

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 9010]
February 5, 1981

New Operating Circular on Net Settlement Arrangements

Revised Fees for Wire Transfer Services

To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:

Enclosed are copies of this Bank's new Operating Circular No. 9, entitled "Net Settlement Arrangements," an appendix to that circular, and a copy of a revised Appendix B to Operating Circular No. 8, providing the fee schedule for wire transfers of funds. These documents implement, in part, the pricing provisions of the Monetary Control Act of 1980. Also enclosed — for those who have complete sets of this Bank's operating circulars — is a revised table of contents.

Net Settlement Arrangements

Net settlement is a service that provides a convenient form of payment for financial transactions between depository institutions. Typically a group of depository institutions arranges to handle a large number of transactions between participating institutions. The institutions calculate the total amount due to or from each participant from the day's transactions and make payment by instructing this Bank to make a debit or credit to the account each participant maintains or uses on our books. For example, a regional check clearing house might arrange to have its members exchange checks and make payment through this net settlement service.

The terms under which we perform this service are set forth in the operating circular. A settlement group that wishes to use this service should have each member submit a letter in the format set forth in the exhibits to the operating circular agreeing to these terms and authorizing us to charge its account. A member that does not maintain an account directly with us must include the authorization of a correspondent to charge the correspondent's account.

Institutions that presently use our net settlement service must return the letters agreeing to these terms by February 23, 1981.

The following fees have been established, effective January 29, 1981, for the settlement of each balance for all settlement arrangements offered by this Bank, whether or not governed by Operating Circular No. 9:

Basic settlement charge per entry	\$0.80
Surcharges:	
Settlement originated off-line	\$2.70
Telephone advice requested	\$1.80*

* Fees for advices requested by an Agent shall become effective March 26, 1981.

(OVER)

Wire Transfer fees

Fees applicable to wire transfer services are charged to the originator of the wire transfer, including a fee for telephone advice to the recipient if the advice is requested by the originator. If the recipient requests telephone advice for all incoming transfers, the recipient pays for the advice if it has not also been requested by the originator. The following new charges have been established for wire transfers of funds handled by this Bank, effective January 29, 1981:

	Telephone Advice	
	No	Yes
Originator on-line	\$0.80	\$2.60°
Originator off-line	\$3.50	\$5.30°
Receiver off-line	—	\$1.80

° Fees for telephone advice requested by an originator become effective March 26, 1981. Until then the fee in the "No" column applies.

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If you have any questions about net settlement services or the pricing of wire transfer services, please call Henry F. Wiener, Manager, Funds Transfer Department (Tel. No. 212-791-5079), or Charles J. Mineer, Chief, Funds Transfer Division (Tel. No. 212-791-5073), at the Head Office of this Bank; or Robert J. McDonnell, Operations Officer (Tel. No. 716-849-5022), or Philip G. Coletti, Chief, Accounting Division (Tel. No. 716-849-5064), at our Buffalo Branch.

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE BANK
OF NEW YORK

[Operating Circular No. 9
Effective January 29, 1981]

NET SETTLEMENT ARRANGEMENTS

*To All Depository Institutions in the Second Federal
Reserve District, and Others Concerned:*

1. Except as otherwise agreed to in writing by this Bank, this operating circular sets forth the terms under which this Bank settles the balances resulting from check clearing and other arrangements involving Second District¹ depository institutions, branches and agencies of foreign banks, and Edge or Agreement corporations maintaining or using accounts on our books (hereinafter collectively called "depository institutions").

Definitions

2. The following definitions apply to this operating circular:
- (a) "Agent" means the person authorized by each Member of a Settlement Group to issue a Settlement Statement to this Bank;
 - (b) "Balance" means the amount listed in a Settlement Statement to be debited or credited to a Member of a Settlement Group;
 - (c) "Correspondent" means a depository institution maintaining an account with this Bank that has agreed to permit this Bank to debit or credit its account to settle the Balance of a Member of a Settlement Group;
 - (d) "Member" means a member of a Settlement Group whose Balances are settled by a debit or credit to its or its Correspondent's account on our books,
 - (e) "Settlement Group" means a group of depository institutions formed for the purpose of exchanging checks or other

¹ The Second District includes all of New York State, the 12 northernmost counties in New Jersey, and Fairfield County, Connecticut.

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payments and obligations, and settling those transactions on our books; and

- (f) "Settlement Statement" means an instruction to this Bank from the Agent containing the Balances of a Settlement Group.

