FEDERAL RESERVE BANK
OF NEW YORK

AT CIR No 10,029-A

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PRICED SERVICES REPORT

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 a report summarizing developments in the priced services areas for 1985 and providing detailed financial results of providing those services.

The Board issues a report on priced services annually and a priced service balance sheet and income statement quarterly. The financial statements are designed to reflect standard accounting practices, taking into account the nature of the Federal Reserve's activities and its unique position in this field.

Copies of the report may be obtained upon request directed to our Circulars Division (Tel. No. 212-791-5216).

E. GERALD CORRIGAN,
President.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

ANNUAL REPORT ON PRICED SERVICES ACTIVITIES 1985

PRINTED IN NEW YORK

I. OVERVIEW

The Reserve Banks fully recovered their costs of providing priced services in 1985, as required by the Monetary Control Act of 1980. The System recovered 105.6 percent of its operating expenses and imputed costs. In 1984, 103.9 percent of costs were recovered.

The Federal Reserve made significant strides toward stabilizing service pricing in 1985. Prices were held constant for the year, with the exception of a mid-year adjustment of selected check fees. A number of initiatives were undertaken in 1985 to improve the nation's payments systems. The System improved the efficiency of its electronic payment services, with the implementation of new operating systems in many Reserve Banks, and an increase in the number of electronic connections. The Federal Reserve also worked with the financial industry to examine methods of expediting the check collection and return item processes.

II. FINANCIAL PERFORMANCE

The Federal Reserve is required, under the Monetary Control Act, to establish fees for its payment services that, over the long run, cover the full costs of providing such services, including the cost of float, 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 firm.

For 1985, total revenues from Federal Reserve priced services were $613.8 million, $39.1 million above 1984 revenue. Production costs, net of the subsidy for ACH services, rose from $449.2 million in 1984 to $476.7 million in 1985. The resulting $137.1 million in income from operations was reduced by imputed costs for float, short and long term debt, sales tax, and FDIC assessments totaling $51.6 million. Net interest income from clearing balances amounted to $13.5 million, yielding income before imputed income taxes of $99 million. After-tax income for 1985 was $62.5 million, up from $50.2 million in 1984. The increase in net income of $38.6 million from initial projections was due primarily to greater than anticipated volume of checks processed by the System.

A pro forma balance sheet and income statement for Federal Reserve priced services are presented in Tables 1 and 2.

III. SERVICE HIGHLIGHTS

In June 1981, the Board adopted a pricing principle that calls for cost recovery for each major service category. In 1985, all Federal Reserve service lines had pre-tax income that covered total operating and imputed costs (taking into consideration the subsidy approved for the ACH service). System financial performance for each service line is presented in Table 3. Table 4 provides district financial results for locally priced services, and priced services volumes for 1985 are presented in Table 5.

Significant developments in each service are discussed in the sections that follow.

Check Collection

Some of the fees that were implemented in January 1985 were adjusted at mid-year to correct for an overrecovery of expenses, resulting from higher than anticipated volume. In addition, the level of check float during 1985 was lower than projected, as was the interest rate used to calculate the cost of float. Check volume increased 4.8 percent over 1984 levels.

A major focus of Federal Reserve check operations in 1985 was improvement of the return item process. The goals of these efforts are to reduce risk to depository institutions, increase efficiency in the return item process, and assist institutions in making funds available to their depositors sooner. A step toward these goals came in January, when the Board approved an amendment to Regulation J, effective on October 1, requiring an institution that returns a check of $2,500 or more drawn on it and collected through the Federal Reserve to notify the institution at which the check was first deposited within a specified time.

The System also pursued several initiatives to speed the return item process. A pilot project undertaken by the Federal Reserve Bank of Dallas, in which checks are returned directly to the institution of first deposit, continued through 1985. The

Federal Reserve Bank of St. Louis expanded its return item reclearing pilot program in 1985, in which the Reserve Bank presents certain return items to the payor bank a second time, rather than returning the items to the bank of first deposit. Since more than one-half of return items are paid on representment, the pilot is designed to accelerate the payment of these return items. Another program, for which the financial industry and the Federal Reserve began a three-month test on November 1, 1985, uses the forward collection stream to automate the return item process.

