

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **9763**
November 30, 1984]

**SECURITIES SAFEKEEPING
AND NONCASH COLLECTION SERVICES**

Proposed Revisions of the Fee Structure

*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 published for public comment proposed revisions of the structure of fees charged by the Federal Reserve Banks for their definitive securities safekeeping and noncash collection service. The Board requests comment by December 28, 1984.

The Board proposed two changes in the fee structure for definitive securities safekeeping. These changes include the introduction of a reregistration fee (to recover the cost of sending a registered security to a transfer agent for reregistration) and an additional fee for maintaining coupon-bearing securities.

The Board also proposed three changes in the fee structure for noncash collection. A fee would be charged to the depositor for any coupon deposit that is returned as uncollectible. Reserve Banks would be given the option of adopting a mixed deposit program, which allows a depository institution the opportunity to deposit all of its coupons in one mixed deposit. The Reserve Banks would also have the option of charging a higher fee to recover the additional costs of collecting noncash items payable at country endpoints.

Printed on the following pages is the text of the proposed revisions. Comments should be received by December 28, 1984 and may be sent to Carol W. Barrett, Assistant Vice President, Fiscal Services Function.

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE SYSTEM

(Docket No. R-0533)

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 proposed revisions to the fee structures for the Federal Reserve's definitive securities safekeeping and noncash collection service.

DATE: Comments must be received by December 28, 1984.

ADDRESS: Comments, which should refer to Docket No. R-0533, 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 Donna A. DeCorleto, Senior Analyst (202/452-3956), 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,

Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: In September 1983, the Board approved fee schedules for the definitive securities safekeeping and noncash collection service. 48 F.R. 4467 (September 29, 1983). The fees were established to provide a matching of costs, excluding the Private Sector Adjustment Factor ("PSAF"), and revenues by the end of the third quarter of 1984. Preliminary data indicate that this goal was virtually met. However, in order to achieve a matching of costs, including the PSAF, and revenues in 1985 the Board believes that certain changes in the current fee structure may be necessary. Accordingly, the Board proposes to adopt the following changes:

Definitive Securities Safekeeping -- Two structural changes are proposed for the definitive securities safekeeping activity.

The first proposed change, the introduction of a reregistration fee, would enable Reserve Banks to recover the cost of sending a registered security to a transfer agent for reregistration. Securities delivered to the Reserve Bank are generally registered in the name of the former owner and must be reregistered in the name of the new owner. The costs of sending a security to a transfer agent and related recordkeeping have been increasing as the number of registered securities increases. It is proposed that all Reserve Banks offering the service would institute a reregistration fee.

The second proposed pricing structure modification in definitive securities safekeeping is the addition, on an optional basis, of a fee to differentiate the higher cost of safekeeping coupon bearing securities as compared with registered securities. Safekeeping coupon bearing securities is more costly since maturing coupons must be clipped twice yearly. Registered securities do not incur these expenses because they generally have no coupons.

This proposed fee would be based on the par value of the bearer securities rather than number of pieces. The par value of coupon bearing securities is believed to be an appropriate measure for three reasons: (1) par value pricing closely approximates the number of pieces involved since most bearer municipal securities are in \$5,000 denominations; (2) depository institutions typically keep track of their holdings in terms of par value rather than number of pieces. Therefore, using par value as a basis for assessing this fee would minimize reconciliation costs for depository institutions; and (3) par value pricing appears to be consistent with private sector practice. Three Reserve Banks propose to adopt this option in 1985 (New York, Cleveland, and Dallas); a fourth Reserve Bank (Philadelphia) proposes to adopt it by altering its account maintenance fee. At this time the remaining Reserve Banks providing definitive securities safekeeping do not intend to adopt this option.

Proposed fees for 1985, incorporating the proposed structural modifications, and current fees are shown in Schedule 1.

Noncash Collection -- Three pricing structure changes are proposed in noncash collection: (1) an optional return item fee; (2) the addition of a mixed deposit option on a permanent basis; and (3) for Reserve Banks not choosing the mixed deposit program, the option of setting different city and country collection fees.

