FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-127
October 26, 1983

PRIVATE SECTOR ADJUSTMENT FACTOR

PROPOSED REVISIONS IN CALCULATION METHODOLOGY

TO ALL DEPOSITORY INSTITUTIONS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has requested comment on proposed revisions to its procedure for calculation of the private sector adjustment factor (PSAF). As provided in the Monetary Control Act of 1980, the PSAF is that component of the prices charged for Federal Reserve services which represents the taxes and cost of capital that would have been paid had the services been furnished by a private business firm.

A copy of the Board's press release and notice as published in the Federal Register are attached. Any views or comments concerning the proposals should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C., 20551. All materials submitted should refer to Docket No. R-0485, and should be received by November 30, 1983.

Questions regarding the contents of this circular should be directed to Lyne H. Carter, (214) 651-6175 or Michael N. Turner, (214) 651-6460 at the Head Office.

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

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 October 13, 1983

The Federal Reserve Board today requested comment on proposed revisions to its procedure for calculation of the private sector adjustment factor (PSAF). As provided in the Monetary Control Act of 1980, the PSAF is an allowance for the taxes that would have been paid and a return on capital had the Federal Reserve's priced services been furnished by a private sector firm.

The Board requested comment by November 30, 1983.

The proposed revisions to the procedure used in calculating the PSAF for 1984 include:

- Use of data directly linking single-purpose assets to Federal Reserve services.
- Expansion of the sample used to calculate the PSAF from 12 to the 25 largest bank holding companies.
- Calculation of the Federal Reserve's asset base to reflect the value of assets expected to be acquired and disposed of in 1984.
- Removal of the financing costs of net adjustment float from the asset base.
- Recovery of the estimated sales taxes that would have been paid on the purchases of certain goods and services if the Reserve Banks were subject to such taxes.
- Recovery of expenses incurred by Board staff working directly on the development of priced services and inclusion of the portion of the Board's assets employed in this specific activity in the PSAF asset base.

In addition to these revisions, the Board is requesting comment on an alternative method of determining the income tax rate used in calculating the PSAF.

The Board's notice is attached.

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Attachment

FEDERAL RESERVE SYSTEM

[Docket No. R-0485]

Private Sector Adjustment Factor

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Request for comments.

SUMMARY: The Board of Governors is requesting public comment on the methodology for calculating the Private Sector Adjustment Factor ("PSAF") for 1984.

DATE: Comments must be received by November 30, 1983.

ADDRESS: Comments, which should refer to Docket No. R-0485, may be mailed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m. Comments received may be inspected at Room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in § 261.6(a) of the Board's Rules Regarding the Availability of Information, 12 CFR § 261.6(a).

FOR FURTHER INFORMATION CONTACT: Earl Hamilton, Assistant Director (202/452-3874), Division of Federal Reserve Bank Operations; Gilbert T. Schwartz, Associate General Counsel (202/452-3625) or Robert G. Ballen (202/452-3265), Attorney, Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: The Monetary Control Act of 1980 (Pub. L. 96-221) provides that over the long run, fees for the Federal Reserve's priced services are to be based upon costs, including 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." Accordingly, the PSAF should be thought of as a financial or accounting yardstick that facilitates the imputation of capital costs and taxes to the Federal Reserve. Over time, however, the pricing process more generally should seek to ensure that economic resources are allocated and payments services are provided in the most efficient ways possible.

The Board has examined the issues relating to the current methodology that has been used in calculating the PSAF and requests comment on the following:

a. Choice of Model. Since Federal Reserve Banks are unique organizations, it is not possible to find totally comparable private sector firms to use as a model for imputing the cost of capital and taxes. In view of the unique nature of the Federal Reserve, the PSAF could be calculated by abandoning reference to the actual experience of any private sector firm, and judgments could be made regarding the Federal Reserve's cost of capital and taxes had it been a private firm. However, in view of the fact that there would be no basis upon which to determine the appropriateness of any judgments made among the infinite number of costs of capital and tax possibilities, the Board proposes that those entities most closely comparable to the Federal Reserve with regard to its priced services continue to be used as a model for purposes of calculating the PSAF.

