



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT

DALLAS, TEXAS 75222

February 8, 1985

Circular 85-20

TO: The Chief Executive Officer of all
depository institutions in the Eleventh
Federal Reserve District

SUBJECT

**Revised fee structures for the definitive securities safekeeping and
noncash collection service effective February 28, 1985.**

DETAILS

The Board of Governors of the Federal Reserve System has approved the revised fee structures for the definitive securities safekeeping and noncash collection service. The Board's action results in the introduction of a re-registration fee for registered securities and a return item fee for any coupon deposit that is returned as uncollectible. With the implementation of this new fee structure, effective February 28, the Dallas District is expanding the mixed deposit program to all depository financial institutions.

ATTACHMENTS

Attached is the Board's press release, Federal Register document and 1985 fee schedules for the definitive securities safekeeping and noncash collection service.

MORE INFORMATION

For further information, please contact Lynn Vick, (214) 651-6263 at the Head Office; Robert W. Schultz, (915) 544-4730 at the El Paso Branch; Luke E. Richards (713) 659-4433 at the Houston Branch; or Tony Valencia, (512) 224-2141 at the San Antonio Branch.

Sincerely yours,

A handwritten signature in cursive script that reads "William H. Wallace".

FEDERAL RESERVE press release



For immediate release

January 29, 1985

The Federal Reserve Board today approved revised fee structures for the definitive securities safekeeping and noncash collection service, effective February 28.

The Board's action results in the introduction of a re-registration for registered securities and permits Reserve Banks to charge a fee for maintaining coupon bearing securities.

The Board also approved several changes to the fee structure for noncash collection. A Reserve Bank may charge a fee to the depositor for any coupon deposit that is returned as uncollectible. Reserve Banks are given the option of adopting a mixed deposit program, which will allow a depository institution the opportunity to deposit all of its coupons in one mixed deposit. The Reserve Banks also have the option of charging a higher fee to recover the additional costs of collecting noncash items payable at country endpoints.

The revised fee structures are attached.

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Attachment

FEDERAL RESERVE SYSTEM

(Docket No. R-0533)

FEE SCHEDULES FOR FEDERAL RESERVE BANK SERVICES

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: 1985 Fee Schedules for the Definitive Securities Safekeeping and Noncash Collection Service.

SUMMARY: The Board has approved new fee structures and fees for the Federal Reserves' definitive securities safekeeping and noncash collection service.

EFFECTIVE DATE: February 28, 1985.

FOR FURTHER INFORMATION CONTACT: Gerald D. Manypenny, Manager (202/452-3954), or Donna A. DeCorleto, Senior Analyst (202/452-3956), Division of Federal Reserve Bank Operations; 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 September 1983, the Board approved fee schedules for the definitive securities safekeeping and noncash collection service. 48 F.R. 44647 (September 29, 1983). Fees were established to provide a matching of costs, excluding the private sector adjustment factor ("PSAF"), and revenues in the third quarter of 1984. The Federal Reserve recovered 98 percent of the costs of providing this service in the end of the third quarter of 1984 based on costs and revenues of approximately \$4.7 million and

\$4.6 million, respectively. Preliminary data for the fourth quarter of 1984 indicates a recovery rate comparable to that of the third quarter.^{1/} In order to achieve a cost/revenue match, including PSAF, in 1985, and in view of changing industry practices attributable to the Tax Equity and Fiscal Responsibility Act, the Board proposed several changes to the fee structures in November 1984. 49 F.R. 46488 (November 26, 1984). The proposed revisions to the definitive securities safekeeping fee structure included: (1) the addition of a reregistration fee by all Reserve Banks to recover the costs of sending a registered security to the transfer agent for reregistration; (2) the introduction on a district option basis of a fee to differentiate the higher costs of safekeeping coupon bearing securities as compared with registered securities. Proposed revisions to the noncash collection activity fee structure included: (1) an optional return item fee; (2) the addition of a mixed deposit option on a permanent basis;^{2/} and (3) the option of setting different city and country collection fees for Reserve Banks not electing to offer

^{1/} Preliminary data for the year indicates that costs, including PSAF, were \$21.7 million with revenue of \$18.5 million.

^{2/} The mixed deposit program provides depository institutions in participating districts the option of submitting unsorted coupon envelopes.

a mixed deposit program. Fees were projected to increase by an average of 21.5 percent.

Ten comments, six from Reserve Banks, were received concerning the Board's proposals. Comments received from depository institutions were generally favorable. One commenter suggested that cost reduction efforts continue instead of increasing fees. One depository institution objected to the imposition of a reregistration fee for registered securities kept at a Reserve Bank solely for pledging purposes. Another commenter stated that reregistration is a labor intensive procedure for which most commercial banks charge and the proposed fee was in line with commercial bank charges in that district. This commenter also stated that, although its local Reserve Bank was not exercising the option to charge a fee to differentiate between coupon bearing and registered securities, such an option was not necessary because the declining number of coupon bearing securities would result in declining costs. One commenter expressed concern about the increase in its Reserve Bank's deposit and withdrawal fees.