The return item fee would be charged for any coupon deposit that is returned to the depositor as uncollectible. Noncash return items are costly due to the high labor and security costs involved with handling them. Charging separately for return items parallels the practice in most parts of the country. All Reserve Banks except Atlanta propose to adopt this option.

The second proposed structure change would be to adopt the noncash mixed deposit program on an optional basis. The mixed deposit program, implemented by four Reserve Banks on a pilot basis, offers a depository institution the opportunity to deposit all of its coupons in one mixed deposit. This reduces the need for depositors to pre-sort coupons into items payable in-district versus items payable out-of-district. The four Reserve Banks now participating in the pilot (Cleveland, Atlanta, St. Louis, and Dallas) plan to adopt this option.

The final proposed structure change would give Reserve Banks not participating in the mixed deposit program the option of charging a higher fee to recover the additional costs of collecting items payable at country endpoints. These additional costs reflect added handling and preparation expenses associated with these items. At this time only the New York Reserve Bank plans to adopt this option.

Proposed fees for 1985, which incorporate the proposed revisions to the fee structure, and current fees are shown in Schedule II.

The Board believes that the proposed modifications to the definitive securities safekeeping and noncash collection fee schedules will enable the Federal Reserve System to recover fully the costs of providing this service, including PSAF, in 1985. Further, the Board believes that the options provided Reserve Banks by these proposals will permit the Reserve Banks greater flexibility in meeting the needs of depository institutions and responding to local market conditions.

By order of the Board of Governors of the Federal Reserve System, November 20, 1984.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

1985 PRICE SCHEDULE
DEFINITIVE SAFEKEEPING

	DEPOSITS		WITHDRAWALS ^{1/}		RECEIPTS/ISSUES				PURCHASES AND SALES		RE- REGISTRATIONS		PAR VALUE	
	1984	1985	1984	1985	1-400 1984	1-400 1985	400+ 1984	400+ 1985	1984	1985	1985	1/	1985	2/
BOSTON	12.50	12.50	12.50	12.50	2.80	2.90	2.10	2.20	15.00	15.00	12.50		-----	
NEW YORK	35.50	35.50	35.50	35.50	5.35	5.35	4.75	4.75	23.00	23.00	35.50		0.0050	
PHILADELPHIA ^{3/}	15.00	16.00	15.00	16.00	3.00	3.25	2.00	2.25	19.00	20.00	20.00		-----	
CLEVELAND	15.00	15.00	15.00	15.00	2.25	2.00	1.75	1.50	25.00	25.00	15.00		0.0050	
RICHMOND	15.00	15.00	15.00	15.00	1.50	1.95	1.00	1.45	20.00	20.00	15.00		-----	
ATLANTA ^{4/}	0.00	0.00	5.00	5.00	* see below	* see below			N/A	N/A	5.00		-----	
CHICAGO	11.00	11.00	11.00	11.00	3.00	3.50	2.75	2.75	19.00	21.00	11.00		-----	
DETROIT ^{5/}	11.00	11.00	11.00	11.00	2.00	2.25	1.75	2.00	N/A	N/A	11.00		-----	
ST. LOUIS	8.00	10.00	8.00	10.00	1.25	1.50	0.90	0.90	N/A	N/A	10.00		-----	
MINNEAPOLIS	8.00	8.00	8.00	8.00	1.40	1.40	0.75	0.75	10.00	10.00	8.00		-----	
KANSAS CITY	15.00	15.00	15.00	15.00	1.50	2.50	1.25	2.25	20.00	20.00	15.00		-----	
DALLAS	10.00	10.00	10.00	10.00	2.75	2.25	2.50	2.00	26.50	26.50	10.00		0.0080	

^{1/} ACTUAL SHIPPING COSTS ADDITIONAL.

^{2/} APPLIED TO COUPON BEARING SECURITIES ONLY; FEE PER \$1,000 PAR VALUE.