In reaching this decision four alternative types of entities were analyzed: public utilities, government-sponsored organizations such as the Federal National Mortgage Association, nonbank data processing companies, and bank holding companies. Bank holding companies are currently used as the model for the PSAF.

The Board rejected public utilities as a model because services provided by these entities generally do not resemble those of the Federal Reserve. Moreover, their capital costs and structure are such as to result in a PSAF that probably would be lower than that derived from a bank holding company model.

Government-sponsored entities also were determined not to be appropriate as a model because their services generally are not comparable to those of the Federal Reserve. The services provided by government-sponsored entities predominantly relate to extensions of credit, rather than to payments-related services of the Federal Reserve. In addition, the cost of capital of government-sponsored entities, in part because of their government sponsorship, would result in a lower cost of capital for the PSAF calculation than using the bank holding company model.

While use of nonbank data processing companies as a model was considered and previously rejected, a more comprehensive review of the data processing company model was undertaken in view of the suggestion that such companies provide the appropriate model for the PSAF. The Board continues to believe that data processing companies do not provide the appropriate model given the dissimilarity between their services and those of the Federal Reserve. Although both the Federal Reserve and data processing companies use computers, a detailed analysis of the services of six data processing companies that others have suggested be used as a model for the PSAF indicated that their service offerings are significantly different from the priced services activities of the Reserve Banks and that they are not the appropriate model.

First, the prospects of these data processors are tied to developments in activities far removed from those of the Federal Reserve. Second, the different services provided by the Federal Reserve and these data processors necessitated different inputs into the production process. For example, the data processors specified do not collect checks like the Federal Reserve and other depository institutions. Third, to the limited extent to which the activities of the data processors are at all comparable to those of the Federal Reserve, the data processors generally only perform a portion only one step in the payments process--the recording and transfer of payments information. The Federal Reserve, in contrast, performs many, and in some cases all, of the steps that take place as payments are made. Finally, none of these six data processing companies that others have suggested be used as a model included the Federal Reserve as a competitor in its discussion of competitors in its 1982 Form 10-K filings with the Securities and Exchange Commission. Further, only one of the six has commented on a single occasion on the Federal Reserve's pricing proposals, and that comment was limited to a narrow point.

It has been suggested that since large bank holding companies engage in a number of activities other than correspondent banking, their capital costs do not provide an appropriate model for the Federal Reserve. Clearly, large banking organizations engage in a wide range of activities--many of which are related to the activities of correspondent divisions. The fact that the correspondent banking division does not raise capital on its own and interacts with the totality of the banking organization generally reinforces the logic of using the bank holding company model.

Thus, taking into account the services offered, and the obvious fact that large banking organizations are the competitors of the Federal Reserve, the Board proposes that large bank holding companies continue to be the appropriate model upon which to construct the PSAF.

The Board is also considering the risk that might be associated with the correspondent operations of the banking organization on a stand-alone basis and, in turn, what that might imply for the discount or premium of the market price of its stock relative to book value. Unfortunately, there is virtually no reasonable basis for determining whether, in fact, correspondent services would be perceived as more or less risky by the market than other banking operations--in part because the correspondent services are tied together with the entire bank. Moreover, even if that determination could be made, there is no way to anticipate how the market would respond.

The Board also considered the issue of the selection of the specific bank holding companies to be included within the PSAF model. Currently, the model is comprised of the 12 largest bank holding companies in the United States. These institutions were chosen primarily because of their size and their importance in the correspondent banking business. It has been suggested that this sample is inappropriate because it is, in general, too small and because the market value of the stock of these companies may be materially below book value, which in turn lowers the cost of equity capital in the PSAF calculation.

