

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **9521**
July 6, 1983]

SECURITIES SAFEKEEPING AND NONCASH COLLECTION SERVICES

Proposed Changes in Fee Structures

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

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has issued for comment proposed revisions to the fee structures for its definitive securities safekeeping and noncash collection services. The Board requested comment by August 8, 1983.

The definitive securities safekeeping service consists of vault storage primarily of municipal and corporate securities. Noncash collection provides a payments mechanism designed to collect items that cannot be processed through normal check collection channels. In accordance with the Monetary Control Act, the Federal Reserve began pricing these services in October 1981.

In general, the proposed revisions to the definitive securities safekeeping fee structure would eliminate the fee for switching accounts, convert the fee for bond redemption to a noncash collection fee and establish a new account maintenance fee. The revisions to the structure of the noncash collection fee would add an out-of-district component to the coupon collection fee and convert the bond collection fee from a per-item to a per-transaction basis. The out-of-district fee would be a surcharge for coupons payable outside of the Federal Reserve District in which they are deposited for collection.

The proposed fee structure for securities safekeeping services would retain the transaction fee component and monthly account maintenance fee component. Transaction fees would be charged for deposits and withdrawals of securities as well as purchase and sale transactions. Additionally, actual charges for postage and insurance would be assessed. The monthly account maintenance fee would be charged on a per-receipt or issue basis with a lower rate charged for receipts above 400.

The proposed noncash collection fee structure would include fees per coupon envelope collected, as does the current structure, plus the new standard surcharge for out-of-district items. Fees for postage and insurance would continue to be charged based on the value of the coupons being collected. For bond redemptions, fees would be assessed for each redemption transaction. Actual charges for postage and insurance would continue to be charged for each bond redemption transaction.

At the same time, the Board requested commenters to discuss the future role of the Federal Reserve in the definitive securities safekeeping and noncash collection services.

Printed on the following pages is the text of the Board's proposal. Comments thereon should be submitted by August 8, 1983 and may be sent to Jorge A. Brathwaite, Vice President, of our Government Bond and Safekeeping Function.

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE SYSTEM

(Docket No. R-0475)

FEE SCHEDULES FOR FEDERAL RESERVE BANK SERVICES

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Request for comment.

SUMMARY: The Board of Governors is requesting public comment on a proposal to revise the fee structures for the Federal Reserve's definitive securities safekeeping and noncash collection services. The definitive securities safekeeping fee structure would be revised by eliminating the account switch fee, converting the bond redemption fee to a collection fee and establishing a new account maintenance fee. The noncash collection fee structure would be revised by adding an out-of-district component to the coupon collection fee and converting the bond collection fee from a per-item basis to a per-transaction basis.

DATE: Comments must be received by August 8, 1983.

ADDRESS: Comments, which should refer to Docket No. R-0475, may be mailed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m. Comments received may be inspected at Room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in § 261.6(a) of the Board's Rules Regarding the Availability of Information, 12 C.F.R. § 261.6(a).

FOR FURTHER INFORMATION CONTACT: Gerald D. Manypenny, Manager (202/452-3954) or Mark J. Stewart, Senior Operations Analyst (202/452-2223), Division of Federal Reserve Bank Operations; or Gilbert T. Schwartz, Associate General Counsel (202/452-3625) or Daniel L. Rhoads, Attorney (202/452-3711), Legal Division.

SUPPLEMENTARY INFORMATION: In accordance with the provisions of the Monetary Control Act of 1980 (Title I of P.L. 96-221) (MCA), the Board adopted fee schedules for the Federal Reserve's definitive securities safekeeping and noncash collection services effective October 1, 1981. 46 F.R. 37972 (July 23, 1981). These fee schedules were designed to fully recover the costs of providing the services, including a private sector adjustment factor (PSAF) of 16 percent.

As a result of pricing, volume in both definitive securities safekeeping and noncash collection declined approximately 30 percent during the first 12 months of pricing. Revenues for 1982 for these services were \$14.6 million and costs, including the 16 percent private sector adjustment factor, were \$22.7 million. Accordingly, in 1982 the System recovered 64 percent of the costs, plus PSAF, of providing these services.

