At-Cir. No. 9652 (a)

March 13, 1984

To the Depository Institution Addressed:

Our Circular No. 9644, dated February 24, 1984, announced a revised fee schedule for Federal Reserve automated clearing house (ACH) services and a plan to reduce and price ACH float over the next year. The new fee schedule becomes effective on March 29, 1984.

Enclosed is a copy of the official notice in this matter, issued by the Board of Governors of the Federal Reserve System. Also enclosed is a copy of Appendix A, revised effective March 29, 1984, to this Bank's Operating Circular No. 10, containing the time schedule and new fee schedule for ACH services.

Questions on this matter should be directed to Andrew Heikaus, Manager, Funds Transfer Department (Tel. No. 212-791-5565).

Circulars Division
FEDERAL RESERVE BANK OF NEW YORK

ACH FEE SCHEDULE AND FLOAT REDUCTION PLAN

Effective March 29, 1984

[Docket No. R-0482]

Fee Schedules for Federal Reserve Bank Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Fee Schedule and Float Reduction Plan for the Automated Clearing House Service.

SUMMARY: The Board of Governors of the Federal Reserve System ("Board"), pursuant to the requirements of the Monetary Control Act of 1980 ("MCA") (12 U.S.C. 248a), has adopted a revised fee schedule for its automated clearing house ("ACH") services and a plan to reduce and price ACH float over the next year. The revised fee schedule is as follows:

BASIC ACH TRANSACTION FEES

	Intra-ACH	Inter-ACH		
		Unsorted deposit	Presorted deposit	New York [1]
Debits originated (cents)	1.5	3	2.5	2.5
Debits received (cents)	.5	1	1	.5
Credits originated (cents)	.5	1	.5	.5
Credits received (cents)	1.5	3	3	2.5

FIXED ACH FEES

Deposit fees:	
Tape handling	$3 per tape.
File processing	$1 per file.
Receiver handling fees:[2]	
Non-electronic	$1.75 per delivery.
Electronic [3]	$0.75 per transmission.
Telephone advice fees:	
Telephone advices, including ten pieces of information.	$2.50.
Each additional piece of information.	$0.05.
Night time deposit surcharges:	
Debits originated	6 cents.
Credits originated (next-day settlement only).	3 cents.

[1] These fees would apply where the Federal Reserve does not operate a commercial ACH.

[2] Receiver handling fees will be assessed once a day per endpoint when ACH transactions are delivered.

[3] Electronic endpoints are defined as endpoints that receive ACH transactions via data transmission or receivers that pick up ACH transactions at the Federal Reserve.

EFFECTIVE DATE: March 29, 1984.

FOR FURTHER INFORMATION CONTACT: Elliott C. McEntee, Associate Director (202/452-2231) or Florence M. Young, Program Manager (202/452-3955), Division of Federal Reserve Bank Operations; Gilbert T. Schwartz, Associate General Counsel (202/452-3625) or Elaine M. Boutilier, Attorney (202/452-2418), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: The MCA requires that fee schedules be developed for Federal Reserve Bank services based on pricing principles established by the Board. In 1982, the Board determined to phase out its incentive pricing policy for ACH services. Accordingly, the ACH fee schedule, established on December 30, 1982, provided for recovery of 40 percent of the costs of providing commercial ACH services. Consistent with the phase-out of incentive pricing for commercial ACH services, in September 1983, the Board requested public comment on a restructured fee schedule which would recover 60 percent of commercial ACH costs. 48 FR 44650 (September 29, 1983). In addition, the Board requested comment on plans for eliminating and/or pricing ACH float, and potential near-term and long-term service enhancements. A total of 123 comments were received from the public.

Background

The ACH fee schedule that was implemented on December 30, 1982, was based on an incentive pricing policy, as noted above. The schedule is a national schedule, includes only per item fees, and assesses fees only to receivers of funds—institutions sending debits to collect payments and institutions receiving credits, such as salary payments.

The proposed fee schedule differed from the current fee schedule in several significant respects. First, the majority of fees were set at the district rather than national level. Second, per item fees were supplemented with fixed fees to recover the costs associated with handling deposits, preparing transactions for delivery and delivering them, and advising institutions of the receipt of ACH payments by telephone. Third, two surcharges were proposed that would be assessed to all originators. One, a low volume receiver surcharge, was intended to recover a

[Ref. Cir. No. 9644]

portion of the costs incurred in providing services to a large number of small institutions. The other, an interregional surcharge, was intended to recover the costs of processing ACH transactions that must be handled by two Federal Reserve offices. In each case, the surcharge was based on the benefits to originators from being able to send transactions to many depository institutions throughout the country. Finally, it was proposed to assess privately operated ACHs the same fees charged to other users, when they use the same services.