The Board believes that the suggestion to expand the size of the sample has merit. Such an expansion would reduce the potential that overall results will be biased by individual institutions, and provide greater geographic representation. Accordingly, he Board proposes to expand the sample to include the 25 largest bank holding companies.

With regard to the suggestion that the market value of the stock of the bank holding companies in the sample is too low relative to book value, the Board noted that the stock of very few large bank holding companies currently is selling at or above book value. However, using the proposed sample of 25 large bank holding companies does raise the market-to-book ratio of the sample. For example, as of mid-1983, the market-to-book ratio for the 25 companies was about 83 percent versus about 75 percent for the smaller sample of 12 holding companies. On balance, there is no basis for judging why these firms' stock sells below book, or for knowing whether their correspondent divisions on a stand-alone basis (to the extent they could be segregated from the rest of the company) could command a stock market valuation at or near book. Similarly, there is no basis for judging how the market would value the Federal Reserve's payments services business. The Board believes that the market-book relationship in the proposed sample of the 25 largest holding companies would provide a reasonable basis for estimating the cost of equity in the PSAF calculation. Accordingly, for purposes of the PSAF model, the Board proposes to use the cost of equity of the 25 largest bank holding companies, which are the major alternative suppliers of the priced services offered by the Fed.

b. <u>Long-Term Assets</u>. The Federal Reserve faces the same judgments as other firms in apportioning the cost of shared assets (primarily long-term assets such as property, buildings and equipment) among different operations.

The Federal Reserve currently apportions long-term assets on the basis of the ratio of operating expenses for priced services to total operating expenses. This expense ratio is approximately 40 percent. While this expense ratio provides a reasonable proxy for the assets employed in priced services and is administratively simple to implement, direct determination of the uses of assets based upon the Federal Reserve's Planning and Control System ("PACS") would more precisely identify the assets used in the provision of priced services. Accordingly, the Board proposes that the expense ratio method for asset determination be replaced by the direct determination method.

The proposed direct determination method would use the PACS accounting system, which provides data that can directly link single-purpose assets to either priced or non-priced services. In addition, PACS provides the same information for assets, such as buildings and centralized computers, that are used jointly in the provision of priced and non-priced services. For example, depreciation is a component of total occupancy costs, which are redistributed to all PACS activities. Since this depreciation is linked directly to assets carried on the Federal Reserve's balance sheet, the assets can be linked to the production of priced and non-priced services. The Board believes this procedure would result in a more precise determination of the asset base than the current method.

As indicated in Tables 1 and 2, the total value of assets attributable to priced services declines under the direct determination method. Although the value of furniture and equipment increases under the proposed methodology, the increase is more than offset by a decline in the value of buildings allocated to priced services. This occurs because the percentage of building space directly and indirectly used by priced services is, in fact, smaller than that which was estimated using the 40 percent expense ratio for priced services. In part, this is because staff of the System's data collection activities in support of monetary and economic policy and supervision and regulation functions, as well as bank examination and other non-priced and central bank functions occupy space arranged in the traditional office setting. On the other hand, check processing and other priced services functions predominantly occupy production-type facilities and make intensive use of space and other resources. In particular, check operations use less floor space per person and use equipment and space 24 hours a day as compared with a normal eight hour day in most non-priced areas. Further, fiscal agency and cash operations, which are non-priced services, occupy a significant amount of space.

c. The Tax Rate Used in the PSAF Calculation. The tax rate currently used for the PSAF calculation is based on the ratio of current taxes to total taxable income of the holding companies included in the sample. Deferred taxes are excluded from this ratio. In addition, an adjustment is made to add the tax effect of tax-free interest income from state and municipal securities. Deferred taxes are not factored into the ratio because they do not represent taxes paid during the current year and are likely not to be paid until far into the future. The adjustment for tax-free income is made because it is believed that holding such securities is related to he investment strategy of the organization.

