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FEDERAL RESERVE BANK
OF NEW YORK

April 10, 1987

1986 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 1986 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. 212-720-5216).

E. GERALD CORRIGAN,
President.

AT 10162

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

ANNUAL REPORT ON PRICED SERVICES ACTIVITIES 1986

PRINTED IN NEW YORK

I. OVERVIEW

The Reserve Banks fully recovered their costs of providing priced services in 1986, as required by the Monetary Control Act of 1980. The System recovered 104.7 percent of its operating expenses and imputed costs.

During 1986, the Federal Reserve implemented a number of programs to improve the processing of payments and further refine certain fee structures. The Board approved a standard format for Fedwire transfers and a two-tiered pricing structure for check collection services in two Federal Reserve offices. Additional initiatives that may be of future significance for the payments system were also begun by the System.

II. FINANCIAL PERFORMANCE

The Federal Reserve is required, under the Monetary Control Act, to establish fees for its priced services. These fees must, 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 1986, total revenues from Federal Reserve priced services were $627.7 million, $13.9 million above 1985 revenues. Production costs rose from $476.7 million in 1985 to $497.5 million in 1986. The resulting $130.3 million in income from operations was reduced by imputed costs, including float, interest on short and long term debt, sales tax, and FDIC assessments, that in the aggregate totaled $45.8 million. Net interest income from clearing balances amounted to $8.0 million, yielding income before imputed income taxes of $92.4 million. After-tax income for 1986 was $57.6 million, down from $62.5 million in 1985. The increase in net income of $30.3 million from initial projections was due primarily to greater than anticipated volumes of ACH, wire transfer, and check transactions processed by the System.

In 1986, the percent of overrecovery was reduced by nearly 1 percent over 1985. This reduction from 105.6 percent to 104.7 percent is consistent with the System's goal to match, as closely as possible, costs and revenues. Various factors, such as volumes and float, are difficult to anticipate and prevent an exact cost/revenue match from year to year. In 1986, prices were generally stable and certain fee reductions were implemented.

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 1986, all Federal Reserve service lines had pre-tax income that covered total operating and imputed costs. 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 1986 are presented in Table 5.

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

Check Collection

Check volume processed by the Federal Reserve totalled 16,225.8 million transactions, an increase of 5.0 percent over 1985 volume.

The System continued to pursue initiatives to improve the return item process during 1986. For example, the Federal Reserve and the banking industry jointly conducted a test program to determine the benefits of using the forward collection process to deliver return items to the institution of first deposit. Results of the test program indicate that the procedure has the potential to speed the return of many items. The Federal Reserve and the banking industry continue to pursue this initiative. In addition, the Board in November issued for public comment a proposal to provide a redeposit service for low-dollar checks that are returned because of insufficient or uncollected funds. Under this service, which has been implemented on a pilot basis in the St. Louis, Atlanta, and Cleveland districts, Reserve Banks would intercept dishonored checks and redeposit them for a second presentment on behalf of the collecting institution requesting the service. This practice would speed processing times and reduce costs. Action on the proposal to expand this service to all Federal Reserve Districts is expected early in 1987.

The Board adopted several amendments to Regulation J in May. One change to the regulation permits Reserve Banks to collect checks drawn on banks located in foreign countries. This service will be provided on a limited basis, and the checks will be collected through correspondent banks. The other amendments relate primarily to a Reserve Bank's liabilities regarding check collection and funds transfers.

In November, the Board approved making permanent the two-tiered pricing structure being piloted at the head offices of the Federal Reserve Banks of Minneapolis and Kansas City. The Board also established criteria for determining the conditions under which a tiered fee structure would be extended to other Federal Reserve offices. In some cases, using a tiered pricing structure would more accurately reflect Federal Reserve costs of check processing, because it allows different fees to be charged to collecting institutions based on whether the checks are sent to a high or low-cost presentment point.