Proposed ACH Fee Structure

Public commenters discussed a number of issues concerning the proposed ACH fee structure. Their concerns fell into three broad categories: (1) The pricing principles underlying the fee structure; (2) the specific fees proposed; and (3) the approach for pricing the ACH services used by privately operated ACHs.

Less than half of the commenters discussed the use of incentive pricing for the ACH service. All but two of these respondents supported the planned phase-out of the policy and indicated that an immediate move to full-cost pricing for the Federal Reserve's commercial ACH services would negatively affect ACH volume growth. Therefore, the Board has determined to continue its phase-out of incentive pricing as planned. Accordingly, the new fee schedule will recover 60 percent of the costs of commercial ACH services for 1984.

The concept of value pricing has been employed, to some extent, since ACH fees were originally implemented in August, 1981. A majority of respondents that discussed the concept of value pricing indicated that the Federal Reserve should base its fees solely on the costs it incurs in providing services. A slight majority of commenters that specifically discussed the concept of benefit-flow pricing also indicated that it was inappropriate for the Federal Reserve to make judgments about perceived benefits. Several commenters stated that the use of value pricing was inconsistent with the intent of the MCA and would inhibit private sector competition.

After taking into account the ACH incentive pricing policy, the proposed ACH fees were set so that they would recover the total costs, plus the PSAF, of providing commercial ACH services. Therefore, the proposed ACH fee schedule is consistent with the MCA, which specifies that:

> Over the long run, fees shall be established on the basis of all direct or indirect costs . . . including interest in items credited prior to actual collection, overhead, and an allocation of imputed costs which takes into account the taxes that would have been paid and the return on capital that would have been provided had the services been furnished by a private business firm. . . .

The use of value pricing has a sound basis in economic theory. Scale economies exist in the provision of ACH services. The use of value pricing assists in the realization of the scale economies and saves real resources, because it stimulates demand by establishing prices that reflect various users' demand elasticities, that is, the relative benefits users realize.

An update of the analysis performed in 1982 indicated that receivers of funds still derive greater benefits from the ACH than payors of funds. Although all participants appear to be able to realize some operating cost savings through the ACH, receivers of funds have the additional benefit of earlier credit for payments than they would receive in payments by check. Conversely, payors of funds are charged for payments earlier than they would be if they made payments by check. The opportunity costs associated with the value of float that is lost when the ACH is used has been one of the principal deterrents to ACH volume growth.

One of the reasons for the Federal Reserve's involvement in the ACH was to provide support for the development of an electronic payments service that would improve the efficiency of the nation's payments mechanism. The Federal Reserve has played an active role in promoting the ACH since its inception during the early 1970s. The Federal Reserve's pricing policies are consistent with its historic efforts to promote the ACH. Further, to the extent that Federal Reserve commercial ACH fees are set at levels that stimulate demand for ACH services, the Federal Reserve's use of value pricing should assist depository institutions in their efforts to increase ACH usage among their customers since the fees reflect the relative demand for ACH services.

Similarly, the use of value pricing by the Federal Reserve should not inhibit private-sector competition. The private sector has as much or more flexibility in setting prices as the Federal Reserve, and, in fact, value pricing is often used by depository institutions in pricing their payment services. The Federal Reserve has adopted pricing principles that require the Reserve Banks to match costs and revenues for each separately priced service. This requirement is more stringent than the requirement in the MCA, which only indicates that all Reserve Bank services must be explicitly priced and that fees must be based on all direct and indirect costs. Further, users of payments services, including ACH services, consider a number of criteria, such as service levels, quality, and price, in determining the supplier from which to obtain services. Therefore, price is not the only basis upon which service suppliers compete. Users of payments services are frequently willing to pay higher fees for higher levels of service or to pay a premium for a high quality of service.

Accordingly, the Federal Reserve's use of value pricing satisfies the requirements of the MCA, provided that the fees established are intended to recover all direct and indirect costs plus the PSAF, after taking into account the Federal Reserve's incentive pricing policy. Further, because scale economies exist in ACH operations, the use of value pricing should stimulate demand for ACH services and, thereby, provide for a more efficient use of real resources. Therefore, the Board determined that the ACH fee schedule continue to incorporate value pricing concepts.

Nearly 60 percent of the commenters discussed the proposal to assess fees that varied by Federal Reserve District. Approximately one-half of the commenters favored the proposal, while the other half preferred national fees. Opponents of regional fees indicated that they would encourage geographic volume shifts that might create a competitive imbalance among depository institutions and exacerbate the unit cost differentials between high

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12 U.S.C. 248a(c)(3).

and low volume Federal Reserve processing facilities.

During 1983, approximately 60 percent of all ACH transactions originated were interregional payments. Therefore, based on the composition of ACH transactions, it appears that the ACH service is primarily national in character.

