

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 9944
November 6, 1985]

**Comment Invited on Consolidation of Federal Reserve
Priced Services Activities**

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

As indicated in our Circular No. 9943, dated November 1, 1985, the Board of Governors of the Federal Reserve System is publishing for comment a proposal to consolidate the noncash collection activities of the Federal Reserve Banks of San Francisco and Minneapolis at the Minneapolis Reserve Bank. The text of the Board's proposal is printed on the following pages.

You will note that the Board is also inviting comments on the general issue of consolidating the provision of Federal Reserve priced services generally.

Your comments should be submitted by November 29, 1985, and may be sent to Carol W. Barrett, Vice President.

E. GERALD CORRIGAN,
President.

FEDERAL RESERVE SYSTEM

[Docket No. R-0555]

FEDERAL RESERVE BANK SERVICES

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Request for comment.

SUMMARY: The Board is requesting comment on the issue of consolidating the provision of Federal Reserve Bank priced service activities. The general issue is presented by a proposal to consolidate the noncash collection activities of the Federal Reserve Banks of San Francisco and Minneapolis at the Federal Reserve Bank of Minneapolis.

DATE: Comments must be received by November 29, 1985.

ADDRESS: Comments, which should refer to Docket No. R-0555, 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 Availability of Information, 12 C.F.R. § 261.6(a).

FOR FURTHER INFORMATION CONTACT: Elliott C. McEntee, Associate Director (202/452-2231) or Gerald D. Manypenny, Manager (202/452-3954), Division of Reserve Bank Operations; Daniel L.

Rhoads, Senior Attorney (202/452-3711) Legal Division; or Joy W. O'Connell, Telecommunication Device for the Deaf (202/452-3244), Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: The Federal Reserve System, in the past, has realized some important benefits from intradistrict consolidation of selected service activities. Based on System experience to date, the Board believes that in certain circumstances consolidation presents a meaningful opportunity to contain or reduce costs while continuing to provide an appropriate level of service to depository institutions nationwide. First, where local conditions such as fixed costs, wage structures, et cetera make it more costly to provide a service at one location than it is to provide the same level of service from another location, it may be appropriate to consolidate the activity at the lower-cost office. Similarly, consolidation of an activity at one office may result in economies of scale not possible if two or more offices are providing the same service. Also, geographic, and therefore transportation, considerations may suggest consolidation efforts and cross-zone provision of services in order to promote the efficiency of the payments mechanism.

The consolidation process for priced services may take several forms. One activity could be provided across District or Territory lines with or without all Federal Reserve offices continuing to perform the service, or one office could cease to

provide one service but continue to provide other priced services. In the latter case, the discontinued service would be provided by another Federal Reserve office. This latter type of consolidation could occur intra- or interdistrict but has only taken place on an intra-district level to date. The Minneapolis and San Francisco Reserve Banks plan to consolidate Twelfth District noncash collection activities at the Minneapolis Reserve Bank. This plan raises the issue of consolidation of activities across District lines with one Reserve Bank ceasing to provide a service completely.

The service involved in this consolidation is noncash collection, which consists primarily of collecting maturing municipal notes and bonds and interest coupons from paying agents. This activity is expected to experience volume declines over time as a result of the registration requirements in the Tax Equity and Fiscal Responsibility Act ("TEFRA") and the industry movement to immobilization and book-entry securities systems. As volume declines, difficulties in achieving cost-revenue matches may be created by costs that do not decline as rapidly since a significant portion of the costs are fixed costs (e.g., vault space) or are incurred as a result of System custody standards.

It is anticipated that the San Francisco Reserve Bank would have to increase its fees substantially in 1986 in order to continue providing noncash collection. Consolidating this activity in Minneapolis will result in greater efficiency and

facilitate continuing to provide noncash collection on a national basis. The Minneapolis Reserve Bank has already been providing this service on a pilot basis and believes that appropriate procedures are now in place to ensure that cost/revenue concerns will be met and that the level of service provided will meet System standards.

Minneapolis will charge a separate fee for collection of Twelfth District noncash items which, together with separate availability schedules, recognizes the costs incurred in providing the service. Minneapolis' proposed Twelfth District coupon collection fee of \$4.00 per coupon envelope (including postage and insurance) would be lower than the current fee charged by the Twelfth District for in-District collections. This lower fee recognizes the economies of scale that the Minneapolis office will realize by processing volume previously distributed over the five offices of the Twelfth District. The Minneapolis Reserve Bank would also provide a guaranteed credit availability schedule which reflects the collection experience that it has gained under the pilot program.

The Board believes that the consolidation of operations or provision of services across District lines is an issue that might have a significant longer-run effect on the nation's payment system and the Federal Reserve's role in that system. As changes in the payments system occur, it may be appropriate to consolidate some activities at a District or regional level either to reduce costs or to provide

improvements to the payments mechanism. For certain depository institutions, this would entail dealing directly in some services with Reserve Banks other than the Reserve Bank of their District. The Board has therefore determined to request public comment on the general issue of consolidation of operations as well as the specific proposal to consolidate the noncash collection activities of the Federal Reserve Banks of San Francisco and Minneapolis at the Minneapolis Reserve Bank. Commenters are asked to discuss what restrictions, if any, should be placed on future consolidation proposals and any other factors that should be considered in reviewing these proposals.

By order of the Board of Governors of the Federal Reserve System, October 30, 1985.

William W. Wiles
Secretary of the Board