The Board proposes that the current method of calculating the tax ratio with an adjustment to eliminate extraordinary gains and losses, be used to calculate the 1984 PSAF. This method is incorporated into the calculations shown in Table 2. With no changes in methodology, the 1984 tax rate for the original sample of 12 bank holding companies would be 35.1 percent--down from 38.1 percent in 1983. For the proposed larger sample, the 1984 tax rate would be 35.8 percent.

The Board is also requesting public comment on an alternative tax rate calculation method. The alternative tax rate would be based upon the financial statement provision for income taxes which takes into account deferred taxes. It has been suggested that from an accounting perspective, the inclusion of deferred taxes would provide a more useful representation of the overall tax liability of a firm. Under this method, the effective tax rate for 1984 would be approximately 40 percent and the pre-tax rate on equity would be approximately 23 percent, thus adding about $2 million to be recovered from the PSAF.

d. Date for the Asset Base Estimate. The current methodology uses the average asset base for the previous year, although estimated expenses are based on the year in which the PSAF is to be applied (e.g. the 1983 calculation used assets as of September 29, 1982.) The Board proposes that the asset base for the year in which the PSAF would apply be adjusted to reflect the value of assets expected to be acquired and disposed of in that year. Since the assets of the Reserve

Banks are expected to be higher in 1984 than in 1983, this change would increase PSAF recoveries by approximately $1.6 million.

e. Sales Taxes. The current methodology does not include an imputation for the sales taxes that would have been paid by the Reserve Banks if they were like other private firms. The Board proposes that the estimated sales taxes that would have been paid were it not for the Reserve Banks' statutory exemption be recovered as part of the PSAF for 1984. This amount is tentatively estimated at approximately $4.9 million.

f. Board of Governors Assets and Expenses. Currently, Board staff expenses are not subject to recovery and Board assets are not included in the PSAF asset base. The Board proposes that the expenses incurred by Board staff working directly on the development of prices be subject to recovery. Similarly, the Board proposes that the assets employed in this specific activity be included in the PSAF asset base. It is estimated that in 1984, about $1.9 million in operating expenses at the Board of Governors would be included in expenses subject to recovery and that the asset base would be raised by about $0.5 million to take account of fixed assets of the Board of Governors used for this purpose.

g. Shipping Expenses. Shipping expenses currently are excluded from the PSAF calculation because the assets employed in the production of shipping services are not Federal Reserve assets, but rather are owned by the various carriers with whom the Reserve Banks deal. It has been suggested that this treatment is inappropriate, but the criticisms of this treatment has been in the context of PSAF methodology in which the PSAF asset base is determined on an expense ratio method. When priced service assets are determined directly as the Board is proposing instead of on an expense ratio basis, the removal of shipping expenses from the calculation has no effect on total recoveries. Including shipping expenses in the PSAF denominator would result in a lower PSAF being applied to a higher expense base with the product of the two remaining unchanged. As a result, the Board has determined that the original basis for excluding shipping expenses from the calculation remains correct, and proposes no change in this area.

h. Leased Assets. Currently, leases for space and equipment by the Federal Reserve Banks are not capitalized and the value of such leases are not included in the asset base used to calculate the PSAF.

Specific criteria have been established by the Financial Accounting Standards Board (FASB) in its Rule 13 for determining which leases should be capitalized. The Federal Reserve currently does not make a case-by-case determination as to which of its leases meet FASB Rule 13. However, in view of the rule, it has been suggested that the Federal Reserve capitalize its leases for purposes of determining the PSAF. Accordingly, the Board proposes that all leases that become effective on or after January 1, 1984, that meet FASB Rule 13 be capitalized. In addition, the Board proposes that current leases be examined to determine if any adjustments are needed. However, as indicated below, even if some such leases would be capitalized, it is very unlikely that this would have an effect on the dollars to be recovered via the PSAF.

