportation methods. Reserve Banks are, however, continuing efforts to reduce shipping costs to the extent possible.

Concern was also expressed by one respondent about the possibility that fee increases for the noncash collection service in money center cities may have an adverse impact on this service since a disproportionate share of noncash volume is cleared through these cities. This concern does not appear warranted at this time, however. Federal Reserve Banks in

money center cities are developing service options that will encourage local depositors and other Reserve Banks to fine sort collection items to money center paying agents, thereby reducing the number of items processed for collection at those locations and subject to local coupon collection fees. Fine sorted items would be merged with other collection items sent to money center paying agents. This arrangement is included as part of the current mixed deposit pilot and may be expanded in the near future.

Several respondents raised additional concerns about the proposals. One respondent recommended that implementation of revised fee schedules for these services be delayed until the General Accounting Office (GAO) has completed its review of the PSAF. In view of the magnitude of the cost recovery shortfall, however, the Board does not believe it appropriate to delay repricing of these services. Any adjustments to the PSAF will be considered in the cost/revenue projections for these services and may result in some price adjustments.

Some concern was also expressed regarding the impact of float pricing on fees for these services. The definitive securities safekeeping service does not, however, generate Federal Reserve float. Further, float related to noncash collection should not adversely affect prices. Average daily Federal Reserve float for this service in July 1983 was approximately $14.3 million. This float, however, could decline or be eliminated as a result of operational improvements and changes in availability schedules which are now being pursued by the Reserve Banks. Reserve Banks performance in reducing this float will be monitored closely and float remaining after operational improvements will be included in the cost base.

One respondent stated that the Federal Reserve was using its regulatory authority to gain an unfair competitive advantage. The revisions to the fee schedules do not represent an exercise of any regulatory authority by the Board, however, but are done pursuant to the requirements of the MCA that these services be repriced to recover costs plus PSAF.

Future Role of the Federal Reserve

The Board also requested comment on what role the Federal Reserve should play in the provision of these services.

Twenty respondents, including eight Reserve Banks, stated that the Federal Reserve should continue to maintain a presence in the safekeeping service. Seven respondents stated that the Federal Reserve should provide this service so long as

it can compete effectively and recover the costs plus PSAF of providing the service. Respondents favoring a continued Federal Reserve presence in these services stated that the Federal Reserves' services provided small and medium-sized institutions with a valuable alternative of proven quality and worth to services offered by correspondents institutions. Three respondents, including two Reserve Banks, suggested that the Federal Reserve should play an active role in industry efforts to immobilize bearer definitive securities. Six respondents, including four Reserve Banks, suggested that the Federal Reserve develop a municipal securities book-entry system.

Three respondents stated that the Federal Reserve should not continue providing the safekeeping service. Two respondents stated that services offered by correspondent banks and brokerage houses were suitable alternatives to the Federal Reserve's service. In the opinion of one respondent, a priced safekeeping service is not a necessary adjunct to collateral safekeeping.

With regard to the noncash collection service, twenty respondents, including eight Reserve Banks, supported a continued Federal Reserve role in the service. One respondent believed that the Federal Reserve should collect only from remote country endpoints and smaller paying agents since collection efforts from these sources were difficult and time consuming. Four of these respondents stated that the Federal Reserve should continue the services as long as it recovered costs plus PSAF. One respondent noted that several major correspondents had dropped this service and that it was therefore important for the Federal Reserve to continue offering it. Several respondents stated that the Federal Reserve provided a valuable alternative for the service and that Federal Reserve presence is promoting efficiencies in the collection system. Although some respondents stated that the Federal Reserve service was superior to that offered by other providers of the service, a number of enhancements to the service were suggested. One respondent suggested that the Federal Reserve collect coupons from non-autocharge paying agents. Other respondents suggested that the mixed deposit pilot be extended nationwide.

One respondent opposed any presence of the Federal Reserve in priced services.