The Federal Reserve is also working to improve the efficiency of the forward collection process, and has identified truncation as a potentially effective way to achieve this objective. A limited System pilot program to test the operational feasibility of check truncation was launched in 1985. The pilot currently involves the truncating of items of payor institutions at four Reserve Bank offices. Plans call for Reserve Bank participation in the National Association of Check Safekeeping program in 1986. The Federal Reserve will evaluate this pilot program and determine the appropriate future role of the System in check truncation.

The high dollar group sort program continued to accelerate the collection of checks drawn on certain noncity institutions. In 1985, daily average dollars collected through the program increased from approximately $1 billion to $1.6 billion.

In January, the Board voted to discontinue, effective September 1, 1986, the fractional availability option for the recovery of certain types of check float. Fractional availability was eliminated due to its potential for not fully recovering float costs, since it reflects historical, rather than current, collection experience.

The System received public comments early in the year on a proposed test of a two-tier fee schedule for check prices. Two-tier pricing incorporates a different price for two groups of endpoints within a single check service (i.e. RCPC, country) category. The two-tier pricing concept permits Reserve Banks to charge fees that more nearly reflect their collection costs. The Federal Reserve modified the proposed pilot program as a result of the public comments. The two-tier program was made a voluntary option for depositors in the two territories where the pricing concept is being tested.

A number of amendments to Regulation J were published for comment in March, including a proposal to permit Reserve Banks to collect checks drawn on payors located in foreign countries. No final action was taken on the amendments in 1985. Board action on these amendments, and on tiered pricing, is anticipated in 1986.

Electronic Payment Services

The Federal Reserve increased the number of electronic connections with depository financial institutions in 1985 by more than 1,000, to a total of approximately 5,500 at year-end. Continued expansion of this network is designed to support the Federal Reserve's objective to move the payments system toward a more electronic environment.

Commercial Automated Clearing House Service

The fee structure established for 1985, which was the final year of the System's incentive pricing program for ACH, was set to recover 80 percent of commercial ACH costs, including PSAF and float. The System processed 282.5 million commercial transactions during the year, an increase of 31.8 percent over 1984.

Ten districts installed the System's new ACH operating system in 1985, enabling faster, more efficient processing of ACH transactions.

Beginning in February, the Reserve Banks began automating the ACH return item process by converting the paper return items to electronic form at the Federal Reserve office of first deposit. This enhancement provided processing efficiencies, as well as expedited return of these items. Concurrent with this change, the System instituted pricing of ACH paper return items.

In addition, during 1985 the Federal Reserve worked with depository institutions to identify possible changes to its ACH service in order to accommodate the increased participation by private sector processors. Among the most important of the changes identified were modifications to net settlement services, the establishment of minimum standards for presentment of ACH data, and changes in the fee structure for presorted deposits.

Funds Transfer

Funds transfer volume grew at a rate of 8.4 percent in 1985, for a total of 45.1 million transactions.

A new wire transfer operating system was installed in eight districts during 1985, improving Fedwire's efficiency, and enabling the Federal Reserve to provide a more uniform basic level of service nationwide.

Fedwire operating hours were revised in October, effective January 1, 1986. The deadline for interdistrict third-party wire transfers was extended from 4:30 p.m. to 5:00 p.m. Eastern time, to provide additional processing time for West Coast institutions. In addition, to enable banks to operate more efficiently and allow better management of their intraday funds position, a uniform opening time for Fedwire of no later than 9:00 a.m. Eastern time was established.

A further service enhancement was the modification of the funds transfer service to facilitate on-line notification of large-dollar check return items to other Fedwire institutions.

Net Settlement Service

The net settlement arrangement for the Chicago Clearing House Association's CHESS service was modified from next-day to same-day finality, under terms and conditions similar to those already in place between the Federal Reserve and other privately operated large-dollar networks. Same-day finality net settlement was also approved for the California Bankers Clearing House Association's PRESS service. In addition, net settlement services, based on next-day finality, were approved for the California Automated Clearing House Association and two automated teller machine networks and one point-of-sale network.