Lease payments currently made by the Reserve Banks include the implicit financing costs that are incurred by the lessors for acquiring the assets. If the value of leases were capitalized and included in the PSAF, the financing costs would be double-counted--once in expenses to be recovered and once in the cost of capital associated with the asset base. Thus, to avoid such double-counting, these leases should not be in the asset base even if they meet FASB Rule 13. As a result, capitalizing leases would have no effect on the PSAF. The pattern of expenses, however, might be affected, to a limited extent, over the term of the leases because the proportion of interest to principal included in the amount amortized is higher in the early years and lower in the later years of the lease.

i. Book Value of Physical Assets. Currently, for purposes of calculating the PSAF, the Federal Reserve uses book value--as opposed to some estimate of market value--for Federal Reserve physical assets such as buildings and equipment. The Board proposes to continue to use the book value of fixed assets in the calculation of the PSAF. The use of book values is universal in private business. Furthermore, it is the actual historical cost of acquiring assets that must be financed--not their value at some later date. The practice of using book value for buildings, equipment, and property is consistent with banking industry practices and consistent with generally accepted accounting principles. Determining a normal rate of return on the basis of historical cost is the prevailing practice throughout the private sector. In particular, the assets of the large bank holding companies used as the source of the cost of capital are reported at book value.

A decision to value assets at market would essentially require using a market value accounting system since it would be necessary to take into account the income created by increases in asset values. Such an accounting system does not now exist. If such an accounting system were developed, the capital associated with increases in asset values would be generated automatically. In this event it would not be necessary to raise new funds to support the higher asset values.

Judging the relationship between market and book values is not easy. However, in considering the Federal Reserve's equipment (which is approximately $75 million or almost 30 percent of total long-term assets), it seems reasonable to conclude that market value is not likely to exceed book value and, in fact, book values might exceed market values. This would follow from the fact that such equipment is predominantly processing equipment where declining prices for new equipment and technological changes may reduce the market value of existing equipment at a faster rate than is provided for in the relevant depreciation schedules.

With regard to building assets, there is little question that, in the aggregate, the market value of Federal Reserve buildings is greater than adjusted book value. However, when considering the value of the space used by the Reserve Banks for priced service activities, it is important to recognize that the portions of the buildings used for priced services are not considered premium space. Therefore, the test of whether the book value of space devoted to Federal Reserve priced services is significantly at odds with market value cannot be judged by looking at the book value/market value relationship for the building as a whole, but rather should be judged by looking at the market value of the specific space used for priced services versus its adjusted book value. Even this more limited comparison is not easy to make. However, in looking at the prevailing rents charged by some of the Reserve Banks to outside tenants in relationship to the PACS charges for space devoted to priced services, it appears that such PACS charges are, on average, in line with this proxy for the market value of such space.

On this basis, it would appear that market values of space in Federal Reserve buildings devoted to priced service activities are approximately in line with the adjusted book values of such space. However, even if they were out of line, it is not clear--even from the perspective of overall economic efficiency as opposed to accounting norms--that market values should be used in calculating the cost of capital for Federal Reserve priced services. That is, if the Federal Reserve used market values and its competitors did not (assuming the market value of the competitors' assets also exceeded book value), all other things being equal, this could produce a less efficient allocation of societal resources.

It is because neither economics nor accounting can provide perfect guidance on these issues that the approach taken with regard to the acquisition of new assets takes on special importance. That is, decisions to acquire or not to acquire a particular asset must be undertaken within the context of rigorous capital budgeting procedures. The Federal Reserve has had such procedures in place for a number of years. However, in view of their increased importance in the proceed service environment and to ensure that such procedures are consistent with the PSAF calculation, it has been determined to undertake a review of all such procedures to ensure that the methods used are appropriate and are consistently applied in all cases.

j. Short-Term Assets. For 1982 and 1983, the largest component (about $60 million) of short term assets was net adjustment float, which was included in the PSAF calculation as a proxy for liquid assets that the Reserve Banks would use for priced services. Since the value of all Federal Reserve check float--including net adjustment float--will be recovered though service fees in 1984, the Board proposes to remove the financing costs of net adjustment float from the asset base that is used to calculate the PSAF. It should be clearly emphasized that the effect of this change is essentially a shift from one class of recovery to another, which has only a small effect on the total dollars to be recovered.