Because the ACH is still an emerging payments mechanism, as ACH volume levels increase and the transition to a primarily electronic mechanism is accomplished, unit processing cost differences among Federal Reserve offices should be reduced. To the extent that higher ACH fees in lower volume Federal Reserve Districts could act as a deterrent to volume growth, such a move would be inconsistent, at this time, with the Federal Reserve's broader goal of promoting the ACH.

The Board decided that it is premature to implement regional ACH fees. Because the ACH is not a mature payments service and has not yet reached its potential as a primarily electronic mechanism, the use of regional fees may not reflect the long-run cost structure of the ACH. However, as the ACH service matures, the Federal Reserve may determine that a regional rather than a national fee structure is more appropriate.

Proposed Fee Schedule—Commenters discussed the overall impact of the proposed fee schedule as well as the individual fees. A number of commenters suggested that the proposed fee schedule, with its various surcharges, would inhibit future volume growth. Several commenters also indicated that the overall impact of the proposed fees resulted in a departure from benefit-flow pricing.

A comparison of the overall impact of the proposed fee schedule with the existing fees indicated that the proposed fee schedule departed from the concept of pure benefit-flow pricing in two ways. First, all ACH participants would be assessed fees, not just receivers of funds (originators of debit transactions and receivers of credit transactions). Second, the fees that would be assessed to the various participants did not reflect the relative benefits realized by each. Under the proposal, fees assessed to receivers of credits were lower than the present fees, even though they achieve the greatest benefit from the ACH. On the other hand, the charges to originators of credit transactions increased the most although these participants realize a lesser benefit from the ACH due to the loss of float. From the standpoint of originators of credit transactions, the level of the proposed charges could have negatively affected volume growth.

The Board has determined that the use of value pricing (and thus benefit-flow pricing) assists in stimulating ACH volume growth, yet at the same time, the use of these concepts does not preclude assessing some charges to each ACH participant, provided that the overall impact of the fee schedule reflects the relative benefits realized by each participant. Therefore, the ACH fee schedule was modified to retain the concept of benefit-flow pricing but also to assess fees to all participants.

Fixed Deposit Fees—The fixed deposit fees included in the proposed fee schudule were to be assessed for each file [5] an ACH originator deposited with the Federal Reserve. Approximately 60 percent of the commenters that discussed fixed deposit fees supported the concept. Respondents that opposed the fees indicated that they discriminated against low volume originators.

The costs involved in handling the magnetic tapes containing ACH deposit as well as processing the files included on the tapes or files transmitted to the Federal Reserve are essentially the same regardless of the number of transactions inclued in the deposit. Since deposit handling costs are fixed, operating costs cannot be recovered effectively through the use of transaction fees alone. Further, experience in the check collection service has indicated that fixed fees provide an incentive for users of payments services to use them efficiently.

Some commenters pointed out that fixed deposit fees would affect originators of ACH transactions differently. It is true that the per transaction impact of the proposed fixed deposit fee would be greater for low volume originators than for high volume originators. However, the per transaction impact of any fixed fee declines sharply as volume increases.

Finally, some commenters indicated that tape handling was more costly than file processing because tape handling is a labor-intensive activity and file processing is an automated function. A detailed analysis of the costs incurred in processing incoming ACH deposits indicated that the fixed costs of handling tapes are approximately three times greater than those for file processing.

Because the costs incurred in handling magnetic tapes and processing files do not vary in relation to the number of transactions deposited, the Board approved a fixed deposit fee. However, as the costs of handling magnetic tapes are considerably higher than the costs of processing files, the proposed deposit fee, which was originally based solely on the number of files deposited, was modified to include a tape handling fee and a file fee. These fees will apply on a per processing cycle basis for each magnetic tape and each file an originator deposits, unless an originator deposits more than one magnetic tape or file at the request of the Federal Reserve. In this case, the fee may be waived. For ACH originators that deliver deposits via data transmission only the file fee would apply.

Fixed Receiver Handling Fees—The proposed fixed receiver handling fees were to be assessed on the basis of delivery points, or endpoints, and reflected the higher costs of serving non-electronic versus electronic receivers. About half of the respondents that discussed the receiver handling fee supported the concept. However, a number of commenters indicated that the fees could potentially have a negative impact on low volume ACH participants.

As in the case of the fixed deposit fee, the fixed receiver handling fees was intended to recover the fixed costs associated with generating ACH output, preparing it for delivery, and effecting delivery over the road or via data communications. Since these costs are comparable over wide volume ranges, the fixed receiver handling fee parallels the Reserve Bank's cost structure.

