



---

**FEDERAL RESERVE BANK OF DALLAS**

Station K, Dallas, Texas 75222

Circular No. 84-98  
October 2, 1984

**TO:** All depository institutions in the Eleventh Federal Reserve District

**ATTENTION:** Operations Officer

**SUBJECT:** Revised fee schedule for electronic services

**SUMMARY:** Our circular No. 84-96 dated September 18, 1984, announced revised fee schedules for electronic services and access fees for electronic connections to Federal Reserve Banks. The attached Federal Register document provides details concerning these items.

**ATTACHMENTS:** Federal Register document

**MORE INFORMATION:** Larry C. Ripley, Extension 6118; or Jonnie Miller, Extension 6290

**ADDITIONAL COPIES:** Public Affairs Department, Extension 6289

FEDERAL RESERVE SYSTEM

(Docket No. R-0505)

FEE SCHEDULES FOR FEDERAL RESERVE BANK SERVICES

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Fee Schedule for Electronic Services.

SUMMARY: On January 18, 1984, the Board requested comment on a revised fee structure for the Federal Reserve's wire transfer of funds service and on the establishment of a monthly fee for institutions possessing an electronic connection with the Federal Reserve. After consideration of the comment received, the Board has approved the following fixed monthly fees for electronic connections:

<u>Type of Connection</u>	<u>All Priced Services, Except Dedicated ACH Connections</u>	<u>Dedicated ACH Connections<sup>1/</sup></u>
Dedicated Leased Line	\$300	\$240
Multi-Drop Leased Line	\$225	\$180
Dial-Up Line	\$ 60	\$ 48

EFFECTIVE DATE: January 2, 1985.

FOR FURTHER INFORMATION CONTACT: Elliott C. McEntee, Associate Director (202/452-2231), or Florence M. Young, Program Manager (202/452-3955), Division of Federal Reserve Bank Operations;

---

<sup>1/</sup> The fees for dedicated ACH connections reflect the 80 percent recovery rate to be in effect in 1985 under the current pricing policy for the ACH service. The current daily fee of \$0.75 assessed for ACH electronic deliveries will be eliminated on January 2, 1985.

Gilbert T. Schwartz, Associate General Counsel (202/452-3625), or Elaine M. Boutilier, Attorney (202/452-2418), Legal Division, Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: On January 18, 1984, the Board issued for public comment a proposal to assess fixed monthly fees to all depository institutions having an electronic connection with the Federal Reserve for one or more priced services,<sup>2/</sup> (49 Fed. Reg. 2828). The following fees were proposed:

<u>Type of Connection</u>	<u>Monthly Fees</u>	
	<u>All Priced Services, Except Dedicated ACH and Security Transfer Connections<sup>3/</sup></u>	<u>Dedicated ACH Connections<sup>4/</sup></u>
Computer Interface	\$1,400	\$840
Leased Line	\$ 350	\$210
Dial Up	\$ 75	\$ 45

In conjunction with implementing the fixed monthly fees, it was also proposed that:

---

<sup>2/</sup> Priced services include the automated clearing house, wire transfer of funds, net settlement, book-entry securities, check collection, definitive safekeeping, and noncash collection.

<sup>3/</sup> No fixed fees for dedicated security connections were proposed pending a review of the fee structure for security transfer services.

<sup>4/</sup> The fees proposed for dedicated ACH connections reflected the 60 percent recovery rate for the service in effect at the time of the proposal.

- ° the fee for originating or receiving a basic wire transfer of funds be reduced from \$0.65 to \$0.60 per transfer;
- ° the fee for originating a book-entry security transfer be maintained at \$3.00 per transfer; and
- ° the proposed, daily \$0.75 electronic delivery fee for the ACH service be eliminated.

Forty-eight comments were received from the public on the proposal. Thirteen commenters, primarily high-volume users of electronic payment services, supported the proposed fee schedule, while 35 respondents opposed it. At the same time, 21 commenters favored the concepts underlying the proposal. These commenters believed that the proposed fee structure would result in a more equitable assessment of the costs of providing electronic services across the various classes of users, but they questioned the level of the proposed fees or suggested alternative fee structures.

Opponents of the proposal believed that the fixed fees would substantially increase the costs of using Federal Reserve services for low and medium volume users; inhibit growth in the use of electronic services; discourage use of more sophisticated data processing equipment; result in cross-subsidies among and within user classes, and negatively affect competition among depository institutions and between the Federal Reserve and privately operated funds transfer networks.