In response to this shortfall, Federal Reserve Banks initiated vigorous cost reduction efforts, resulting in a reduction in total costs for definitive securities safekeeping of approximately 27 percent and total costs for noncash collection of approximately 8 percent between the first quarter of 1982 and the first quarter of 1983.

In addition to continuing cost reduction efforts, Reserve Banks are developing product enhancements to meet the needs of depository institutions in their districts. For example, the Federal Reserve Banks of Atlanta, Cleveland and Chicago will be conducting pilot programs beginning July 1, 1983, to test the feasibility of providing a mixed deposit option in the noncash collection service. Under this program, these Reserve Banks would offer participating depository institutions the opportunity to deposit coupons in a mixed deposit, reducing the need for these institutions to pre-sort coupons according to whether the paying agents are located within or outside of the district. The receiving Reserve Bank would sort the coupons and forward them for payment. The Dallas Federal Reserve Bank will also be conducting a pilot program that establishes higher fees for noncash collection items (other than coupons) based upon higher costs associated with collecting such items.

Changes in the fee structures and schedules for the definitive securities safekeeping and noncash collection services, however, are necessary to provide for the recovery of costs of providing these services. Further, the proposed changes would simplify the existing fee structures.

At present, the fee schedule for definitive securities safekeeping includes an account switch fee that is charged whenever a security is transferred between accounts held by the same institution. This fee contributed only 2 percent of the revenues for this service and unnecessarily complicated the fee structure. Further, the present schedules establish different fees for processing a bond redemption from safekeeping and a bond collection deposited over the counter. However, experience has indicated that the services are essentially identical and consequently there is little reason to price them

separately. Comment is, therefore, requested on the proposal to eliminate the account switch fee and charge a bond collection fee instead of a bond redemption fee.

With respect to the account maintenance fee component of the definitive securities safekeeping fee schedule, it is proposed that this fee be differentiated on the number of receipts/issues in the account. Large volume holdings in a single account require less servicing such as billing entries, statements, advices, and tracers than an equivalent volume of receipts/issues in a number of accounts. Under the proposal, therefore, account maintenance fees would continue to be charged on a per receipt/issue basis but accounts with 400 or more receipts/issues would be charged a lower per receipt/issue fee than would accounts with less than 400 receipts/issues.

The proposed fee structure for the definitive securities safekeeping service would establish transaction fees for deposits and withdrawals of securities as well as for purchase and sale transactions. Additionally, actual charges for postage and insurance would be assessed. The monthly account maintenance fee would be established on a per receipt/issue basis with a lower rate charged for receipts/issues above 400.

Several changes are also being proposed for the noncash collection fee structure. At present, a depositor of coupons payable out of district is charged both the receiving and the collecting Federal Reserve Banks' fees. Since depositors are not always certain which Reserve Bank is the collecting Bank, and since each Reserve Bank has different fee schedules, this structure creates some confusion and makes it difficult for users of this service to forecast monthly billings and compare charges among the various providers of this service. Therefore, it is proposed to add an out-of-district component to the coupon collection price. Further, some bond collections currently are priced on a per-item basis and others on a per-transaction basis, depending on the size of the deposit. The proposal would eliminate this confusion by pricing all bond collections on a transaction basis.

The proposed noncash collection fee structure would include fees per coupon envelope collected and a surcharge per coupon envelope collected out of district. Fees for postage and insurance would be charged based on the value of the coupons being collected. For bond redemptions, fees would be assessed on a per-transaction basis together with actual charges for postage and insurance.

As a result of these modifications, the Federal Reserve is proposing to revise its fee schedules for its definitive securities safekeeping and noncash collection services as indicated in the attachment.

Additional Considerations. The Federal Reserve is one of the largest custodians of definitive municipal securities in the country. Reserve Banks currently safekeep approximately \$67 billion of definitive securities, the majority of which are municipal securities, and it is estimated that the Federal Reserve holds approximately 12 percent of the total \$425 billion outstanding in municipal bonds. Approximately 50 percent of these securities held by the Federal Reserve are maintained in priced definitive securities safekeeping. The remainder of the Federal Reserve's holdings are securities pledged as collateral for Treasury tax and loan (TT&L) account balances, other government deposits, and Federal Reserve discount window credit. In addition, in 1982, the Federal Reserve processed over 1.5 million coupon envelopes, 615,000 of which originated from securities maintained with the Federal Reserve for safekeeping.

