FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT

DALLAS, TEXAS 75222

April 26, 1985

Circular 85-48

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

SUBJECT

Changes in fees for book-entry transfer of U.S. Treasury securities

DETAILS

The Federal Reserve Bank of Dallas currently provides book-entry transfer and account maintenance services for U.S.Treasury securities as a priced service to the banking community. The service has been priced since 1981. However, as a result of a recent review, the United States Treasury Department has determined that the Reserve Banks provide these services for Treasury securities as fiscal agent of the United States and not as a priced Reserve Bank service.

Proposed fees resulting from Treasury's decision were issued for comment on December 3, 1984. Following a review of the comments, it was determined that the proposed fees for transferring Treasury book-entry securities will become effective October 1, 1985. The new transfer fee will be comprised of a Treasury fee for the transfer of the securities and a Federal Reserve fee to cover the related funds settlement. The current prices and revised fees are listed below.

Treasury Securities Fee Structure

	Current Prices	New Fees
On-line Transfers originated	$3.00	$1.50
Funds Movement	--	$0.75
Off-line Transfer sent or Received	$10.00	$6.25
Funds Movement	--	$0.75

	Current Prices	New Fees
Monthly Account Maintenance		
Per issue	$ 0.50	--
Per Account	$15.00	--

The fees for Treasury book-entry securities transfers and the related funds settlement will be collected daily by direct charges to reserve or clearing accounts, and not as part of priced service billings. It should be noted that clearing account earnings credits cannot be applied. In addition, current prices will remain in effect for non-Treasury book-entry securities services.

Our Operating Circular No. 2, regarding on-line transactions in book-entry securities, will be amended to reflect these changes.

ATTACHMENTS

Attached is the text of the Federal Reserve and Treasury announcements which appeared in the Federal Register of March 28, 1985.

MORE INFORMATION

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

Sincerely yours,

William H Wallace

DEPARTMENT OF THE TREASURY

Fiscal Service

Fee Schedule for the Transfer of U.S. Treasury Book-Entry Securities Held at Federal Reserve Banks

AGENCY: Department of the Treasury, Fiscal Service, Bureau of the Public Debt.

ACTION: Final Notice.

SUMMARY: This notice contains a schedule of fees that will be charged by the Department of the Treasury for the transfer of book-entry Treasury securitis between accounts of depository financial institutions that are maintained at Federal Reserve Banks and Branches. When the fee schedule herein becomes effective on October 1, 1985, it will replace the current schedule of fees charged by Federal Reserve Banks for the transfer and account maintenance of Treasury securities.

EFFECTIVE DATE: October 1, 1985.

FOR FURTHER INFORMATION CONTACT:

Carl M. Locken, Jr., Acting Assistant Commissioner (Financing), Bureau of the Public Debt, Washington, D.C. 20239, telephone (202) 376-4350; or

Anne M. Meister, Federal Reserve Liaison Officer, Bureau of the Public Debt, Washington, D.C. 20239, Telephone (202) 376-4304.

SUPPLEMENTARY INFORMATION:

Background

On December 3, 1984, the department of the Treasury published for comment a notice of a proposed fee schedule for Treasury securities transfers (49 FR 47354). This action was taken as a result of a recent Department-initiated evaluation of the role of the Federal Reserve Banks in maintaining and transferring Treasury securities. Based on this review, the Treasury reaffirmed its position that the Federal Reserve Banks are acting as fiscal agents of the United States when performing such functions. Consequently, the Department determined that:

(1) Any fees charged in conjunction with Treasury Book-entry activities performed by the Federal Reserve Banks on behalf of the Treasury should be clearly identified and collected as Treasury fees;

(2) The Treasury would continue to impose a fee on depository institutions for transfers of book-entry Treasury securities conducted by the Federal Reserve Banks, as fiscal agents of the United States, between accounts held at the same or different Federal Reserve Banks.

(3) The fees heretofore imposed for account maintenance for Treasury book-entry securities would be terminated.

The comment period for the proposed fee schedule closed on January 16, 1985. After reviewing and considering all written comments, the Department has decided to adopt the fee schedule as published in the proposed notice. However, to accommodate more extensive Federal Reserve system changes, the proposed implementation date of March 28, 1985, will be delayed until October 1, 1985.

Comments on Proposed Fee Schedule

Only two written comments were addressed to the Treasury, both of which were favorable to the proposed Treasury fee schedule. The Federal Reserve Board of Governors received several written comments in response to its companion notice in the **Federal Register** (49 FR 47354) on a proposed funds settlement fee relative to the transfer of Treasury securities. Since some of the comments directed to the Federal Reserve Board primarily related to Treasury determinations, the Treasury feels it appropriate to respond to these comments as well.

Two commentors expressed concern about the recent determination that the Federal Reserve Banks act as Fiscal Agents of the United States when transferring and maintaining Treasury book-entry securities. These comments cited the implications for other Federal Reserve priced services and for potential private sector competitors to the Federal Reserve. In response to these comments, the Department wishes to clarify that the Treasury determines what functions the Federal Reserve Banks will perform as Fiscal Agents of the United States. At the inception of the book-entry system for Treasury securities, the book-entry activities of the Reserve Banks were deemed to be fiscal agency functions. The system and regulations governing Treasury book-entry securities are established such that the Federal Reserve Banks, acting at the direction of the Treasury, hold the primary level of accounts that evidence Treasury's obligations. The Department's recent review reaffirmed its original fiscal agency determination, leading to the present restructuring of fees in accordance with Treasury direction. The Treasury's determinations regarding fiscal agency matters do not extend to services provided by the Federal Reserve Banks that are outside the scope of their role as Fiscal Agents of the United States.