Definitive Securities and Noncash Collection Services

Reversing an earlier trend, the number of definitive securities held in safekeeping increased by 4.7 percent, primarily as a result of the decision by registered securities depositories to hold immobilized securities at four Reserve Banks. Noncash volume increased by 7.8 percent in 1985, to 4.6 million items. Even with this increase in volume, the level of noncash collection float was reduced by 78 percent from the 1984 level.

In October, public comment was requested on the concept of consolidating priced service activities across district lines and on a specific proposal to consolidate the noncash collection services of the Ninth and Twelfth Districts. No action was taken in 1985.

Book-Entry Securities

Beginning October 1, book-entry services for United States Treasury securities became a non-priced fiscal service, at the direction of the Treasury.

In 1985 the Federal Reserve added mortgage-backed securities of Federal agencies to its priced book-entry securities system. The book-entry system is a more secure and efficient means of maintaining securities, and it affords participants in the secondary market settlement simultaneous with the transfer of the securities.

On-line book-entry transfers totaled 5.5 million for the year.

Federal Reserve Float

Federal Reserve float increased to a daily average of $440 million in 1985, up from a daily average of $400 in 1984. The cost of all Federal Reserve float is recovered.

In November, the Board issued for comment an amendment to Regulation J to reduce float generated because of local holiday schedules. The proposals would modify the procedures used by Reserve Banks to recover the value of check and ACH float generated by the closing of depository institutions on local holidays, reduce the financial risk associated with current procedures for handling certain types of ACH float, and establish a uniform holiday schedule to be followed by the Reserve Banks. The comment deadline was February 3, 1986.

IV. OUTLOOK FOR 1986

The Board announced the 1986 fee schedules for priced services in October 1985. The 1986 schedules reflected relatively few price changes from the previous year. Check processing fees remained stable overall, with 86 percent of fees unchanged. The surcharges for the Interdistrict Transportation System, which had not changed since 1983, were modified, with both increases and decreases affecting more than half the fees.

The 1985 fee schedule for electronic connection, wire transfer of funds and net settlement services, and ACH transactions, will be retained in 1986. However, fees for certain nonautomated ACH services were increased. In the securities services, the 1986 fee schedule for book-entry securities was unchanged from 1985, and more than two-thirds of the 1985 fees for definitive safekeeping and noncash collection services were retained in 1986.

Several service enhancements intended to improve the payments mechanism will be evaluated or implemented during 1986.

A new policy on the extension of Fedwire operating hours will be considered in 1986 to introduce greater discipline and predictability into the process of granting extensions. The System, in conjunction with the banking industry and other market participants, will also work toward achieving greater consistency in the operating hours of the book-entry securities transfer system.

The Federal Reserve is studying ways to encourage the use of a structured Fedwire format, as described in the American Bankers Association Standards for Fedwire Third Party Payments. The Board will be considering publishing for public comment a proposal to provide incentives for the use of the ABA standard format. This format would assist institutions in their back-office automation of funds transfer payments.

In the ACH service, the System is evaluating several alternatives to recover more precisely the float costs associated with processing ACH night cycle transactions. Currently, float costs are recovered through a night cycle surcharge, which is imposed uniformly on all transactions, regardless of their dollar value. The night cycle surcharge discourages the use of the ACH for certain time critical, small-dollar payments.

The System will continue to move towards greater reliance on electronic transmission of ACH payments. The Federal Reserve expects to continue to increase significantly the number of depository institutions that have on-line electronic connections with Reserve Banks.

The Federal Reserve will continue its program to enhance the security of its electronic payments services. In this regard, Reserve Banks plan to increase significantly the number of communications lines that are encrypted.

In 1985, the Federal Reserve initiated a multi-year effort to assess digitized image processing for its applicability to check collection operations. This technology allows for the automated capture, storage and retrieval of document images. During 1986, the System will review responses to a request for proposal that was issued in 1985, and devise a plan for subsequent steps in the development effort. The results of these efforts will be shared with the financial industry.

As discussed above, the Federal Reserve initiated a pilot program to test a two-tier fee schedule for check prices. Results of the two-tier pricing pilot will be evaluated in 1986, and a determination made on the future viability of this pricing concept. The Federal Reserve also plans to evaluate results of the various check return item initiatives during 1986.