The Federal Reserve believes that the offering of its definitive securities safekeeping and noncash collection services provide substantial public benefits in the form of improving the range of services available to all depository institutions regardless of size and location, enhancing the quality of services provided, and improving the efficiency of the collection process.

For example, in the definitive safekeeping area, some Reserve Banks are offering "called bond notification" and "portfolio valuation" services. In the noncash collection area, the Federal Reserve's autocredit/autocharge program enables depositors to receive credit according to a fixed availability schedule. Further, the Federal Reserve provides an alternative to the circuitous routing of noncash items that may otherwise occur. However, the Board recognizes that the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), which requires registration of newly issued municipal securities, may reduce the significance of this service in the future. However, since outstanding municipal securities remain unaffected by TEFRA's requirements, such securities in definitive form will remain outstanding for perhaps as long as twenty years or more. This suggests that there will continue to be a need for the definitive safekeeping and related noncash collection services during the transition period. In view of these considerations, the public is requested to comment on what they perceive the Federal Reserve's role should be in

continuing to offer definitive safekeeping and noncash collection services.

In addressing the issue of the Federal Reserve's role, commenters are requested to consider the availability of alternative providers of these services to remote and small depository institutions, the impact on depository institutions and alternative providers of these services if the Federal Reserve were to not offer the services, and how the Federal Reserve's role in maintaining securities as collateral for TT&L account balances, other government deposits and discount window borrowings would be affected.

By order of the Board of Governors of the Federal Reserve System, June 24, 1983.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

ATTACHMENT

	Proposed 1983 Prices (Dollars)					Noncash Collection			
	Definitive Safekeeping				Purchase and Sales (per trans- action)	Bond Collection (per trans- action)	Local Coupon (per envelope)	Inter District Coupon (per envelope)	Per \$1,000 Coupon Value
	Deposits (per trans- action)	Withdrawals (per trans- action)	Maintenance Per Receipt 1-400	400+					
BOSTON	12.50	12.50	2.80	2.10	15.00	10.00	2.00	2.15	1.00
NEW YORK	35.50	35.50	5.35	4.75	23.00	35.50	2.50	2.75	.50
PHILADELPHIA	10.00	15.00	3.00	2.00	19.00	10.00	2.90 ^{3/}	2.55	1.00
CLEVELAND	15.00	15.00	2.25	1.75	25.00	15.00	3.00	2.50	.50
RICHMOND	15.00	15.00	1.50	1.00	20.00	20.00	2.00	2.50	1.00
ATLANTA	See Note <u>2/</u> Below				N.A.	7.50	1.40	2.55	.75
CHICAGO	11.00	11.00	3.00	2.75	19.00	11.00	2.50	2.75	.70
DETROIT	11.00	11.00	2.00	1.75	19.00	11.00	2.50	2.60	1.00
ST. LOUIS	5.00	5.00	1.25	.90	N.A.	10.00	2.00	2.35	.75
MINNEAPOLIS	7.50	7.50	1.40	.75	10.00	7.50	2.50	2.70	.60
KANSAS CITY	5.00	20.00	1.50	1.25	20.00	15.00	3.20 ^{4/}	2.50	1.00
DALLAS	5.00	15.00	2.75	2.50	26.50	15.00	2.10	2.55	1.00
SAN FRANCISCO	N.A.	N.A.	N.A.	N.A.	23.50	35.50	6.00	N.A.	1.00

N.A. Not applicable

1/ Maintenance is generally priced on a per receipt basis except in New York, Cleveland, and Minneapolis where it is priced on a per issue basis.

2/ The Federal Reserve Bank of Atlanta will continue its current prices under an experimental pricing structure. Additional information may be obtained from any Office in the Atlanta District.

3/ The Federal Reserve Bank of Philadelphia also offers a fixed service contract option on coupon collection. Additional information may be obtained from the Reserve Bank.

4/ The Federal Reserve Bank of Kansas City offers a municipal coupon collection option. Additional information may be obtained from any Office in the Tenth District.