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FED ANNOUNCES NEW WIRE-TRANSFER FEES

The Federal Reserve Board of Governors has announced new schedules of charges to depository institutions for wire transfer of funds and net settlement services, effective April 29. The new schedules generally are higher than those for 1981, reflecting increased costs.

The Board set the new charges in conformity with the Monetary Control Act of 1980, which requires that the Federal Reserve charge explicitly for its services. Moreover, the Act states that charges should recover the system's cost of providing priced services plus a "private sector adjustment factor"—an adjustment for costs that would have been incurred if the services had been provided by a private business firm. In January, the Board set this adjustment factor at 16 percent for use in determining 1982 prices.

In 1982, both the originator and the receiver of a wire transfer will pay 65 cents per transfer. (In 1981, the charges were 80 cents to the originator, but no charge to the receiver). Surcharges for off-line origination of a wire transfer, and for telephone advice of a wire transfer, will be $3.50 and $2.25 respectively—compared with $2.70 and $1.80 for those charges last year.

The Board cited several reasons for imposing equal charges on senders and receivers of transfers. Receivers benefit from the wire transfer by immediate availability and irrevocability of funds, and receivers may request that senders spe-

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RESERVE BANK UNVEILS FEDLINE SYSTEM

The Federal Reserve Bank of San Francisco this month unveiled a new on-line communications service, called FedLine. The Reserve Bank will test the service with four to six pilot banks later this spring before making it available to other depository institutions in the San Francisco district.

Initially, subscribers to the system will use FedLine's microcomputers to transfer funds directly through the Federal Reserve's communication system (Fed Wire). In the future, FedLine will enable users to perform a variety of transactions directly through the Federal Reserve System. In this district, these transactions will include ordering cash deliveries, requesting securities transfers, ordering deliveries of Automated Clearing House traffic, sending and receiving administrative wires, and obtaining accounting information.

In view of the provisions of the Monetary Control Act of 1980, which requires the Federal Reserve System to price all its services, the San Francisco Reserve Bank has been analyzing a number of methods to improve existing payment services for depository institutions in this district. FedLine, the first major result of that research, has been designed as a cost-effective way for depository institutions to take advantage of the innovations of the changing financial environment.

Technically, the FedLine system represents an adaptation of the IBM personal computer. The microcomputer has a keyboard like that of a standard typewriter, a system unit with 128 K memory, a video display with an 11½-inch screen, and a bidirectional printer. The microcomputer can be plugged into a standard electrical outlet in any room. According

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PHASE-IN SET FOR NEW BANK RESERVES

The Federal Reserve Board of Governors has made permanent its temporary amendment to the two-year phase-in of reserve requirements for new depository institutions. The phase-in does not apply to institutions which started business on or after November 18, 1981 after they reach total reservable liabilities of $50 million.

Under provisions of the Monetary Control Act of 1980, depository institutions that are not members of the Federal Reserve System became liable for reserves against their transaction (checkable) accounts and non-personal time deposits. Although the law gave existing nonmember institutions an eight-year phase-in for reserve requirements, it did not specifically address what should happen in the case of new institutions. Accordingly, the Board has allowed a two-year phase-in.

Additionally, the Board amended Regulation D's reporting requirements to enforce weekly (rather than quarterly) reporting of deposits for rapidly-growing depository institutions. Thus, an institution with total deposits of less than $15 million may report quarterly until its deposits exceed $15 million for two consecutive quarters and it is told to report weekly.

The Board designed its Reg D amendment as a means of limiting exceptions to reserve-maintenance and reporting requirements to the beneficiaries originally intended. The Board had designed the two-year phase-in provision to prevent any disadvantage to new institutions during their start-up period, and designed the quarterly-reporting exception to help lighten the reporting burden on very small institutions. In both cases, the Fed concluded that the provision would not be appropriate for rapidly-expanding institutions.

CHANGES PROPOSED ON FUND TRANSFERS

The Federal Reserve Board of Governors has proposed four amendments to its Regulation E (Electronic Fund Transfer) to help reduce the burden of regulatory compliance, especially for small institutions subject to the Electronic Fund Transfer Act. The transactions covered include payments for goods and services, or withdrawals and deposits of funds, that are made electronically rather than by check.