As in past years, Federal Reserve short-term assets will include receivables, supplies, and deferred charges. In 1984 these items aggregate to about $27 million as opposed to about $20 million in 1983.

Under the proposed methodology, clearing balances that depository institutions maintain at the Reserve Banks to pay for services would be considered a short term asset. During the past year, the amount of clearing balances has grown considerably. Total clearing balances averaged $978 million between July 20 and August 10, 1983. The growth in clearing balances can be attributed to two factors. First, more depository institutions are finding clearing balances a convenient way of compensating for services and interterritory check float. Second, the number of small depository institutions using Federal Reserve services has increased and many of them prefer to compensate for services with clearing balances.

Because of the significant growth in clearing balances, the financing aspects of clearing balances and the methodology used to calculate earnings credits on clearing balances were reevaluated. In general, the income earned by the assets attributable to clearing balances should be at least equal the earnings credits provided on these balances. Using the average three-month U. S. Treasury bill rate over the first half of 1983 and assuming clearing balances in 1984 average $1 billion, the total income earned for 1984 would be $82.5 million.

Under current policy the Reserve Banks apply earnings credits only to the required clearing balance level, not the actual level. The earnings credits are calculated at the federal funds rate. For 1984, it is estimated that about $800 million of the approximately $1 billion in clearing balances would be required balances. Excess balances arise in part because of sharp short run swings and seasonal peaks in the use of Federal Reserve services. Using the average federal funds rate for the first half of 1983 and assuming $800 million in required clearing balances in 1984, the cost of such balances to the Federal Reserve would be $69.3 million. Thus, the System income on clearing balances is anticipated to exceed expenses by $13.2 million ($82.5 million - $69.3 million).

The Board also studied the methodology used by correspondent banks to calculate the rate of return they provide on correspondent balances, which are analytically similar to clearing balances. If a correspondent balance is maintained at a correspondent bank, the correspondent would be required to maintain reserves on the balances held. In most cases, the correspondent would be at a marginal reserve requirement rate of 12 percent. Generally, the correspondent bank takes this factor into consideration when it calculates the rate paid on the balance. Because correspondent banks generally adjust the earnings rate by the marginal reserve requirement, maintaining clearing balances at a Reserve Bank may be more attractive to a respondent bank. However, when maintaining a balance at a correspondent bank, the respondent bank is permitted to deduct the balance from its reservable liabilities. Therefore, the difference between the rate the Reserve Banks apply is not the 12 percent marginal reserve requirement rate but rather the difference between this 12 percent rate and the respondent banks' marginal reserve requirement rate, which is a "due from" deduction for the respondent. It has been estimated that the earnings rate applied by Reserve Banks should be reduced by about 7 percent on average for it to be comparable to the value generally received by respondent banks on clearing balances. Had this adjustment been made, the earnings credit rate would have been reduced approximately 7 percent on average. This reduction would result in revenues being $5 million less than the $13.2 million net interest revenue from clearing balances (see

Table 4). Accordingly, the Board proposes that the rate the Reserve Banks apply to clearing balances be adjusted to reflect the net value of the balances to the respondent, which takes into account the correspondent's marginal reserve requirement and the respondent's due from deduction.

The amount of excess clearing balances are expected to be reduced in 1984 because of new procedures being adopted by the Reserve Banks. Reserve Banks are in the process of developing a new service that will allow depository institutions to transfer their excess balances more readily to other institutions, which could then invest them in the federal funds market. If the excess balances are reduced to the point that the System income on such balances will be less than expenses, the rate paid on such balances may be adjusted. One adjustment under consideration in that event would be to calculate the earnings credit at the U. S. Treasury bill rate rather than at the federal funds rate. In any event, clearing balances and their corresponding assets could be managed such that the total income to the Federal Reserve at least equals the cost of such balances to the Federal Reserve.