As previously noted, the Federal Reserve plans to participate in the National Association of Check Safekeeping program in 1986. The System will also be working with the banking industry during 1986 to study the legal, operational and economic issues related to truncation of both business and consumer checks. The Board may consider issuing for public comment a plan for further involvement in check truncation by Reserve Banks.

Mortgage-backed securities, issued by the Federal National Mortgage Association (Fannie Mae) and The Federal Home Loan Mortgage Corporation (Freddie Mac), which were added to the Federal Reserve's book-entry service in the New York District in 1985, are scheduled for inclusion in the book-entry service Systemwide by mid-1986.

In coming years, the Federal Reserve will continue to strive for price stability and cost containment. In addition, working with the financial industry, the System will continue to emphasize improvements in the services provided to depository institutions, the transition to a more efficient electronic payments environment, and the exploration of new technologies to enhance payments processing.

Table 1

Pro Forma Balance Sheet
For Priced Services
Federal Reserve Banks
December 31, 1985 and 1984
(in millions)

	1985		1984	
Short-term assets (Note 1)				
Imputed reserve requirements on clearing balances	$211.8		$166.9	
Investment in marketable securities	1,553.2		1,224.0	
Receivables	54.5		54.0	
Materials and supplies	5.2		4.7	
Prepaid expenses	6.6		2.1	
Net items in process of collection (float)	307.9		524.8	
Total short-term assets		$2,139.1		$1,976.4
Long-term assets (Note 2)				
Premises	181.6		172.9	
Furniture and equipment	113.3		100.9	
Leases and leasehold improvements	1.9		2.2	
Total long-term assets		296.9		276.0
Total assets		$2,436.0		$2,252.5
Short-term liabilities				
Clearing balances and balances arising from early credit of uncollected items	$2,072.9		$1,915.7	
Short-term debt	66.3		60.8	
Total short-term liabilities		$2,139.1		$1,976.4
Long-term liabilities				
Obligations under capital leases	0.3		0.4	
Long-term debt	94.3		87.6	
Total long-term liabilities		94.6		88.0
Total liabilities		2,233.7		2,064.5
Equity		202.3		188.0
Total liabilities and equity (Note 3)		$2,436.0		$2,252.5

Details may not add due to rounding.

Accompanying notes are an integral part of these financial statements.

Table 2

Pro Forma Income Statement
For Priced Services
Federal Reserve System
For the Years Ending December 31, 1985 and 1984
(in millions)

		1985		1984
Income (Note 4):				
Services provided to depository institutions		$613.8		$574.7
Expenses (Note 5):				
Production expenses	$481.4		$455.9	
Less: Board approved subsidies	4.7	476.7	6.7	449.2
Income from operations		137.1		125.4
Imputed costs (Note 6):				
Interest on float	31.6		29.3	
Interest on short-term debt	3.5		3.0	
Interest on long-term debt	9.7		8.5	
Sales taxes	5.4		4.9	
FDIC insurance	1.4	51.6	1.2	47.2
Income from operations after imputed costs		85.5		78.2
Other income and expenses (Note 7):				
Investment income	119.1		122.3	
Earnings credits	105.6	13.5	118.7	3.6
Income before income taxes		99.0		81.8
Imputed income taxes (Note 8)		36.5		31.6
Net income		$62.5		$50.2
Memo:				
Targeted return on equity (Note 8)		$23.9		$23.9

Details may not add due to rounding.

Accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

The Balance Sheet (Table 1)

Note 1: Short-term Assets

The imputed reserve requirement on clearing balances and investment in marketable securities reflect the Federal Reserve's treatment of clearing balances maintained on deposit with Reserve Banks by depository institutions. For balance sheet and income statement presentation, clearing balances are reported in a manner comparable to the way correspondent banks report compensating balances held with them by respondent institutions. That is, respondent balances held with a correspondent are subject to a reserve requirement established by the Federal Reserve. This reserve requirement must be satisfied with either vault cash or with non-earning balances maintained at a Reserve Bank. Following this model, clearing balances maintained with Reserve Banks for priced service purposes are subjected to imputed reserve requirements. Therefore, a portion of the clearing balances held with the Federal Reserve is classified on the asset side of the balance sheet as required reserves and is reflected in a manner similar to vault cash and due from bank balances normally shown on a correspondent bank's balance sheet. The remainder of clearing balances is assumed to be available for investment. For these purposes, the Federal Reserve assumes that all such balances are invested in three-month Treasury bills.