The first amendment would exempt from the regulation those preauthorized fund transfers initiated by the Federal Government to accounts at small financial institutions. This exemption would cover only direct Federal deposits to individual accounts—such as deposits of interest, wage, and salary and benefit payments to individuals. The proposed exemption would make no change in the requirements for financial institutions to make direct Federal deposits promptly available to consumers.

The second amendment, referring to regional or nationwide interchange-systems of Automated Teller Machines (ATMs), states that the terminal receipt in each case need not disclose the type of account affected. The proposal was made on the grounds that the consumer can make use of only one type of account (e.g., savings or checking account) in such a transaction. The ATM thus is incapable of providing the information on a receipt whenever the transaction is made through an ATM used by many financial institutions. The Board previously had made a similar exception applicable to point-of-sale transactions.

The third amendment would provide partial exemption from periodic-statement requirements for certain telephone transfers conducted between a consumer's accounts held at the same institution. Each record of such a transaction now must be provided on monthly statements of each customer's individual accounts. Henceforth, a customer would continue to get a report of such transactions on the monthly checking-account statement, while savings-account passbooks or statements would continue to be updated in keeping with the institution's normal practice.

The final amendment would modify the documentation-and-error resolution requirements for transfers initiated outside the United States. This would be done to take account of differing operational capabilities of ATMs in use in this country and abroad, and to allow for the time required to obtain overseas information necessary to settle allegations of errors.

FED ASKS FOR COMMENT ON BANKAMERICA DEAL

The Federal Reserve Board of Governors has asked for public comment on BankAmerica Corporation's proposed acquisition of Charles Schwab and Company, the nation's largest discount-brokerage firm. If the Fed should approve the merger, the BankAmerica holding company could offer a full range of "one-stop" financial services from checking accounts to the sale of stocks.

A Fed staff report noted that the transaction could develop into a historic test case for Federal banking laws. After receiving comment, the Board will have to resolve the question of whether the proposed acquisition conflicts with the Glass-Steagall Act of 1933, which drew a line between investment-banking and commercial-banking.

BankAmerica officials have argued that the Schwab purchase would not violate the Glass-Steagall Act because Schwab only executes orders. They note that the legislation keeps banks from underwriting and distributing corporate-securities, but that it does not explicitly prevent them from simply executing buy-and-sell orders, as the Schwab acquisition would permit.

BALLES SEES NO RECOVERY WITHOUT INTEREST RATE DECLINE

A substantial business recovery cannot be assured in the present atmosphere of high interest rates created by heavy deficit-financing pressures. This was the message of John J. Balles, president of the Federal Reserve Bank of San Francisco, as he spoke to an audience of Los Angeles community leaders and the directors of the Reserve Bank's Los Angeles branch on April 27.

"The obvious solution is to cut prospective deficits very sharply," said Balles. "This would lower long-run inflation expectations—and the result would be a lowering of long-term interest rates, which would then help to lower short rates as well."

Balles noted that the Congressional Budget Office had recently presented Congress with a list of 69 possible budget cuts and 40 possible tax boosts. "I'm sure that Administration and Congressional leaders have thoroughly studied every one of those bullet-biting options. What they need is the political skill to assemble a package of workable measures that will remove the deficit threat to our economic and financial health."

Continuing, he said, "As central bankers, it is not our responsibility to propose specific measures to close the fiscal gap. Still, we have a responsibility to point out the implications for financial markets of the crowding-out process created by heavy deficit-financing pressures."

Federal borrowing amounted to 16½ percent of total funds raised in credit markets during the 1970's, with the share increasing during recession years. But according to Fed estimates, the share could approach 32 percent in the 1982 recession year and 26 percent in the 1983 recovery year.

Balles argued, "This overwhelming Federal presence in credit markets has affected the amounts available to finance state and local governments, business needs for plant-equipment and inventory—and, needless to add, the auto and housing markets."

The Fed official argued that, in the absence of massive Federal deficits, we could be reasonably confident about an upturn in the national and regional economies—given the working-out of the inventory-liquidation process and the many signs of strength in the underlying economy. He added, "The most obvious sign of strength is the sharp drop-off in the inflation rate, which has stabilized real incomes and begun to restore confidence to household and business spending/saving decisions."