Currently, about 20,000 depository institutions participate in the ACH. However, ACH transactions are delivered to about 10,000 endpoints, since many smaller institutions have their ACH transactions intercepted by correspondent banks or service bureaus. Based on 1983 ACH volume and 10,000

[5] A file is defined as a group of transactions addressed to a specific Federal Reserve office. All unsorted deposits are addressed to the local Federal Reserve office; presorted deposits would include files addressed to several Federal Reserve offices.

endpoints, the average ACH participant received over 60 transactions per day. Thus, the impact of the proposed receiver handling fee would have ranged from less than 1.0 cent per transaction to about 3.0 cents per transaction. Although the effect of a receiver handling fee would be greater for very low volume institutions, these institutions benefit from being about to provide the ACH services their customers demand and also from achieving operating cost savings through use of the ACH. As a result, the impact of the proposed receiver handling fee should not be a significant factor in smaller institutions' decision to participate in the ACH.

The Board has determined that a fixed receiver handling fee is necessary to enable the Federal Reserve to recover the costs of providing ACH services to low volume institutions. By assessing the fee on a delivery point, or endpoint, basis, as proposed, its impact on smaller institutions whose ACH transactions are processed by correspondent banks or service bureaus will be reduced. Finally, the receiver handling fees in the original proposal were set at a lower rate for electronic receivers than for non-electronic receivers. Because of the efficiency of electronic delivery mechanisms, this differential is included in the final fee schedule. In addition, a number of depository institutions located in Federal Reserve cities, pick up their ACH transactions at the local Federal Reserve office. Because these arrangements reduce transportation costs, the electronic handling fee rather than the non-electronic handling fee will be assessed to these institutions.

Telephone Advice Fees—In conjunction with permitting all types of ACH transactions to be deposited at the night time deposit deadline, the Reserve Banks also expanded their telephone advice services for depository institutions that do not receive these night cycle transactions on the settlement date. Because the amount of information requested may vary, a fixed fee for the first ten pieces of information and a variable fee for each additional piece of information was proposed. A majority of respondents supported these proposed fees.

The provision of telephone advice services is a labor-intensive activity and fixed costs are incurred in accumulating data and in placing telephone calls. However, the amount of data provided to each receiving institution may vary due to differences in transaction volumes or the needs of the receiving institution. As a result, there is some variability in the costs of this service. Therefore, the Board determined that the telephone advice fee should be included in the fee schedule as proposed.

Basic Transaction Fee—Under the proposal, the basic transaction fees were intended to recover the costs of editing and sorting transactions and were to be assessed to originators of debit transactions and receivers of credit transactions. Several commenters suggested that all ACH participants realize benefits from the ACH and suggested that transaction fees be assessed to both parties to a transaction, like they are for the wire transfer of funds service.

Because the ACH was originally conceived as a substitute for paper checks, fees for ACH services were established on a comparable basis, that is, they have been assessed to receivers of funds and to only one party. However the ACH is an electronic payments service that offers its users many benefits they could not obtain through paper-based payments services, such as, increased certainty, convenience, and security. Thus, as commenters pointed out, all participants derive benefit from the ACH. Therefore, transaction fees will be assessed to all ACH participants, but the benefit-flow concept will be retained to reflect the relative benefits of each participant.

Low Volume Receiver Surcharge—The proposed low volume receiver surcharge was to be assessed to ACH originators for each transaction sent to an ACH participant that received fewer than 500 transactions per day. This element of the proposed fee structure was opposed by 101 commenters and was supported by only four respondents. Commenters indicated that the surcharge would inhibit volume growth because it would have a significant impact on originators of credit transactions. Further, commenters indicated that originators of ACH transactions do not influence the destination of transactions. Rather, consumers and receiving companies seslect their receiving depository institutions. Finally, commenters indicated that the low volume receiver surcharge was an operationally complex proposal both from the perspective of depository institutions and the Federal Reserve.

While it is true that neither depository institutions originating ACH transactions nor their corporate customers determine the institution that will receive an ACH transaction, originators do benefit from a broad base of receiving institutions. However, given the current state of ACH development, it appears the costs and potential complexity of implementing the low volume receiver surcharge could negatively impact future volume growth. Therefore, until additional analysis is done, the low volume receiver surcharge will not be implemented.

Interregional Surcharge—The current ACH fee schedule includes an interregional differential that is assessed on a benefit-flow basis to originators of debit transactions and receivers of credit transactions. The fee schedule that was published for public comment proposed assessing the interregional differential, or surcharge, to originators of both debit and credit transactions. In addition, a lower surcharge was proposed for transactions included in presorted deposits than for transactions included in unsorted or mixed deposits.

A majority of commenters supported the proposal. However, a few commenters indicated that the surcharge should continue to be assessed on a benefit-flow basis. Other commenters suggested that the surcharge should be split between originators and receivers of ACH transactions.

Assessing the interregional surcharge to all ACH originators, in conjunction with assessing them fixed deposit fees and the low volume receiver surcharge, was determined to be inconsistent with the concept of benefit-flow pricing. Therefore, the fee schedule was modified to reflect more closely the relative benefits realized by ACH participants. This was done in part, by assessing the interregional differential to all ACH participants in the same way as basic transaction fees. Further, because less processing is required when presorted desposits are received, a lower fee will be asessed to originators depositing presorted transactions.