Receivables represent: 1) amounts due the Reserve Banks for priced services which have been provided to institutions for which payment has not yet been received; and, 2) that share of suspense account and difference account balances related to priced services.

The amount shown for materials and supplies represents the inventory value of such short-term assets necessary for the ongoing operations of priced service areas. Prepaid expenses represent items such as salary advances and travel advances for priced service personnel.

Net items in the process of collection is the amount of float as of the balance sheet date and is the difference between the value of items in the process of collection (including checks, coupons, securities, and ACH transactions) and the value of deferred availability items. The cost base for providing services that must be recovered under the Monetary Control Act includes the cost of float incurred by the Federal Reserve during the year and is valued at the Federal funds rate. Conventional accounting procedures would call for the gross amount of items in the process of collection and deferred availability items to be included on a balance sheet. However, because the gross amounts have no implications for income, costs, or the private sector adjustment factor (PSAF), and because the inclusion of these amounts could lead to distortions and misinterpretations of the assets employed in the provision of priced services which must be financed, only the net amount is shown. The net amount represents the assets that involve a financing cost.

Note 2: Long-term Assets

Long-term assets reflected on the balance sheet have been allocated to priced services using a direct determination basis. The direct determination method uses the Federal Reserve's Planning and Control System (PACS) to ascertain directly the value of assets used solely in priced services operations and to apportion the value of jointly-used assets between priced and nonpriced services. Additionally, an estimate of the assets of the Board of Governors directly involved in the development of priced services is included in long-term assets in the premises account.

Long-term assets also include an amount for capital leases. In accordance with generally accepted accounting principles, the Federal Reserve capitalizes leases that qualify for capitalization. These assets also include leasehold improvements.

Note 3: Liabilities and Equity

A matched-book capital structure for those assets that are not "self-financing" has been used to determine the liability and equity amounts. Short-term assets are financed with short-term debt. Long-term assets are financed with long-term debt and equity in a proportion equal to the ratio of long-term debt and equity of the bank holding companies used in the PSAF model.

Other short-term liabilities include clearing balances maintained at Reserve Banks and deposit balances arising from float. Other long-term liabilities consist of obligations on capital leases.

The Income Statement (Table 2)

The income statement reflects income and expenses for priced services. Included in these amounts are Board-approved subsidies, imputed float costs, imputed financing costs, and income related to clearing balances.

Note 4: Income

Income represents charges to depository institutions for priced services. This income is realized through one of two methods: direct charges to an institution's account or charges against accumulated earnings credits. Income includes charges for per-item fees, fixed fees, package fees, explicitly priced float, account maintenance fees, shipping and insurance fees, and surcharges.

Note 5: Production Expenses and Subsidies

Production expenses include direct, indirect, and other general administrative expenses of the Federal Reserve Banks for providing priced services. Also included in expenses are the expenses of staff of the Board of Governors working directly on the development of priced services which, in 1985 and 1984, amounted to $1.7 million and $1.9 million, respectively.

Board-approved subsidies consisted of a program established for the commercial automated clearinghouse services. The incentive pricing program established for the ACH service provided for fee structures designed to recover an increasing share of expenses. In 1985 and 1984, ACH revenues were intended to recover 80 percent and 60 percent, respectively, of costs plus the PSAF. This incentive pricing program was phased out with complete elimination at the end of 1985. The subsidy for ACH operations amounted to $4.7 million in 1985, and $6.7 million in 1984.

Note 6: Imputed Costs

Imputed float costs represent the value of float to be recovered, either explicitly or through per-item fees, during the period. During 1984, float costs included check, book-entry securities, noncash collection, and ACH float; recovery of wire transfer float was added in 1985.

The following table depicts the Federal Reserve's float performance and float recovery for 1985. The amount of float recovered through charges is valued at the Federal funds rate. The value of this float is then billed directly to depository institutions or added to the cost base subject to recovery for each appropriate service.