Consumer prices have increased at only a three-percent annual rate over the past half year—only a fraction of the inflationary pace maintained during the three preceding years. Balles cited several reasons for the price slowdown, such as the worldwide oil glut and the weakening of labor-cost pressures typified by the Ford and General Motors settlements.

"Most of the favorable inflation news, however, can be traced to a policy of monetary discipline, since inflation is primarily a monetary phenomenon. Monetary changes affect prices with roughly a two-year lag, so we're now seeing the favorable results of the slowdown adopted in this area several years ago."

Balles said that both the regional and national economies would benefit from the coming turnaround in inventory spending—and also from the boost to real consumer incomes resulting, first, from decreased inflation, as well as from the midyear income-tax cut and social-security benefit increase. He added that California, with its predominance in the defense field, will be helped by the Pentagon's 30-percent increase (in real terms) in procurement and research-development expenditures this fiscal year.

FED HOSTS LATIN CENTRAL BANKERS

The San Francisco Reserve Bank this month arranged a two-week program of activities for 27 advanced students from the Centro de Estudios Monetarios de Latino Americanos (CEMLA). The school, located in Mexico City, each year trains a number of middle-management officials for future leadership in their respective central banks.

In the first week of the San Francisco program, the Reserve Bank organized a number of lectures and tours for the CEMLA students. For the second week, the Bank scheduled a number of demonstrations at other financial institutions throughout the area. All programs were held in Spanish, which required the use of simultaneous translation, United Nations style. Spanish is the mother tongue of most CEMLA participants, but all of the Institute's publications are printed in Spanish, Portuguese, French, and English.

At its Mexico City headquarters, CEMLA brings together bankers from all over Latin America to study a variety of operational-banking topics. Many of the students already hold advanced degrees and positions of responsibility, so that CEMLA operates more as a facilitator rather than as a school. The Institute has produced more than 2,500 alumni since its inception in 1952, and more than 500 of those individuals have since been appointed to governorships of Latin American central banks.

WIRE TRANSFER FEES

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cifically use wire-transfer facilities for payments. Moreover, the private-sector wire-transfer service most comparable to the Fed Wire charges both senders and receivers.

For 1982, the Fed set the fee schedule for net-settlement services at $1.30 per settlement entry, plus $5.00 per off-line settlement, plus $2.25 per telephone advice (if requested). In 1981, the comparable fees were $0.80, $2.70 and $1.80, respectively. Reserve Banks will have the option of charging higher fees for net-settlement amounts that result in higher or unusual costs.

Questions regarding wire transfer and net-settlement services can be addressed to the following Financial Services officers: Martha Perry in San Francisco (415) 544-2127; Mary Ellen Martin in Los Angeles (213) 683-8318; Susan Robertson in Portland (503) 221-5909; William Hall in Salt Lake City (801) 322-7927; and William Ferensen in Seattle (206) 442-2754.

FED PERMITS DOMESTIC ROLE FOR EDGE FIRMS

The Federal Reserve Board of Governors has announced permission for Edge corporations—firms engaged in international trade and finance—to engage in certain investment-advisory and management services in this country. The Board's Regulation K specifies those domestic activities which would be permissible for Edge operations because they are ordinarily considered incidental to an Edge corporation's international or foreign business.

Under the new amendment, Edge corporations may offer portfolio-investment advice and portfolio management with respect to certain assets, such as securities and real-property interests. Also, they may offer general economic information and advice, general economic-statistical forecasting services, and industry studies. But under the amendment, the services provided to U.S. customers may be offered only in connection with foreign assets, or foreign economies and industries.

FEDLINE SYSTEM

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to Reserve Bank officials, depository institutions currently initiating wire transfers over the telephone (off-line) will find the service to be more economical—partly because of the lower level of on-line transfer fees, but also because of the many alternative uses of the microcomputer. Subscribing institutions could, at their option, use their FedLine microcomputers to do general accounting, compile statistics, manage cash and security inventories, and purchase software from computer centers or create their own software programs.

FedLine also will offer a high level of security to subscribing institutions. The security structure has eight levels which optimize the latest techniques in computer technology.

Reserve Bank officials estimate that FedLine rental fees will run about $5 a day. All installations will be handled by experienced Federal Reserve representatives. Further information can be obtained from the Bank's Financial Services Department in San Francisco at (415) 544-2515.

Federal Reserve Bank of San Francisco

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