A review of the Reserve Banks' cost and revenue projections for 1985 indicates that the fee increases reflected in the request for comment are necessary to ensure that the System recovers fully the cost, including PSAF, of providing

this service in 1985.^{3/} The Board also believes that revisions to the fee structure for the definitive securities safekeeping activity are essential to achieving this goal. Reregistration of a registered security is labor intensive and costly because the security must be withdrawn from safekeeping, transported to the transfer agent, and returned into safekeeping. These costs have been increasing as the number of registered securities increases. Similarly, the optional fee to differentiate between coupon bearing securities and registered securities reflects the increased costs resulting from the need to clip maturing coupons twice yearly. Registered securities usually have no coupons. Generally, costs related to coupon bearing securities do not decline as rapidly as the number of coupon bearing securities declines because of their labor intensive nature and requirements to maintain high security standards in this operation.^{4/}

With regard to the noncash collection activity, two commenters supported the imposition of a return item fee on a

^{3/} Reserve Banks are continuing cost reduction efforts. In 1984, cost for the service increased approximately 3 percent due to significant volume increases and to the introduction of float costing in 1984. Excluding float, 1984 costs declined 1 percent compared to 1983. Costs are projected to decline by 2.3 percent in 1985.

^{4/} Three Reserve Banks will adopt a par value fee for coupon bearing securities to reflect this differential and another Reserve Bank will alter its account maintenance fee.

district option but expressed concern over the level of the fee. One commenter stated that a depository institution should not be charged the return item fees of two Reserve Banks handling returned out-of-district items.

In light of the comments received, Reserve Banks reviewed the costs associated with return item handling. As a result of that review, ten of the Reserve Banks believed the level of the fee was appropriate and the St. Louis Reserve Bank decided not to exercise the option to impose a return item fee.^{5/} The return item fee will be assessed only by the collecting Reserve Bank.

One commenter supported the mixed deposit option as beneficial to those depository institutions that do not have sufficient volume of noncash items to justify the time involved in sorting. The Board believes that in light of the benefits of the program for these depository institutions, the mixed deposit program should be approved on a district option basis. The Board also determined that Reserve Banks not offering the mixed deposit program be given the option of adopting different city and country collection fees.

After review of the comments received and analysis of the issues raised, the Board has decided to approve the revised

^{5/} The Atlanta Reserve Bank had previously decided not to charge a return item fee.

fee schedules for the definitive securities safekeeping and noncash collection service, to be effective February 28, 1985. The revised fee schedules are attached. The Board believes that the revised fee schedules will provide for full recovery of costs, including PSAF, in 1985 based on projected costs of \$21.2 million and projected revenue of \$21.3 million.

By order of the Board of Governors of the Federal Reserve System, January 29, 1985.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

Attachments

1985 PRICE SCHEDULE
DEFINITIVE SAFEKEEPING

	DEPOSITS		WITHDRAWALS 1/		RECEIPTS/ISSUES				PURCHASES AND SALES		RE-REGISTRATIONS		PAR VALUE	
	1984	1985	1984	1985	1-400 1984	1-400 1985	400+ 1984	400+ 1985	1984	1985	1985	1/	1985	2/
BOSTON	12.50	12.50	12.50	12.50	2.80	2.90	2.10	2.20	15.00	15.00	12.50		-----	
NEW YORK	35.50	35.50	35.50	35.50	5.35	5.35	4.75	4.75	23.00	23.00	35.50		0.0050	
PHILADELPHIA ^{3/}	15.00	16.00	15.00	16.00	3.00	3.25	2.00	2.25	19.00	20.00	20.00		-----	
CLEVELAND	15.00	15.00	15.00	15.00	2.25	2.00	1.75	1.50	25.00	25.00	15.00		0.0050	
RICHMOND	15.00	15.00	15.00	15.00	1.50	1.95	1.00	1.45	20.00	20.00	15.00		-----	
ATLANTA ^{4/}	0.00	0.00	5.00	5.00	* see below	* see below			N/A	N/A	5.00		-----	
CHICAGO	11.00	15.00	11.00	15.00	3.00	3.50	2.75	2.75	19.00	21.00	15.00		-----	
DETROIT ^{5/}	11.00	11.00	11.00	11.00	2.00	2.25	1.75	2.00	N/A	N/A	11.00		-----	
ST. LOUIS	8.00	10.00	8.00	10.00	1.25	1.50	0.90	0.90	N/A	N/A	10.00		-----	
MINNEAPOLIS	8.00	8.00	8.00	8.00	1.40	1.40	0.75	0.75	10.00	10.00	8.00		-----	
KANSAS CITY	15.00	15.00	15.00	15.00	1.50	2.50	1.25	2.25	20.00	20.00	15.00		-----	
DALLAS	10.00	10.00	10.00	10.00	2.75	2.25	2.50	2.00	26.50	26.50	10.00		0.0080	

1/ ACTUAL SHIPPING COSTS ADDITIONAL.