Night Time Deposit Surcharges—The proposed fee schedule, like the current fees, included surcharges that would be assessed to originators of both debit and credit transactions deposited at the night time deposit deadlines. Commenters indicated that the night time deposit surcharges should reflect only the specific costs associated with night time operations and that these costs would logically be the same for both debit and credit transactions.

As indicated in the discussion of value pricing, it is appropriate for the Federal Reserve to adjust fees for individual components of priced services so that they reflect the relative benefits realized by users. Originators of debit transactions realize substantial benefits from the use of night time operations through improved funds availability. Conversely, the only benefit derived by originators of next-day credit transactions from the night time deposit deadline is additional processing time. Furthermore, there is also a cost basis for assessing different fees, because the majority of float generated as a result of delayed interregional transmissions is due to debit transactions processed at night.

Because originators of debit and credit transactions realize different benefits and because there are processing costs differences, a higher night time deposit surcharge will continue to be assessed to originators of debit transactions than to originators of next-day settlement credit transactions. No night time deposit surcharge will be assessed to originators of two-day settlement credits.

Corporate Trade Payment Fees—Because very low volumes of corporate trade payments ("CTP") were being processed through the ACH, the proposal issued for public comment indicated that the CTP fee schedule implemented on June 2, 1983, would remain in effect until more experience was gained with the application. Very few commenters discussed this aspect of the proposal, but those that did generally agreed that the current fee schedule should not be modified at this time. Accordingly, the current fee schedule will remain in effect, with the exceptions that fixed deposit, receiver handling, and telephone advice fees will apply to all ACH applications, including the CTP application.

Proposed Fees for Privately Operated ACHs—Fees currently assessed to New York Automated Clearing House Association ("NYACH") are based on the same concepts underlying the present national fee structure. The basic transaction fees, however, are lower than the fees assessed to other ACH participants, because the New York Federal Reserve Bank does less processing than Reserve Banks that operate a commercial ACH. The following changes in this philosophy were proposed: (1) When privately operated ACHs use the same services that are used by depository institutions, the same fee should be assessed and (2) when unique services are provided to privately operated ACHs, they should be priced separately to reflect the actual costs incurred in providing the services.

In its response the New York Clearing House ("NYCH") indicated that the nature and level of the proposed fees would discourage competition with the Federal Reserve and might affect the Clearing House's ability to continue to operate an ACH. Specifically, the NYCH indicated that the fee structure required NYACH to pay for services that it does not use, such as, commercial ACH processing, ACH return item processing, and customer support services. Thus, the NYCH concluded that ACH fees for privately operated ACHs had not been sufficiently unbundled. However, in discussing the proposal to unbundle the settlement services provided to NYACH, the Clearing House questioned the fee because it "is not assessed against any Federal Reserve operated ACH." Finally, the NYCH indicated that the proposed, unbundled deposit, settlement, and delivery fees were higher than comparable fees in other Federal Reserve Districts.

The question of whether the proposed fee schedule required NYACH to pay for services that it does not use can be addressed by reviewing the individual elements of the fee schedule. First, NYACH deposits interregional ACH transactions in files that are presorted by receiving Federal Reserve office. The Reserve Banks plan to make this deposit option available to all ACH originators when the new ACH fee schedule is implemented. Accordingly, it was proposed that NYACH be assessed the same transaction fees and interregional surcharges as any presorted depositor. In this case, it is clear that NYACH receives the same service as other ACH originators, and this element of the proposal treats NYACH equitably.

Second, the basic transaction fees for debits originated and credits received were the same as the fees proposed in other Federal Reserve Districts. As indicated above, this is appropriate for presorted debit transactions. However, in the case of credits received, the proposed fee schedule did not reflect the fact that the New York Bank does less processing. In regions where the Federal Reserve does not operate a commercial ACH, transaction fees assessed to privately operated ACHs for receiving ACH transactions should be lower than the fees assessed to ACH participants where the Federal Reserve operates an ACH.

Third, a settlement charge consisting of a fee per settlement statement as well as a fee per settlement entry was proposed. This fee was intended to recover costs incurred in processing settlements for NYACH. Since commercial ACH transactions are processed by all other Reserve offices, the settlement of transactions is not a separate activity but an integrated processing step. As such, the costs associated with settlement are recovered through basic transaction fees.