Float Recovery
Federal Reserve Banks
1985
(Daily average figures in millions)

Total float	790.4
Unrecovered float 1/	48.9
Float subject to recovery	741.5
Float recovered through:	
Income on clearing balances 2/	59.9
As of adjustments 3/	350.3
Direct charges 3/	123.2
Per-item fees 4/	208.1

1/ Includes float generated in providing services to government agencies or in other central bank services and float not recovered as a result of the ACH subsidy.

2/ This amount represents increased income on clearing balances as a result of reducing imputed reserve requirements through the use of a CIPC deduction for float when calculating the reserve requirement. This income then reduces float required to be recovered through other means.

3/ Midweek closing float and interterritory check float may be recovered from depositing institutions through adjustments to the institutions's reserve or clearing balance or by valuing the float at the Federal funds rate and billing the institution directly.

4/ This float is valued at the Federal funds rate and was added to the cost base subject to recovery in 1985.

Also included in imputed costs is the interest on short- and long-term debt assumed necessary to finance priced service assets and the sales taxes and FDIC insurance assessment that the Federal Reserve would have paid had it been a private business firm.

Note 7: Other income and expenses

Other income and expenses are comprised of income on clearing balances and the cost of earnings credits granted to depository institutions on their clearing balances. As a result of financial reporting changes approved by the Board in March, 1984, income on clearing balances for 1984 represents the average coupon equivalent yield on three-month Treasury bills applied to the total clearing balance maintained, adjusted for the effect of reserve requirements on clearing balances. Expenses for earnings credits were derived by applying the average Federal funds rate to the required portion of the clearing balances. Beginning October 25, 1984, earnings credits granted to depository institutions were adjusted for the net effect of reserve requirements on clearing balances.

Note 8: Income Taxes and Return on Equity

Imputed income taxes are calculated at the effective tax rate derived from a model consisting of the 25 largest bank holding companies.

The targeted return on equity represents the after-tax rate rate of return on equity that the Federal Reserve would have earned had it been a private business firm based on the bank holding company model.

Income Statement by Service (Table 3)

(Note 9)

The income statement by service reflects revenue, operating expenses adjusted for Board-approved subsidies, and imputed costs except for income taxes.

Imputed costs include float and the interest on short- and long-term debt, sales taxes, and the FDIC assessment as calculated for the PSAF. Float costs are based on the actual float incurred in each priced service. Other imputed costs are allocated among priced Services based on the ratio of the operating costs less shipping costs in each priced service to the total cost of priced services less total priced services shipping costs.

Other income and expenses consist of income on clearing balances and the cost of earnings credits for the Federal Reserve. Because clearing balances relate directly to the Federal Reserve's offering of priced services, the income and cost associated with these balances are spread to each service based on the ratio of income from each service to total income.

Taxes and the after-tax targeted rate of return on equity, as shown on the aggregate income statement, have not been spread by service since these elements relate to the organization as a whole.

Statement of Revenue and Expense For Locally Priced Services (Table 4)

(Note 10)

This table depicts the financial results for each Reserve Bank in providing locally priced services. The financial results for each Reserve Bank do not include the dollars to be recovered through the PSAF and the net investment income on clearing balances. As such, in order to reconcile Table 4 net revenue data with that disclosed in Table 3, adjustments must be made for imputed interest on short- and long-term debt, sales taxes, FDIC assessment, priced service Board expenses and net income on clearing balances.

(Note 11)

This table shows the absolute volume and percentage change in the number of items handled by the Federal Reserve in its priced service operations. Wire transfer of funds volume is the number of basic transactions originated; ACH volume is the total number of commercial items processed; commercial check volume reflects the total commercial checks collected, including both processed and fine sort items; securities transfers volume consists of the number of basic transfers originated on-line; definitive safekeeping is the average number of issues or receipts maintained; noncash collection volume is the number of items assessed fees; and cash transportation volume is the number of armored carrier stops.