Transaction Fee -- During the period January through July, 1984, the Reserve Banks have reported a net revenue surplus of \$4.4 million for the wire transfer of funds and net settlement. This surplus is attributable to Reserve Banks costs lower than originally projected and a volume of transfers higher than projected. As a result, as previously announced, the Board believes it appropriate to implement the reduction in the basic transaction fee for originating or receiving a funds transfer from \$0.65 to \$0.60, effective September 27, 1984. (49 Fed. Reg. 35866)

Electronic Connection Fees -- The comments received on the proposal to assess fixed monthly fees fell into four broad categories: (1) the impact of the proposed fee on users of electronic services; (2) the basis for establishing the proposed fees; (3) the equity of the proposal; and (4) its effect on the competitive environment.

1. Impact of Proposed Fees -- An analysis of the impact on users of the wire transfer service indicated that only the highest volume users within the computer-interface and leased-line connection categories would have realized cost savings. On the other hand, the cost per transaction for low-volume users would have increased significantly.

It appears that the impact of the proposed fees might have caused on-line institutions that process fewer than one transfer per day to revert to off-line status, or some on-line institutions might have reconsidered the type of connection

that they use. Therefore, the amount of the proposed monthly fee was re-evaluated.

Institutions considering a conversion from off-line to on-line status would consider not only the impact of the fixed monthly fee on their transaction costs, but also the cost of acquiring the hardware needed for an electronic connection, estimated at about \$250 to \$300 per month. Considering these two added costs, it would become cost effective for an off-line institution to establish an on-line connection when its volume of funds transfers reached a level of three to four transfers per day as opposed to a volume of two to three transfers per day under the current fee schedule. This small change would not appear to be a significant deterrent to the use of electronic connections, because depository institutions would likely consider other electronic services, in addition to the wire transfer of funds service, that are available to on-line institutions.

With respect to the proposal's impact on increasing the use of electronic transmissions for the ACH service, the proposed \$45 monthly fee for a dial-up ACH connection<sup>5/</sup> was higher than the current ground delivery fee of \$1.75 per day or \$36.75 per month. This disparity between the electronic connection fee and the current ACH ground delivery fee will be addressed when 1985 fees for the ACH service are established.

---

<sup>5/</sup> The majority of ACH connections are dial-up connections rather than leased-line connections.

2. Basis for Establishing Fees -- The cost base used to develop the proposed fees included: (1) intradistrict communications costs, which consist primarily of lines, modems, concentration equipment, and back-up facilities; (2) the costs of testing computer-interface connections; and (3) the cost of computer software necessary for on-line institutions using terminals to interface with the Federal Reserve.

The costs of intradistrict communications networks are directly attributable to providing electronic services to depository institutions. Thus, these costs are properly included in the cost base. On an institution basis, dedicated leased lines, which provide uninterrupted service to a single location, are typically the most costly, while dial-up lines are shared by a large number of users and are typically the least costly.

With respect to back-up connections, a variety of approaches are currently used to back up primary dedicated and multi-drop, leased-line connections. Because the Reserve Banks are in the process of re-evaluating the nature of their back-up facilities and the method by which charges for these facilities should be imposed, these costs are not covered by the revised fees.

Testing costs are incurred for computer-to-computer interfaces when an institution modifies its software or implements new software. Additionally, when the Reserve Banks implement new data communications protocols, install new

software, or modify their software, institutions with computer interfaces must test with the Federal Reserve. Because testing expenses are not recurring monthly expenses and because depository institutions incur expenses when the Federal Reserve needs to test, testing costs are not included in the revised cost base. Instead, the costs associated with testing will be monitored, and if testing costs for certain institutions exceed a normal range, consideration may be given to recovering such costs explicitly.

The cost of developing and maintaining the computer software provided by the Reserve Banks to institutions using terminals, like computer-interface testing expenses, are not on-going costs and are not directly related to the maintenance of an electronic connection. Therefore, it is appropriate to exclude these costs in determining the revised fees.

3. Equity of the Proposal -- Assessing fixed fees for services whose cost structures consist of a high proportion of fixed costs results in fee schedules that reflect the costs of serving both high and low-volume users of the service. Because the revised fee schedule eliminates costs that are not recurring monthly costs, these fees will be more equitable for both low and high-volume users of electronic services.