The Federal Reserve has defined its net settlement services as the posting of net debit or net credit entries to the reserve or clearing accounts of institutions participating in clearing arrangements where the Federal Reserve does not process any of the underlying transactions. In the case of net settlements processed for the NYACH, the net entries represent both local ACH transactions, which the Federal Reserve is not involved in processing, and interregional ACH transactions, which the Federal Reserve is involved in processing. Because of the unique nature of the settlement services provided to NYACH, it is considered to be appropriate to continue to recover the costs the New York Bank incurs through transaction fees, for the present. The handling of settlements that combine transactions that the Federal Reserve has not processed with those it has been involved in processing is a complex issue. In addition, it is an increasingly important issue because procedures currently in place result in float generated by privately operated ACHs being reflected on the Federal Reserve's balance sheet. Therefore, a comprehensive analysis is being conducted of the issues concerning accounting and settling for ACH transactions in regions where the Federal Reserve does not operate a commercial ACH. (It should be noted that if a privately operated ACH requested net settlement services for ACH transactions that the Federal Reserve is not involved in processing, it would be assessed the Federal Reserve's net settlement fees.)

Fourth, it was proposed to assess fixed deposit fees and a combined settlement and ground delivery fee to privately operated ACHs. The fixed deposit fee and the ground delivery fee were set on the same basis as the fees for all ACH participants because the services provided to depository institutions and private-sector ACHs are essentially identical. The NYACH's primary concern was the level of the fees. Because the Board determined that the ACH should continue to be considered a national service, the concerns raised by many commenters, including NYCH, regarding the range of the proposed fixed fees have been addressed by the adoption of uniform fixed fees.

ACH Software—The proposal issued for public comment also indicated that ACH associations wishing to use the Federal Reserve's new ACH software package, ACH–84, would be assessed a licensing fee as well as an annual maintenance fee. The ACH–84 software package is currently being developed by Federal Reserve staff and should be completed during the fourth quarter of 1984.

Commenters indicated their belief that the National Automated Clearing House ("NACHA") as well as the Federal Reserve has propiertary rights of the ACH–84 software, since the current ACH software is jointly owned by the Federal Reserve and NACHA. In addition, because costs associated with software development are included in the cost base used in setting commercial ACH fees, respondents believed that it was inappropriate for the Federal Reserve to assess a licensing fee. Finally, a few commenters questioned the Federal Reserve's legal authority to sell software. Because of the broad range of issues raised, additional analysis will be conducted before the Board determines whether to adopt the licensing and maintenance fees.

ACH Float

ACH float is generated whenever reserve or clearing accounts of the originators of ACH transactions are credited or debited before the offsetting debit or credit is posted to the receiving depository institution's account.[6] In order to comply with the terms of the MCA,the Reserve Banks proposed to: (1) Reduce ACH float to the extent possible through operational improvements; (2) eliminate certain types of ACH float by modifying settlement procedures; and (3) price the remaining float.

Delayed Interregional Transmission Float—The primary cause of ACH float is delayed transmissions of interregional transactions between Federal Reserve offices. During 1983, delayed transmission float amounted to approximately $36 million on a daily average basis and accounted for 53 percent of total ACH float. The Reserve Banks are in the process of implementing operating improvements that are expected to reduce this float to approximately $7.0 million by the fourth quarter of 1984. It was proposed to incorporate the annualized value of projected, fourth quarter, 1984 delayed interregional transmission float in the cost base used to derive the revised ACH fees. A majority of respondents indicated that it is inappropriate for the Federal Reserve to charge for its operational inefficiencies and that such a step would remove the incentives for further improving operations.

Inclusion of this float in the commercial ACH cost base is consistent with the MCA, since it prices Federal Reserve float remaining after implementation of operational improvements. Furthermore, this action will increase the Reserve Banks' incentives for improving operational procedures because including the value of this float in the cost base results in higher ACH fees. Therefore, the annualized value of projected, fourth quarter, 1984, delayed interregional transmissions float will be included in the 1984 commercial ACH cost base.[7]

Return Item Float—Float resulting from the inability to process ACH paper return items within the current availability schedules is the second largest source of ACH float. During 1983, return item float amounted to nearly $18 million on a daily average basis and accounted for 26 percent of total ACH float. The request for public comment proposed to eliminate the majority of this float by changing the current availability schedule for interregional ACH paper return items from same-day to next-day settlement. The majority of respondents supported this proposal, and it has been adopted by the Board. In conjunction with this action, to encourage greater use of the automated ACH return item process, the Reserve Banks plan to change the current availability schedule for automated return items deposited at the morning deposit deadline from next-day to same-day settlement. It is anticipated that the majority of return item float should be eliminated by these modifications. Any residual float will be included in the ACH cost base the next time ACH are set.

Midweek Closings and Non-standard Holiday Float—Float resulting from the inability to post ACH transactions to the accounts of depository institutions that are closed during the middle of the week (midweek closings) or on non-standard holidays amounted to about $4.0 million on a daily average basis in 1983. As a means of eliminating this float, it was proposed to debit or credit the reserve or clearing account of the closed institution as though the institution were open for business. A majority of commenters supported the proposal, although some respondents stated that accounts should not be charged when state law requires depository institutions to be closed.