Terms

3. Each banking day we receive a Settlement Statement, we settle the Balances on the Settlement Statement by debiting and crediting the Balances to the accounts of Members, or their Correspondents, on our books.

4. Each Settlement Group shall designate an Agent; the Agent is not required to be a Member of the Settlement Group. The Settlement Group may establish a procedure for the rotation of the function of Agent among its Members.

5. We settle Balances only if, on the Settlement Statement, the sum of the credit Balances equals the sum of the debit Balances.

6. We reserve the right to refuse to settle any Balances on a Settlement Statement if:

- (a) we learn that a Member or Correspondent has failed, been suspended, been closed, or the like;
- (b) the Agent notifies us that a Balance is in error; or
- (c) in our opinion, a Member or Correspondent does not or will not have in its account a balance of actually and finally collected funds sufficient to cover its debit Balance.

7. If, as provided above, we elect not to settle the Balances on a particular Settlement Statement, we will promptly notify the Agent. The Agent may then issue a revised Settlement Statement to this Bank which we will handle as the Settlement Statement. We may, in our discretion, settle the Balances on a revised Settlement Statement on the same banking day we receive the revised Statement or on the next following banking day.

8. If we learn that a Balance on a Settlement Statement is in error, we will not unilaterally adjust the error. The Settlement Group must adjust the error in a subsequent Settlement Statement.

9. The Settlement Statement shall be in one of the following forms:

- (i) a signed statement from the Agent;
- (ii) an authenticated telephone message; or
- (iii) an authenticated message on other media acceptable to this Bank.

Closing time

10. Appendix A to this operating circular provides a time schedule showing the latest hour we will accept a Settlement Statement on any banking day. If we receive a Settlement Statement after that closing time, we may elect, at our sole discretion, to settle the Balances on that Settlement Statement on the banking day received or on our next following banking day.

Liability of this Bank

11. We have no liability (a) in connection with a Settlement Statement, except for our lack of good faith or failure to exercise ordinary care, or (b) for the failure of a Member or its Correspondent to maintain a balance in its account on this Bank's books sufficient to cover a debit Balance.

Indemnity

12. In consideration of the services performed by this Bank in settling Balances, each Member agrees to indemnify us for any loss or expense (including attorneys' fees and expenses of litigation) incurred by us in connection with the services that we perform under this operating circular for that Member's Settlement Group, except those resulting from this Bank's lack of good faith or failure to exercise ordinary care or from the failure of a Member or its Correspondent to maintain a balance in its account on this Bank's books sufficient to cover a debit Balance (collectively referred to as a "Loss"). Each Member of a Settlement Group shall be responsible for an equal portion of a Loss. We may recover the amount of a Loss by debiting the Member's or its Correspondent's account on our books.

If a Member does not pay this Bank its portion of a Loss (a "defaulting Member"), the entire Loss shall be apportioned equally

among the remaining Members of that Settlement Group. Each defaulting Member shall be liable to each paying Member in the amount by which the paying Member's payment to this Bank was increased as a result of the default.

Fees

13. The fees for this settlement service for all Members will be charged to the account the Agent maintains or uses on our books, to the extent they are in excess of any earnings credit on clearing balances. Our fees are set forth in Appendix A to this operating circular. We reserve the right to change these fees from time to time.

Procedure for instituting a settlement arrangement

14. Each Member of a Settlement Group must execute a Settlement Agreement. All Members and Correspondents must be located in the Second District. A Member that wants charges to be made to an account it maintains on this Bank's books shall execute and deliver to us a letter in the form set forth in Exhibit A of this operating circular. Other Members must designate a Correspondent that maintains an account on our books. Those Members shall execute and have their Correspondents execute a letter in the form set forth in Exhibit B and deliver it to us. If the Agent is not a Member, it shall execute and have its Correspondent execute a letter in the form set forth in Exhibit C authorizing us to charge the Correspondent's account on our books for the settlement fees. When we have received properly completed letters from each Member and, if necessary, each Correspondent, and the Agent, we will advise the Agent when it may begin submitting Settlement Statements. The Agent shall inform us of new Members of a Settlement Group.

Termination

15. A Member or Correspondent may terminate our authority to debit or credit its account under a settlement arrangement at any time by sending written notice of termination to this Bank. Termination shall be effective when received by an officer of our Accounting Department; however, such termination shall not be effective with respect to any Settlement Statement received by this Bank prior to

such termination. We may terminate a settlement arrangement by providing the Agent with a notice of termination. Termination shall be effective on the date specified in the notice, which must be at least 10 calendar days after we mail the notice.