With respect to potential inequities that uniform fixed fees might create among institutions due to their locations, the Reserve Banks have designed their intradistrict communications networks in ways that tend to equalize the cost



of serving institutions located in various geographic regions, including the extensive use of shared lines and the installation of concentration equipment. Fees for electronic payment services have been set at uniform levels to ensure that Federal Reserve fees do not adversely affect competition among depository institutions for national corporate customers.

4. Effect on Competitive Environment -- Because the expected revenue would amount to about 10 percent of total costs, including the PSAF, for the wire transfer of funds service and the proposed reduction in the basic fee to originate or receive a wire transfer of funds would be only \$0.05, it is unlikely that the proposed fee schedule would have had an adverse effect on competitive balance. Additionally, some privately operated networks assess fixed fees to their users.

With regard to the concern about competition among depository institutions, Federal Reserve fees are generally a small percentage of a depository institution's total costs. While the proposal would increase the costs incurred by some low-volume users of electronic services, modifying the composition of the cost base has reduced the per transaction impact across the various classes of users. Therefore, it is unlikely that the fixed monthly fees will negatively affect competition among depository institutions.

Alternative Fee Structures -- Retaining the fee structure currently in place was compared with alternative fee structures proposed by commenters. These alternatives included

implementing transaction fees that would vary by type of connection, and assessing each institution the actual costs of intradistrict communications networks, in conjunction with uniform transaction fees.

Fixed costs constitute a significant percentage of the total costs incurred in providing electronic services. Transaction fees based on average processing costs tend to assess high-volume users charges that are greater than the costs of providing services to them and to assess low-volume users charges that are less than the costs of the services provided. It was for this reason that the proposed changes to the current fee structure were made.

Implementing transaction fees that vary by type of connection would create incentives for depository institutions to upgrade their electronic connection in order to reduce the costs they incur in using Federal Reserve services. This is expected because institutions with computer-interface connections process high volumes of transactions and use fixed resources intensively, which would result in low transaction fees. Conversely, institutions with dial-up connections process low volumes of transactions and use fixed resources less intensively. Therefore, transaction fees for dial-up connections would be high. Fees for medium-volume, leased-line users would fall between the two extremes. Thus, institutions would have an economic incentive to upgrade their electronic connections. Such upgrades, however, would increase the

Federal Reserve's costs of providing electronic services and over the long run also increase costs for all users of its services.

Assessing the actual costs of intradistrict communications networks to individual on-line institutions would appear to be unduly complex because of the number of shared lines linking depository institutions to the Federal Reserve.

Conclusion -- The analysis of alternative fee structures for electronic services indicated that assessing fixed monthly fees to depository institutions based on the type of electronic connection with the Federal Reserve would result in a fee structure that more closely reflected the cost structure for electronic services and would be more equitable than the current fee structure.

Because intradistrict communications costs are directly attributable to the provision of electronic services, only the costs of the lines, modems, and concentration equipment as well as the administrative expenses incurred in managing the network were included in the cost base used to establish fixed fees. Further, because the type of line used to link a depository institution to the Federal Reserve is more directly related to the service level provided to depository institutions than the type of equipment an institution

installs, the fixed monthly fees will be assessed based on the type of line used.<sup>6/</sup>

After consideration of comments received, the Board has approved the fee schedule appearing at the beginning of this notice. In order to provide depository institutions sufficient time to reassess the cost effectiveness of their current electronic connection with the Federal Reserve, and to provide them with sufficient opportunity to take these fees into account in planning for 1985, the Board has determined to establish an effective date for the electronic connection fee schedule of January 2, 1985.

By order of the Board of Governors of the Federal Reserve System, September 13, 1984.

(signed) William W. Wiles

---

William W. Wiles  
Secretary of the Board

<sup>6/</sup> The types of connections are as follows:

Dedicated leased lines provide uninterrupted service to a single institution and are typically the most costly connections on an institution basis. Approximately 270 dedicated leased-line connections are currently in place.

Multi-drop leased lines provide uninterrupted service to a group of institutions that share a primary circuit. This type of connection is less costly on an institution basis. Nearly 1,200 multi-drop leased lines are currently in place.

Dial-up lines are based on the telephone companies' WATS and 800 services. These are the least costly connections. Over 3,500 institutions obtain electronic services through the use of dial-up lines.