Electronic Payment Services

The number of depository institutions having electronic connections with Federal Reserve Banks increased in 1986 by more than 770, to a total of approximately 6,300 by year-end. Another major initiative was the encryption of the Federal Reserve network, in support of the Federal Reserve's objective to move the payment system toward a more secure electronic environment. Approximately 40 percent of all electronic connections between depository institutions and the Federal Reserve Systemwide had been encrypted by the end of 1986, and most connections are expected to be encrypted by the end of 1987.

In 1986, all twelve Reserve Banks were certified at the Contingency Processing Center (CPC) located in Culpeper, Virginia. The CPC would allow for continued operation of major electronic payments and support services in the event of an extended operating outage in a Reserve District.

Commercial Automated Clearing House Service

In 1986, the prices of automated clearing house (ACH) services were established to recover 100 percent of the costs to provide these services for the first time. A partial subsidy had been in effect previously to encourage acceptance and growth of the new service in its early years. The System processed 362.6 million commercial transactions during the year, an increase of 28.3 percent over 1985.

In September, the Board issued for public comment an alternative method for recovering the cost of float generated by ACH transactions processed on the night cycle with a corresponding reduction in the current per item surcharges. Currently, net debit float is recovered through a surcharge that is applied to all debit transactions processed at night. The Board proposal would relate float charges to the value of debit transactions originated by an institution at night. No final action was taken on the proposal in 1986.

On-line return item data base services were offered by two Federal Reserve Banks. The service facilitates the processing of automated return items by requiring less manual processing by those initiating the return items. Automated return item services based on intelligent terminal originations were also offered.

<u>Funds Transfer</u>

Funds transfer volume grew 10.6 percent in 1986, to a total of 49.9 million transactions.

In June, the Board published for public comment a proposal to require that information contained in third-party Fedwire messages be provided in a standard format. The current Fedwire format used by most depository institutions for third-party payments does not permit automated handling of the payments by receiving institutions. The use of a structured format would facilitate the automated handling of Fedwire transfers. In November, the Board approved a $0.25 surcharge for funds transfers not conforming to the standard format, beginning April 1, 1988, as an incentive to encourage use of the format, and mandatory use of the standard format beginning April 3, 1989.

The System adopted a new Fedwire extension policy in August 1986. The extension policy establishes guidelines for granting Fedwire extensions to ensure an orderly process for extending Fedwire operating hours.

Net Settlement Service

In March, the Board approved a modification to the interim terms for treating ACH net settlement entries for credit transactions. Pending adoption of policies to address ACH and net settlement risk, net settlement entries for ACH credit transactions are being treated as final at 6:00 p.m. Eastern time on the settlement date. Net settlement entries for ACH debit transactions are treated as provisional until the business day following the settlement date.

A net settlement service providing next-day finality was approved for one automated teller machine network in 1986.

Definitive Safekeeping and Noncash Collection Services

The average monthly number of issues and receipts maintained was approximately 165,000, an increase of 3.8 percent over 1985. Reversing the 1985 growth experience, noncash collection volume decreased 7.0 percent to 4.3 million.

In November, the Board approved the consolidation of the municipal bond and coupon collection activities of the Federal Reserve Bank of San Francisco at the Minneapolis Reserve Bank. It also published for public comment a list of factors to be considered when Reserve Banks propose future consolidations of priced services across district lines. No action was taken on this proposal in 1986.

Book-Entry Securities

In 1986, the Federal Reserve processed 5.9 million on-line Treasury book-entry securities transfers as fiscal agent. The Federal Reserve processed 1.7 million on-line federal agency book-entry securities transfers during the year. Comparable volume statistics for 1985 are not available because of the October 1, 1985, reclassification of Treasury book-entry securities from a priced service to a fiscal service.

Book-entry safekeeping and transfer of federal agency mortgage-backed securities was expanded from the Federal Reserve Bank of New York to all districts during 1986.

Float

Federal Reserve float increased to a daily average of $446.5 million in 1986, up from a daily average of $440 million in 1985. The cost of all Federal Reserve float is recovered.

In May, the Board approved a standard holiday schedule to be followed by Federal Reserve Banks, effective January 1, 1987. At that time, it also adopted proposals to modify the procedures used by Federal Reserve Banks to recover the cost of float generated by the receipt of ACH debit and check transactions due to nonstandard holiday and midweek closings.