Although a majority of the respondents supported the proposal to charge the accounts of institutions closed during the middle of the week as though they were open, the Board determined that it is appropriate to offer these institutions the same options as these recently adopted for the check collection service. 49 FR 4196 (January 30, 1984).

With respect to ACH debit transactions, depository institutions that elect to close during the business week will be offered the following options: (1) Having the Reserve Bank debit its account for items that are made available to it and would normally be settled on that day if the institution were open for business; or (2) paying for the value of float that is generated. Under the second option, depository

[6] Originators of debit transactions are receivers of funds and their accounts are credited on settlement date. If the receiving depository institution's reserve or clearing account is not debited on the settlement date, debit float is generated. Originators of credit transactions are payors of funds and their accounts are debited on settlement date. If the receiving depository institution's reserve of clearing account is not credited on the settlement date, credit float is generated.

[7] Using a 9.5 percent Federal funds rate, the value of this float amounts to $655,000.

institutions may pay for float explicitly through one of the following procedures: (1) Payment may be made through an "as of" adjustment to an institution's reserve or clearing account to correct for float after it has occurred; or (2) payment may be made by an explicit charge. In the case of ACH credit transactions, depository institutions' accounts will be credited for transactions that settle on midweek closing days.

With respect to float arising from institutions' observing non-standard holidays, to the extent operationally feasible, Reserve Banks will defer debiting or crediting originators of ACH transactions that are destined for institutions that will be observing a non-standard holiday on the settlement date. The value of any remaining non-standard holiday float will be recovered under the fee schedule.

Residual ACH Float—The remainder of ACH float, approximately 15 percent, amounting to about $11 million, is due to Reserve Bank operating procedures, processing or intraterritory transportation delays, and reserve adjustments. Because this float can be reduced substantially through operational improvements, it was proposed that operational improvements be implemented during 1984 and that any residual float that cannot be eliminated be included in the ACH cost base the next time ACH fees are set. One respondent suggested that delaying the pricing of residual ACH float created a competitive advantage for the Federal Reserve.

Because much of this float results from operational inefficiencies inherent in the current ACH software that will be corrected when the ACH-84 software is implemented later this year, this float will not be included in the ACH cost base until operational improvements can be realized. Since the majority of ACH float will either be included in the 1984 ACH cost base or be eliminated, this procedure does not create a competitive advantage for the Federal Reserve.

Proposed Service Enhancements

Based on a review of the current features of the ACH service, several service enhancements were identified. It as proposed to: (1) Offer several alternative levels of telephone advice services to depository institutions for items deposited at the night time deposit deadline that cannot be delivered on the settlement date; (2) offer depository institutions lower prices and/or later deadlines for deposits that are presorted by receiving Federal Reserve District and are delivered either to the local Federal Reserve office or the Federal Reserve office serving the receiving institution(s); and (3) conduct an analysis of offering same-day settlement for ACH transactions, expanding the ACH value-dating concept or providing a warehousing service, modifying the ACH to serve as a mechanism to facilitate interbank clearing and settlement of electronic payments, converting ACH paper return items to automated form at the Federal Reserve office of first receipt, and offering a separate ACH return item service.

With respect to the proposed service enhancements, the commenters offered many suggestions and raised numerous issues. At this time, only the telephone advice service and the presorted deposit option can be implemented in conjunction with the revised ACH fee schedule. Before considering whether the other proposed service enhancements should be offered, a complete analysis of their potential impact on the ACH service will be conducted.

Telephone Advice Service—In conjunction with implementing the revised ACH fee schedule, it was proposed that the following alternative telephone advice services be offered to depository institutions: (1) Advice of ACH settlement totals; (2) advice of all debit transactions; (3) advice of debit transactions above a specified dollar amount;[8] (4) advice of all credit transactions; (5) advice of credit transactions above a specified dollar amount; (6) advice of next-day settlement credit transactions only; or (7) a combination of these alternatives selected by a depository institution. In providing these services, the Reserve Banks would provide sufficient information about transactions so that depository institutions would be able to post the transactions to their customers' accounts. This proposal was supported by the majority of respondents that discussed it.

Because ACH transactions processed at night cannot be delivered to remotely located institutions via ground transportation by the settlement date, the proposed telephone advice services will be made available to depository institutions by all Reserve Banks where there is a demand for such services beginning march 29, 1984.

Presorted Deposit Option—Currently, Federal Reserve offices accept only mixed, or unsorted, ACH deposits. Since a number of depository institutions possess the capability to sort ACH transactions and are believed to be interested in reducing the costs associated with participating in the ACH, a presorted deposit option was proposed. Under this option, ACH originators would be permitted to deposit transactions sorted by receiving Federal Reserve office with their local Reserve office or to deliver presorted deposits directly to the receiving Reserve office.