Revision of this circular

16. We reserve the right to amend this circular at any time. Any amendment shall apply only to transactions taking place after the effective date of the amendment.

ANTHONY M. SOLOMON,
President.

EXHIBIT A
MEMBER AGREEMENT

[To be typed on letterhead stationery of depository institution]

[Date]

Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Attention: Manager, [Funds Transfer Department]
or
[Check Processing Department]

Gentlemen:

We are a Member of,
(Name of Settlement Group)
a Settlement Group, and request that you settle our Balances.

(Describe nature of Settlement Group.)

We agree to the terms of your Operating Circular No. 9 as revised from time to time, and we authorize you to debit or credit our account on your books as provided by that Operating Circular. We (designate as Agent) (*or describe rotation procedure*). The Agent will provide you with a list of the names of all the original members of this Settlement Group. The Agent may from time to time inform you of additional Members of the Settlement Group.

.....
(Name of Depository Institution)

By:

EXHIBIT B
MEMBER AGREEMENT
WITH CORRESPONDENT AUTHORIZATION

[To be typed on letterhead stationery of depository institution]

[Date]

Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Attention: Manager, [Funds Transfer Department]
or
[Check Processing Department]

Gentlemen:

We are a Member of,
(Name of Settlement Group)
a Settlement Group, and request that you settle our Balances.

(Describe nature of Settlement Group.)

We agree to the terms of your Operating Circular No. 9 as revised from time to time, and (designate as Agent) *(or describe rotation procedure)*. The Agent will provide you with a list of the names of the original members of this Settlement Group. The Agent may from time to time inform you of additional Members of the Settlement Group.

We designate as our Correspondent.

.....
(Name of Depository Institution)

By:

We agree to act as Correspondent for

(Name of Depository Institution)

We authorize you to debit or credit our account on your books as provided by your Operating Circular No. 9.

.....
(Name of Correspondent)

By:

EXHIBIT C
AGENT AGREEMENT

[Required only if Agent is not a Member]

[To be typed on letterhead stationery of Agent]

[Date]

Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Attention: Manager, [Funds Transfer Department]
or
[Check Processing Department]

Gentlemen:

We have been designated Agent of
(Name of Settlement Group)
a Settlement Group, and accept that designation.

(Describe nature of Settlement Group.)

We agree to the terms of your Operating Circular No. 9 as revised from time to time. Attached is a list of the names of the original Members of this Settlement Group. We will inform you of additional Members.

We designate as Correspondent.

.....
(Name of Agent)

By:

We agree to act as Correspondent for
(Name of Agent)

We authorize you to debit or credit our account on your books as provided by your Operating Circular No. 9.

.....
(Name of Correspondent)

By:

Attachment

FEDERAL RESERVE BANK
OF NEW YORK

Appendix A to
Operating Circular No. 9
Effective January 29, 1981

TIME AND FEE SCHEDULES

*To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:*

Time Schedule

This Bank accepts Settlement Statements until 3 p.m. each banking day or until some later time agreed to by this Bank and the Agent.

Fee Schedule

The following fee schedule has been established for the settlement of each balance for all settlement arrangements offered by this Bank, whether or not governed by Operating Circular No. 9:

Basic settlement charge per entry	\$0.80
Surcharges:	
Settlement originated off-line	\$2.70
Telephone advice requested	\$1.80*

* Fees for advices requested by an Agent shall become effective March 26, 1981.

ANTHONY M. SOLOMON,
President.

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FEDERAL RESERVE BANK
OF NEW YORK

Appendix B to
Operating Circular No. 8
Effective January 29, 1981

SCHEDULE OF CHARGES

*To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:*

1. The following schedule of charges has been established for wire transfers of funds handled by this Bank:

	<u>Telephone Advice</u>	
	<u>No</u>	<u>Yes</u>
Originator on-line	\$0.80	\$2.60*
Originator off-line	\$3.50	\$5.30*
Receiver off-line	—	\$1.80

* Fees for telephone advice requested by an originator become effective March 26, 1981. Until then the fee in the "No" column applies.

2. This Appendix supersedes Appendix B, effective November 13, 1980, to Operating Circular No. 8.

ANTHONY M. SOLOMON,
President.

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**FEDERAL RESERVE BANK
OF NEW YORK**

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