2/ APPLIED TO COUPON BEARING SECURITIES ONLY; FEE PER \$1,000 PAR VALUE.

3/ PHILADELPHIA-\$2.25 FEE FOR ALL REGISTERED SECURITIES. THIS IS TO RECOGNIZE THE LOWER HANDLING COSTS OF REGISTERED SECURITIES VERSUS BEARER SECURITIES.

4/ ATLANTA 1-500 RECEIPTS @ \$2.50 IN 1984/85, 500-1000 @ \$2.00 IN 1984/85, AND 1000+ @ \$1.50 IN 1984/85.

5/ DETROIT PILOT 1-100 RECEIPTS PRICED AT @ \$3.00 1984/85, OVER 100 RECEIPTS @ \$2.25 IN 1984 AND \$2.50 IN 1985 INCLUDING COLLECTION OF COUPONS.

1985 PRICE SCHEDULE
NONCASH COLLECTION
(FOR BANKS NOT OFFERING A MIXED DEPOSIT PRODUCT)

	LOCAL COUPONS			ADD-ON FEE FOR INTERDISTRICT COUPONS		POSTAGE & INSURANCE <u>1/</u>		RETURN ITEMS	BOND REDEMPTIONS AND SALES <u>2/</u>	
	LOCAL	CITY	COUNTRY	1984	1985	1984	1985	1985	1984	1985
	<u>1984</u>	<u>1985</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>
BOSTON	2.00	2.00	2.00	2.55	2.75	1.00	1.00	3.00	12.50	12.50
NEW YORK	2.50	2.75	4.00	2.75	2.75	0.50	0.75	10.00	35.50	35.50
PHILADELPHIA	2.90	2.90	2.90	2.55	2.85	1.00	1.00	10.00	15.00	20.00
RICHMOND	2.00	2.00	2.00	2.50	3.50	1.00	1.00	5.00	20.00	20.00
CHICAGO ^{3/}	3.50	3.50	3.50	2.75	2.75	.70/	1.00/	10.00	11.00	20.00
DETROIT	2.50	2.50	2.50	2.60	3.00	1.00	1.00	10.00	11.00	11.00
MINNEAPOLIS ^{4/}	2.50	2.50	2.50	2.70	3.00	0.60	0.60	10.00	8.00	8.00
KANSAS CITY	3.20	3.50	3.50	2.50	3.50	1.00	1.00	10.00	15.00	20.00
SAN FRANCISCO	4.00	5.00	5.00	N/A	N/A	1.00	1.00	10.00	35.50	35.50

(FOR BANKS OFFERING A MIXED DEPOSIT PRODUCT)

	LOCAL COUPONS FROM IN-DISTRICT DFI'S				LOCAL COUPONS FROM OUT-OF-DISTRICT DFI'S				INTER-DISTRICT COUPONS				RETURN ITEMS	BOND REDEMPTIONS AND SALES <u>2/</u>	
	CITY		COUNTRY		CITY		COUNTRY		FINE SORT		MIXED		1985	1984	1985
	<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>
CLEVELAND	2.25	2.75	2.75	3.00	3.00	3.25	3.00	3.50	2.75	4.00	3.75	5.00	10.00	15.00	15.00
ATLANTA	1.75	1.75	2.50	2.50	1.40	2.40	1.40	3.15	2.75	2.75	3.75	3.75	0.00	7.50	7.50
ST. LOUIS	2.00	3.25	2.00	3.25	2.00	3.25	2.00	3.25	2.75	3.25	3.25	3.25	0.00	10.00	10.00
DALLAS	2.75	3.00	2.75	3.00	2.10	3.50	2.10	3.50	2.75	3.25	3.75	4.50	10.00	15.00	20.00

1/ PER \$1000.
2/ ACTUAL SHIPPING COSTS ADDITIONAL.
3/ CHICAGO - 1985 POSTAGE AND INSURANCE \$1.00 PER \$1000 LOCAL, \$2.00 PER \$1000 INTERDISTRICT.
4/ MINNEAPOLIS - 12TH DISTRICT COUPONS \$4.00; BONDS \$8.00.
5/ PLUS POSTAGE AND INSURANCE.