Table 3

Income Statement for Priced Services
Federal Reserve System
For the year ending December 31, 1985
(in millions)

	Total	Commercial Check Collection	Wire Transfer and Net Settlement	Commercial ACH	Definitive Safekeeping and Noncash Collection	Book-Entry Securities	Cash Services
Income from services (Note 9)	$613.8	$464.5	$65.2	$23.2	$21.1	$24.3	$15.6
Operating expenses, net of subsidies	476.7	356.7	52.6	18.8	19.2	14.2	15.3
Income from operations	137.1	107.8	12.7	4.4	1.9	10.1	0.3
Imputed costs	51.6	44.2	1.6	2.0	1.1	2.6	0.1
Income from operations after imputed costs	85.5	63.6	11.1	2.4	0.8	7.5	0.2
Other income and expenses, net	13.5	11.4	0.9	0.3	0.3	0.3	0.2
Income before income taxes	$99.0	$75.1	$12.0	$2.7	$1.1	$7.8	$0.4

Details may not add to totals due to rounding.

Accompanying notes are an integral part of these financial statements.

Revenue and Expense of Locally Priced Services at Federal Reserve Banks, 1985

Millions of Dollars

(Note 10)

	Commercial Check Collection					Definitive Safekeeping and Noncash Collection					Cash Services		
	Total Revenue	Operating Cost	Float Cost	Total Cost	Net Revenue	Total Revenue	Operating Cost	Float Cost	Total Cost	Net Revenue	Total Revenue	Total Cost	Net Revenue
Boston	29.2	23.1	2.4	25.5	3.6	1.2	0.9	(0.0)	0.9	0.3	0.7	0.6	0.1
New York	64.7	52.0	2.5	54.5	10.3	3.5	3.3	(0.0)	3.3	0.2	0.0	0.0	0.0
Philadelphia	18.6	14.9	0.4	15.3	3.3	1.2	1.2	(0.0)	1.1	0.1	1.4	1.3	0.1
Cleveland	26.7	20.1	1.8	21.9	4.8	2.2	2.0	0.1	2.0	0.2	1.9	1.9	0.0
Richmond	42.5	31.4	2.9	34.3	8.2	1.1	0.9	(0.0)	0.9	0.1	0.0	0.0	0.0
Atlanta	52.3	40.1	2.5	42.6	9.7	3.2	2.6	0.1	2.8	0.5	0.0	0.1	(0.0)
Chicago	64.9	49.0	2.3	51.3	13.5	2.7	2.4	0.1	2.5	0.2	0.8	0.7	0.2
St. Louis	22.8	17.0	1.6	18.6	4.2	1.1	1.1	0.0	1.2	(0.1)	0.2	0.2	(0.0)
Minneapolis	27.0	22.8	(0.1)	22.7	4.3	1.1	1.0	0.0	1.0	0.1	2.0	1.8	0.2
Kansas City	32.7	24.6	1.6	26.2	6.5	2.1	1.8	(0.0)	1.8	0.3	0.3	0.4	(0.1)
Dallas	33.0	25.9	1.6	27.5	5.5	1.3	1.3	0.0	1.3	(0.0)	1.4	1.4	0.0
San Francisco	50.1	34.4	4.6	39.1	11.1	0.4	0.5	(0.0)	0.5	(0.1)	6.8	6.9	(0.2)
System Total	464.5	355.4	24.2	379.6	84.9	21.1	19.1	0.2	19.4	1.7	15.6	15.3	0.3

Details may not add to totals due to rounding.

Accompanying notes are an integral part of these financial statements.

Table 5

PRICED SERVICES VOLUMES

(Items in Thousands)

(Note 11)

Priced Service	1985	1984	Percent Change 1985 vs. 1984	1983	Percent Change 1984 vs. 1983
Funds Transfers	45,110.4	41,602.6	8.4%	38,021.0	9.4%
Commercial ACH	282,527.7	214,400.5	31.8	156,474.2	37.0
Commercial Checks	15,450,612.0	14,748,264.0	4.8	14,270,015.0	3.4
Securities Transfers	5,498.3	5,656.4	-2.8	5,005.2	13.0
Definitive Safekeeping	158.6	151.4	4.7	159.4	-5.0
Noncash Collection	4,637.4	4,302.0	7.8	2,929.7	46.8
Cash Transportation	376.2	503.2	-25.3	564.9	-10.9

Accompanying notes are an integral part of these financial statements.