A majority of commenters supported the Federal Reserve's offering a presorted deposit option, indicating that this proposal was a positive step for improving the efficiency of the ACH mechanism. Several commenters, however, noted that deposit deadlines were not identical at all Federal Reserve offices.

Since the presorted deposit option offers originators of ACH transactions a meaningful way to reduce costs or to benefit from later deposit deadlines and should contribute to ACH volume growth, the Reserve Banks will begin offering the presorted deposit option on March 29, 1984. In addition, each Federal Reserve office will make a schedule of all ACH deposit deadlines available to originating institutions that desire the schedules.

Cost, Volume, and Revenue Projections

Based on preliminary data, during 1983, total recoverable commercial ACH costs, including the PSAF, amounted to $6.2 million. Total revenues amounted to $6.6 million, resulting in a net revenue surplus of $400 thousand. These results compare favorably with the projections that were used in setting the current ACH fees. Specifically, the Reserve Banks projected that recoverable

[8] A specific dollar amount will be determined jointly by representatives of the Federal Reserve and each depository institution.

commercial ACH costs would amount to $5.7 million and that total revenues would amount to $6.0 million. The primary reason for the differences in both commercial ACH costs and revenue was the fact that commercial ACH volume exceeded projections. The Reserve Banks estimated that commercial ACH volume would amount to 151 million transactions. Preliminary volume data indicate that approximately 156 million commercial ACH transactions were processed during 1983.

The Reserve Banks project that recoverable commercial ACH costs, including the PSAF and the float that will be included in the cost base, will amount to $10.6 million during 1984. Based on the recommended ACH fee schedule, revenues are expected to amount to $11.1 million, resulting in a net revenue surplus of $500 thousand.

The increase in costs reflects the change from a 40 percent to a 60 percent recovery rate, the inclusion of ACH float in the cost base for the first time, as well as a slight increase in the proportion of commercial ACH volume to total ACH volume. During 1983, commercial ACH transactions constituted approximately 39 percent of total ACH volume. In 1984, commercial ACH volume is expected to reach a level of 187.8 million transactions to account for nearly 42 percent of the estimated 452.4 million government and commercial ACH transactions.

By order of the Board of Governors of the Federal Reserve System, February 15, 1984.

William W. Wiles,

Secretary of the Board.

[FR Doc. 84-4598 Filed 2-21-84; 8:45 am]

FEDERAL RESERVE BANK
OF NEW YORK

Appendix A to
Operating Circular No. 10

Effective March 29, 1984

TIME AND FEE SCHEDULES

Automated Clearing House Services

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

As announced in our Circular No. 9644, dated February 24, 1984, a new fee schedule for automated clearing house (ACH) services will go into effect on March 29, 1984. In order to reflect the new schedule in Operating Circular No. 10, Appendix A to that operating circular is amended to read as follows:

Delivery schedule

The schedule below shows the cut-off hours for receipt by us of ACH files:

	Day Cycle (Monday through Friday)	Night Cycle (Sunday through Thursday)
Interoffice ACH Service		
Cut-off for receipt of ACH files for Interregional Transmission	8:00 a.m.	11:00 p.m.
Intra-Office ACH Service		
Cut-off for receipt of ACH files for local courier delivery	5:00 p.m.	4:00 a.m.

Settlement statement schedule

This schedule shows cut-off hours for receipt by us from a local ACH association of settlement statements:

Type of Settlement	Receipt Deadline (Day of Settlement)
Day Cycle	11:00 a.m.
Night Cycle	11:00 a.m.
Supplemental	3:00 p.m.
Truncation	5:00 p.m.

[Ref. Cir. No. 9644]

(OVER)

Fee Schedule

We charge a local ACH association the following fees for our ACH services:

Day Cycle

Debits Originated — Presorted deposits[1]	2.5¢
Debits Received	0.5¢
Credits Originated — Presorted deposits[1]	0.5¢
Credits Received	2.5¢

Fixed ACH Fees

Deposit Fees:	Tape Handling	$3.00 per tape
	File Processing	$1.00 per file
Receiver Handling Fees:[2]	Non-Electronic	$1.75 per delivery
	Electronic[3]	$0.75 per transmission

Night Cycle Deposit Surcharges

Debits Originated	6.0¢
Credits Originated (Next-day settlement only)	3.0¢

Effect of this Appendix on previous Appendix

This Appendix A supersedes Appendix A, effective December 30, 1982, to Operating Circular No. 10.

ANTHONY M. SOLOMON,
President.

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1 Presorted deposits consist of files of interregional transactions presorted by receiving Federal Reserve Office.

2 Receiver handling fees will be assessed once a day per endpoint when ACH transactions are delivered.

3 Electronic endpoints are defined as endpoints that receive ACH transactions by data transmission or receivers that pick up ACH transactions at the Federal Reserve Bank.