Net Effect of Proposed Charges. The net effect of the above proposed changes on the estimated dollars which must be recovered via the PSAF is modest. As indicated in Table 2, if the 1984 calculations were made using the present methodology, the percentage of these costs to capital would be 15.9 percent, the dollars to be recovered via the PSAF would be $59.4 million and the ratio of the dollars to be recovered to estimated expenses would be 15.34 percent. Using the proposed methodology, these magnitudes are 18.86 percent, $56.2 million, and 14.51, percent respectively.

By order of the Board of Governors, October 12, 1983.

(Signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]

TABLE 1

Pro Forma Balance Sheet
Priced Services
1984
(in millions)

	Current Method	Proposed Method
	Assets	
Current Assets		
Receivables	$ 23.6	$ 23.6
Adjustments, Net	45.5	--
Supplies	3.9	1.9
Deferred Charges	2.0	1.6
	$ 75.0	$ 27.1
Government Securities	--	1,000.0
Long-Term Assets		
Bank Premises	$220.5	$ 183.2*
Equipment and Furniture	78.2	87.7
	$298.7	$ 270.9
Total Assets	$373.7	$1,298.0
	Liabilities and Equities	
Liabilities		
Clearing Balances	$ --	$1,000.0
Short-Term Debt	75.0	27.1
Long-Term Debt	101.9	79.1
Total Liabilities	$176.9	$1,106.2
Equity	196.8	191.8
Total Liabilities and Equities	$373.7	$1,298.0

* Includes an allocation of space for the Board building.

TABLE 2

Private Sector Adjustment Factor

		1983	1984	
		Estimated	Current	Proposed
I.	Assets to be Financed (million)			
	Current	$ 80.3	$ 75.0	$ 27.1
	Long-Term	$288.5	$298.7	$270.9
II.	Cost of Capital			
	Short-Term Debt Rate	13.06%	9.63%	9.48%
	Long-Term Debt Rate	10.63%	10.33%	10.01%
	Pre-Tax Equity Rate	20.53%	21.17%	21.25%
	Weighted Average Cost of Capital	16.35%	15.90%	17.20%
III.	Tax Rate	38.1 %	35.1 %	35.8 %
IV.	Capital Structure			
	Short-Term Debt	21.8 %	20.0 %	9.1 %
	Long-Term Debt	25.8 %	27.3 %	26.5 %
	Equity	52.4 %	52.7 %	64.4 %
	PSAF			
	Recovery (millions)	$60.3	$ 59.4	$ 56.2
	As Percent of Capital	16.35	15.90	18.86
	As Percent of Expenses	16.01	15.34	14.51

TABLE 3

PSAF and Other Recoveries
Calendar Year 1984
(millions)

		1984		
		Current		Proposed
I. PSAF Recoveries				
Total PSAF Recoveries		$ 59.4		
Changes Due To:				
- Explicit Pricing of Adjustments, Net			-4.4	
- Direct Determination of Assets			-6.8	
- Changes in the Sample			+1.4	
- Use of Prospective Assets			+1.6	
- Sales Taxes			+4.9	
- Allocation of Board Assets			+ .1	
Net Changes				-3.2
Total PSAF Recoveries				$56.2
II. Other Recoveries				
- Estimated Expenses	$387.3		$387.3	
- Board of Governors Expenses	--		1.9	
- Transportation Expenses	78.8		78.8	
Total Other Revenues		$466.1		$468.0
III. Float Recovery				
- Value of "Residual Float"	$ 39.3		$ 39.3	
- Value of Adjustments, Net			4.0	
Total Float Recoveries		$39.3		$43.3
Grand Total of Recoveries		$564.8		$567.5

TABLE 4

Clearing Balance Revenue and Expense
(millions)

	1984	
Total Clearing Balance Income	$82.5	
Total Clearing Balance Credits Used	-69.3	
Net Revenue from Clearing Balances	13.2	
Adjustments for Reserve Requirements	-5.0	
Net Clearing Balance Income		$8.2