In conjunction with proposals issued in December to reduce risk in the ACH system, the Board proposed procedures to recover the cost of float generated by the origination of ACH credit transactions. No final action was taken in 1986.

IV. OUTLOOK FOR 1987

The Board announced 1987 fees for priced services in October 1986. The 1987 schedule reflects relatively few price changes from 1986. Check processing fees remain stable overall, with more than 90 percent of fees unchanged.

The 1987 fee schedules reflect changes in fees for electronic connections, wire transfers, and selected non-automated fee categories for ACH processing. Fees for dedicated leased line and multi-drop electronic connections were increased modestly in 1987. In the wire transfer service, the basic transfer fee was reduced by $.05 to $.50, while certain nonautomated services fees were increased.

For the ACH service, over 80 percent of the fees for nonautomated ACH services will remain the same and the current basic transaction fees for processing automated transactions were retained. Automated return items, automated notices of change, and prenotifications, which historically have not been priced separately, will be priced beginning in April 1987.

In securities services, 85 percent of the definitive safekeeping fees will remain unchanged for 1987. A change will be made in the fee schedule for the book-entry service effective May 1, 1987 to reduce the overrecovery rate for that service.

Several service enhancements intended to improve the payments mechanism will be evaluated or implemented during 1987.

The Federal Reserve continued its efforts to provide a more reliable and flexible payment system. In this regard, the System completed the first phase of a comprehensive long-range review of electronic payment services. That preliminary work, which continues in 1987, highlights the potential desirability of:

- o increasing the reliability of electronic payment services
- o developing improved contingency and backup capabilities

- designing new and more flexible services
- improving formats used for electronic payment services to facilitate more end-to-end automation.

The current pricing structure for electronic connection fees will be evaluated in 1987. The objective of the study is to determine if the current electronic connection fee structure provides the aggregate cost-based price incentives for the efficient use of communication resources.

The System will continue efforts to improve security in its electronic connection network. The Reserve Banks plan to substantially complete efforts to encrypt all communication lines in 1987. Further, a study of the use of message authentication (MAC) as an additional security enhancement has been started. A policy regarding MAC may be forthcoming in late 1987.

Contingency planning and backup for payment services will receive continued attention. A separate site for contingency processing for the New York District was approved. Another alternative the System is studying is the concept of remote logging of transactions of one Reserve Bank at another Reserve Bank to be used for quick restart and recovery in case of a computer or communication failure. Major industry users of Federal Reserve electronic services are also being encouraged to study and implement improvements in their reliability and contingency arrangements.

As part of the Board's payments system risk reduction program, a new ACH return item service is being investigated. The potential outcome of the study could be the offering of new services, such as telephone acceptance of return item information for large dollar transactions.

A new policy on the extension of Fedwire operating hours for book-entry securities transfers will be considered in 1987 to introduce greater discipline and predictability into the process of granting extensions. Such a policy for wire transfers over Fedwire was implemented in August 1986, and has reduced the number of extensions.

The System will develop a strategic plan to address declining noncash/definitive securities volumes, as more definitive securities are converted to book-entry form.

In 1987, the Federal Reserve will continue its multi-year effort begun in 1985 to assess digitized image capture and processing for its applicability to check collection operations. This technology allows for the automated capture, storage, and retrieval of document images. Actual testing of the basic capabilities of the technology is scheduled for completion during 1987 with subsequent testing and evaluation of possible applications in a live environment to follow.

The System will continue its initiatives in evaluating the legal, operational and economic issues related to truncation of both business and consumer checks.

The System will direct its efforts to improve further the return item process for check collection. While legislation is currently under review to address the issue of delayed availability, the System will explore several initiatives to improve the operational processing of return items. These include using forward collection systems, contributing to the development of an improved endorsement standard, and transporting images of returned checks via electronic technology.