^{3/} PHILADELPHIA IS PROPOSING A \$2.25 FEE FOR ALL REGISTERED SECURITIES. THIS IS TO RECOGNIZE THE LOWER HANDLING COSTS OF REGISTERED SECURITIES VERSUS BEARER SECURITIES.

^{4/} ATLANTA 1-500 RECEIPTS @ \$2.50 IN 1984/85, 500-1000 @ \$2.00 IN 1984/85, AND 1000+ @ \$1.50 IN 1984/85.

^{5/} DETROIT PILOT 1-100 RECEIPTS PRICED AT @ \$3.00 1984/85, OVER 100 RECEIPTS @ \$2.25 IN 1984 AND \$2.50 IN 1985 INCLUDING COLLECTION OF COUPONS.

SCHEDULE II

1985 PRICE SCHEDULE
NONCASH COLLECTION
(FOR BANKS NOT OFFERING A MIXED DEPOSIT PRODUCT)

	LOCAL COUPONS			ADD-ON FEE FOR INTERDISTRICT COUPONS		POSTAGE & INSURANCE		RETURN ITEMS	BOND REDEMPTIONS AND SALES <u>1/</u>	
	LOCAL	CITY	COUNTRY	1984	1985	1984	1985	1985	1984	1985
	<u>1984</u>	<u>1985</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>
BOSTON	2.00	2.00	2.00	2.55	2.75	1.00	1.00	3.00	12.50	12.50
NEW YORK	2.50	2.75	4.00	2.75	2.75	0.50	0.75	10.00	35.50	35.50
PHILADELPHIA	2.90	2.90	2.90	2.55	2.85	1.00	1.00	10.00	15.00	20.00
RICHMOND	2.00	2.00	2.00	2.50	3.50	1.00	1.00	5.00	20.00	20.00
CHICAGO ^{2/}	3.50	3.50	3.50	2.75	2.75	.70/	.70/	10.00	11.00	11.00
DETROIT	2.50	2.50	2.50	2.60	3.00	1.00	1.00	10.00	11.00	11.00
MINNEAPOLIS ^{3/}	2.50	2.50	2.50	2.70	3.00	0.60	0.60	10.00	8.00	8.00
KANSAS CITY	3.20	3.50	3.50	2.50	3.50	1.00	1.00	10.00	15.00	20.00
SAN FRANCISCO	4.00	5.00	5.00	N/A	N/A	1.00	1.00	10.00	35.50	35.50

(FOR BANKS OFFERING A MIXED DEPOSIT PRODUCT)

	LOCAL COUPONS FROM IN-DISTRICT DFI'S				LOCAL COUPONS FROM OUT-OF-DISTRICT DFI'S				INTER-DISTRICT COUPONS				RETURN ITEMS	BOND REDEMPTIONS AND SALES <u>1/</u>	
	CITY		COUNTRY		CITY		COUNTRY		FINE SORT		MIXED		1985	1984	1985
	<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u> ^{4/}	<u>1985</u>	<u>1984</u> ^{4/}	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>	<u>1985</u>	<u>1984</u>	<u>1985</u>
CLEVELAND	2.25	2.75	2.75	3.00	3.00	3.25	3.00	3.50	2.75	4.00	3.75	5.00	10.00	15.00	15.00
ATLANTA	1.75	1.75	2.50	2.50	1.40	2.40	1.40	3.15	2.75	2.75	3.75	3.75	0.00	7.50	7.50
ST. LOUIS	2.00	3.25	2.00	3.25	2.00	3.25	2.00	3.25	2.75	3.25	3.25	3.25	10.00	10.00	10.00
DALLAS	2.75	3.00	2.75	3.00	2.10	3.50	2.10	3.50	2.75	3.25	3.75	4.50	10.00	15.00	20.00

1/ ACTUAL SHIPPING COSTS ADDITIONAL.

2/ CHICAGO - POSTAGE AND INSURANCE \$.70 LOCAL, \$1.70 INTERDISTRICT.

3/ MINNEAPOLIS - 12TH DISTRICT COUPONS \$4.00; BONDS \$8.00.