The Board believes that a continued Federal Reserve presence in these services provides important benefits to the public as well as depository institutions. First, the System provides a safe and efficient means for the collection of

noncash items. Federal Reserve participation in this area contributes to the efficiency of the payments mechanism by reducing circuitous routing of noncash items, providing better availability, and reducing overall societal resources devoted to the collection of noncash items. These benefits are similar to those obtained by continued Federal Reserve participation in the check collection system. Continued involvement in securities safekeeping also contributes to the efficiency of the payments mechanism since the organization that safekeeps the securities typically also collects the coupons and the matured securities. Second, the System is able to serve as an impartial alternative supplier of services to financial institutions. The System prices explicitly in a highly imperfect market where the true cost of services is difficult to discern. System presence, with explicit pricing, has resulted in a more competitive marketplace as other providers have responded in kind to System pricing and product initiative. Finally, continued System presence in both services enables the Reserve Banks to offer all depository institutions a wide range of services, thereby simplifying accounting and recordkeeping.

Further, with regard to the suggestions of several respondents that the noncash collection service be improved, Reserve Banks have begun accepting for collection coupons payable by non-autocharge paying agents. To support immobilization of bearer definition securities, several Reserve Banks have entered into custodial arrangements with depository institutions. It is expected that these custodial arrangements will be offered to any depository institution meeting established eligibility criteria.

After review of the comments received and analysis of issues raised, the Board has determined to approve revised fee schedules for the definitive securities safekeeping and noncash collection services as indicated in the attachment. The revised fee schedules will be effective October 27, 1983.

By order of the Board of Governors of the Federal Reserve System, September 23, 1983.

(Signed) James McAfee

James McAfee
Associate Secretary of the Board

[SEAL]

ATTACHMENT

1983 Prices

	Definitive Safekeeping					Noncash Collection			
	Deposits (per transaction)	Withdrawals (per transaction)	Maintenance 1/ Per Receipt 1-400	Maintenance 1/ Per Receipt 400+	Purchases and Sales (per transaction)	Bond Collection (per transaction)	Local Coupon (per envelope)	Inter District Coupon (per envelope)	Per $1,000 Coupon Value
BOSTON	12.50	12.50	2.80	2.10	15.00	12.50	2.00	2.55	1.00
NEW YORK	35.50	35.50	5.35	4.75	23.00	35.50	2.50	2.75	.50
PHILADELPHIA	15.00	15.00	3.00	2.00	19.00	15.00	2.90 3/	2.55	1.00
CLEVELAND	15.00	15.00	2.25	1.75	25.00	15.00	3.00	2.50	.50
RICHMOND	15.00	15.00	1.50	1.00	20.00	20.00	2.00	2.50	1.00
ATLANTA	See Note 2/ Below				N.A.	7.50	1.40	2.55	.75
CHICAGO	11.00	11.00	3.00	2.75	19.00	11.00	2.50	2.75	.70
DETROIT	11.00	11.00	2.00	1.75	19.00	11.00	2.50	2.60	1.00
ST. LOUIS	8.00	8.00	1.25	.90	N.A.	10.00	2.00	2.35	.75
MINNEAPOLIS	8.00	8.00	1.40	.75	10.00	8.00	2.50	2.70	.60
KANSAS CITY	15.00	15.00	1.50	1.25	20.00	15.00	3.20 4/	2.50	1.00
DALLAS	10.00	10.00	2.75	2.50	26.50	15.00	2.10	2.55	1.00
SAN FRANCISCO	N.A.	N.A.	N.A.	N.A.	23.50	35.50	4.00	N.A.	1.00

N.A. Not applicable

1/ Maintenance is generally priced on a per-receipt basis except in New York, Cleveland, and Minneapolis where it is priced on a per-issue basis.

2/ The Federal Reserve Bank of Atlanta will continue its current prices under an experimental pricing structure. Additional information may be obtained from any Office in the Atlanta District.

3/ The Federal Reserve Bank of Philadelphia also offers a fixed service contract option on coupon collection. Additional information may be obtained from the Reserve Bank.

4/ The Federal Reserve Bank of Kansas City offers a municipal coupon collection option. Additional information may be obtained from any Office in the Tenth District.