Table 1

Pro Forma Balance Sheet
For Priced Services
Federal Reserve System
(in millions)

	December 31, 1986		December 31, 1985	
Short-term assets (Note 1)				
Imputed reserve requirements on clearing balances	$251.8		$211.8	
Investment in marketable securities	1,846.2		1,553.2	
Receivables	59.7		54.5	
Materials and supplies	5.1		5.2	
Prepaid expenses	6.0		6.6	
Net items in process of collection	300.1		307.9	
Total short-term assets		$2,468.8		$2,139.1
Long-term assets (Note 2)				
Premises	200.3		181.6	
Furniture and equipment	118.2		113.3	
Leases and leasehold improvements	4.3		1.9	
Total long-term assets		322.8		296.9
Total assets		$2,791.6		$2,436.0
Short-term liabilities				
Clearing balances and balances arising from early credit of uncollected items	$2,398.1		$2,072.9	
Short-term debt	70.7		66.3	
Total short-term liabilities		$2,468.8		$2,139.1
Long-term liabilities				
Obligations under capital leases	1.6		0.3	
Long-term debt	102.1		94.3	
Total long-term liabilities		103.7		94.6
Total liabilities		2,572.5		2,233.7
Equity		219.1		202.3
Total liabilities and equity (Note 3)		$2,791.6		$2,436.0

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, 1986 and 1985
(in millions)

	1986		1985	
Income (Note 4):				
Services provided to depository institutions		$627.7		$613.8
Expenses (Note 5):				
Production expenses	$497.5		$481.4	
Less: Board approved subsidies	--	497.5	4.7	476.7
Income from operations		130.3		137.1
Imputed costs (Note 6):				
Interest on float	23.8		31.6	
Interest on debt	13.3		13.2	
Sales taxes	7.3		5.4	
FDIC insurance	1.5	45.8	1.4	51.6
Income from operations after imputed costs		84.5		85.5
Other income and expenses (Note 7):				
Investment income	114.2		119.1	
Earnings credits	106.3	8.0	105.6	13.5
Income before income taxes		92.4		99.0
Imputed income taxes (Note 8)		34.8		36.5
Net income		$57.6		$62.5
Memo:				
Targeted return on equity (Note 8)		$27.3		$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 that 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 represents 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, wire transfers, 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 period 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 that 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 non-priced 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 amounted to $1.7 million for both 1986 and 1985.

Board-approved subsidies consisted of a program established for the commercial automated clearinghouse service. The incentive pricing program established for the ACH service provided for fee structures designed to recover an increasing share of expenses. In 1985, ACH revenues were intended to recover 80 percent of costs plus the PSAF. This incentive pricing program was completely eliminated at the end of 1985.

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. Float costs include check, book-entry securities, noncash collection, ACH, and wire transfer float.

The following table depicts the Federal Reserve's float performance and float recovery for 1986. 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.

Also included in imputed costs is the interest on 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.

Float Recovery
Federal Reserve Banks
1986
(Daily average figures in millions)

Total float	$758.5
Unrecovered float 1/	105.6
Float subject to recovery	652.9
Float recovered through:	
Income on clearing balances 2/	72.1
As of adjustments 3/	312.0
Direct charges 3/	116.4
Per-item fees 4/	152.4

1/ Includes float generated in providing services to government agencies or in other central bank services.

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 institution'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 has been added to the cost base subject to recovery in 1986.

<u>Note 7: Other Income and Expenses</u>

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. Income on clearing balances represents the average coupon equivalent yield on three-month Treasury bills applied to the <u>total</u> clearing balance maintained, adjusted for the effect of reserve requirements on clearing balances. Expenses for earnings credits are derived by applying the average Federal funds rate to the <u>required</u> portion of the clearing balances, adjusted for the net effect of reserve requirements on clearing balances.

<u>Note 8: Income Taxes and Return on Equity</u>

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 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.

<u>Income Statement by Service (Table 3)</u>

<u>(Note 9)</u>

The income statement by service reflects revenue, operating expenses, and imputed costs except for income taxes.

Imputed costs include float and interest on debt, sales taxes, and the FDIC assessment. 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.