Several commentors expressed concern to the Federal Reserve Board about the collection of fees on a daily basis for the transfer of Treasury securities. The commentors felt that it would be difficult to reconcile Treasury transfer activity separately from the non-Treasury securities activity that is billed monthly. The Treasury has instructed the Federal Reserve Banks to collect Treasury security transfer fees on a daily basis. This is consistent with the fee collection schedule that had been in place for Treasury securities transfers until several years ago. In preparing to implement the new fee schedule, the Federal Reserve Banks are making system changes that will provide depository institutions with sufficient data to reconcile their daily Treasury transfer activity to the fees charged.

Final Notice

Effective October 1, 1985, the Department of the Treasury establishes the following fee schedule for transfers of Treasury book-entry securities between the accounts of depository institutions that are maintained at Federal Reserve Banks and Branches:

Fee Schedule

On-line transfers originated, $1.50 per transfer

Off-line transfers originated, $6.25 per transfer

Off-line transfers received, $6.25 per transfer.

Carole Jones Dineen,
Fiscal Assistant Secretary.

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[Docket No. R-0534]

U.S. Treasury Book-Entry Securities Service

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final action.

SUMMARY: The Board has approved a fee of $0.75 for the funds settlement component of the secondary market book-entry transfer of U.S. Treasury securities.

EFFECTIVE DATE: October 1, 1985.

FOR FURTHER INFORMATION CONTACT: Gerald D. Manypenny, Manager (202/452-3954) or Brada W. Panther, Analyst (202/452-2831), 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: One of the services provided depository institutions by the Reserve Banks is the secondary market book-entry transfer of U.S. Treasury securities. Based upon a review of the roles of the Federal Reserve and the Treasury in providing this service, the Treasury Department has concluded that the secondary market book-entry service provided by the Reserve Banks for U.S. Treasury securities should be regarded as a fiscal agency activity. Consequently, the Treasury determined that fees charged for the book-entry securities activity performed by Reserve Banks as fiscal agents will be established by the Treasury and collected by Reserve Banks on its behalf. A book-entry securities transfer message generally comprises two components: the securities transfer and the accompanying funds settlement. The Federal Reserve and Treasury determined that the funds settlement element of a securities transfer message is not a fiscal agency activity performed by the Reserve Banks on behalf of the Treasury.

In December 1984, the Board proposed a fee of $0.75 per book-entry securities transfer to cover the direct, support, overhead, and float costs associated with the funds settlement as an activity incidental to the provision of a fiscal agency function. 49 FR 47335 (Dec. 3, 1984). Concurrent with the Board's request, the Treasury Department also requested public comment on its proposed fee schedule for Treasury secondary market securities transfers originated on-line and originated/received off-line. 49 FR 47354 (Dec. 3, 1984). The Treasury also proposed that its fees would be charged daily against depository institution's clearing/reserve accounts. Treasury's proposed fees did not include the funds settlement component of the transfer.

Thirteen responses were received as a result of the Board's request for public comment—twelve depository institutions and one clearing house association.[1] Eight of the twelve depository institutions supported the proposed funds settlement fee. Four depository institutions and the clearing-house association did not comment specifically on the proposed fee.

Six commenters expressed concern over the proposal to have the fees charged daily against their reserve/clearing balances. In their opinion, daily charging would be operationally burdensome and make it difficult for them to reconcile their accounts. Several commenters suggested that charging be done on a monthly basis. The Treasury, however, has indicated that it wants the Reserve Banks to charge depository institutions for transfers of book-entry Treasury securities on a daily basis, as was done on its behalf for many years prior to 1981. In addition, daily charging is consistent with Treasury's current cash management objectives. The Board believes that the Reserve Banks should therefore assess the funds settlement fee on a daily basis so that all fees resulting from a single transaction would be charged on the same basis. Charging the two fees on differing bases would further complicate reconciliation. Statements of activity and charges provided by Reserve Banks should assist depository institutions with reconcilement.

Several commenters stated that earnings credits on clearing balances should be available for charges associated with Treasury securities transfers. Earnings credits are available to pay for charges arising from the use of Federal Reserve priced services. Since the Treasury has determined that secondary market transfer of book-entry Treasury securities is a fiscal rather than priced service, it would be inappropriate to use earnings credits to pay for these charges.

Three commenters stated it was inappropriate to regard the book-entry securities transfer service for Treasury securities as a fiscal agency service and expressed concern that the Federal Reserve may use the fiscal authority to exclude other priced services from the provisions of the MCA. Concern was also expressed that transfers of other types of book-entry securities would also be regarded as fiscal activities thus making it difficult for the private sector to compete. The Board does not believe that these concerns are warranted. Under section 15 of the Federal Reserve Act, the Secretary of the Treasury is authorized to require the Reserve Banks to act as fiscal agents of the United States. After reviewing the roles of the Treasury and the Federal Reserve, the Treasury concluded that Reserve Banks conduct book-entry Treasury securities transfers as fiscal agents. The funds settlement component of the transfer message is an integral element of the transfer and, as one commenter noted, cannot be separated from the securities component without having a disruptive effect on the secondary market. Therefore, the funds settlement component is properly regarded as incidental to a fiscal service rather than a priced service. The Treasury's determinations regarding fiscal agency matters do not extend to services provided by Reserve Banks other than as fiscal agents.

After review of the comments received, the Board has decided to approve a funds settlement fee of $0.75 per transfer to be charged by Reserve Banks for secondary market book-entry transfer of U.S. Treasury securities, effective October 1, 1985.

By order of the Board of Governors of the Federal Reserve System, March 26, 1985.

William W. Wiles,

Secretary of the Board.

[1] In addition, six Reserve Banks commented in support of the proposal.

[FR Doc. 85-7484 Filed 3-27-85; 8:45 am]

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