This statement differs from the service by service presentation of priced services performance in the Board's Annual Report to Congress. The Annual Report data include gross income on clearing balance by service in Revenue, gross cost of earnings credits and the imputed cost of float in Expenses. The expenses of staff of the Board of Governors working directly on the development of priced services is included in the Private Sector Adjustment Factor (rather than Production expenses).

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 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 debt, sales taxes, FDIC assessment, priced service Board expenses and net income on clearing balances.

Statement of Priced Services Volumes (Table 5)

(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, 1986
(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)	$627.7	$483.4	$70.4	$31.1	$20.5	$8.0	$14.3
Operating expenses	497.5	377.3	57.8	25.3	18.5	4.8	13.9
Income from operations	130.3	106.1	12.7	5.9	2.0	3.2	0.5
Imputed costs	45.8	40.4	2.3	1.8	0.9	0.4	0.1
Income from operations after imputed costs	84.5	65.7	10.4	4.1	1.1	2.8	0.4
Other income and expenses, net	8.0	7.3	0.3	0.1	0.1	0.0	0.1
Income before income taxes	$92.4	$73.0	$10.7	$4.2	$1.2	$2.9	$0.5

Details may not add to totals due to rounding.

Accompanying notes are an integral part of these financial statements.

Table 4

Revenue and Expense of Locally Priced Services at Federal Reserve Banks, 1986

(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	31.5	24.7	2.0	26.7	4.8	1.1	0.8	0.0	0.9	0.2	0.7	0.6	0.1
New York	64.8	51.5	2.3	53.7	11.0	3.6	3.3	(0.0)	3.3	0.4	0.0	0.0	0.0
Philadelphia	20.7	16.5	0.7	17.2	3.5	1.4	1.3	(0.0)	1.3	0.1	1.4	1.3	0.1
Cleveland	28.2	22.5	1.8	24.3	3.9	2.2	1.9	0.1	1.9	0.3	1.8	1.7	0.1
Richmond	44.5	34.3	2.0	36.3	8.2	0.9	1.0	0.0	1.0	(0.1)	0.0	0.0	(0.0)
Atlanta	56.0	43.2	0.9	44.1	11.9	3.2	2.6	0.0	2.6	0.5	0.0	0.1	(0.0)
Chicago	67.4	50.7	2.1	52.8	14.6	2.6	2.1	0.0	2.1	0.5	0.9	0.8	0.1
St. Louis	22.5	17.7	1.4	19.1	3.5	1.1	1.1	0.0	1.1	0.0	0.2	0.2	(0.0)
Minneapolis	27.8	23.1	(0.7)	22.5	5.3	1.2	1.1	(0.0)	1.1	0.1	2.2	2.0	0.2
Kansas City	31.6	25.8	1.3	27.0	4.6	1.8	1.7	0.0	1.7	0.1	0.3	0.4	(0.1)
Dallas	34.8	27.6	1.0	28.6	6.2	1.2	1.2	0.0	1.2	0.0	0.0	0.0	(0.0)
San Francisco	53.5	38.5	3.2	41.7	11.8	0.1	0.2	(0.0)	0.2	(0.2)	6.7	6.6	0.0
System Total	483.4	376.0	18.0	394.0	89.4	20.5	18.4	0.0	18.5	2.0	14.3	13.9	0.5

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	1986	1985	Percent Change 1986 vs. 1985	1984	Percent Change 1985 vs. 1984
Funds Transfers	49,900	45,110	10.6%	41,603	8.4%
Commercial ACH	362,557	282,528	28.3	214,401	31.8
Commercial Checks	16,225,812	15,450,612	5.0	14,748,264	4.8
Securities Transfers	1,719	5,498*	N/A	5,656*	N/A
Definitive Safekeeping	165	159	3.9	151	4.7
Noncash Collection	4,312	4,637	-7.0	4,302	7.8
Cash Transportation	363	376	-3.6	503	-25.3

*Effective October 1, 1985, the book-entry transfers of government agency securities only are considered priced. Since the 1985 (partial) and 1984 figures include U.S. Treasury and government agency securities transfers, any comparison of such volumes is not applicable.

Accompanying notes are an integral part of these financial statements.