

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 10207]
November 30, 1987]

1988 FEE SCHEDULES FOR PRICED SERVICES

**— ACH, Funds Transfer and Net Settlement, Definitive Securities Safekeeping
and Noncash Collection, and Book-Entry Securities Services**

— Private Sector Adjustment Factor (PSAF)

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

The Board of Governors of the Federal Reserve System has announced the adoption of new fee schedules for services provided by Federal Reserve Banks, effective January 1, 1988. The following is quoted from the text of a statement issued by the Board of Governors in that regard, including notice of the Board's approval of the 1988 Private Sector Adjustment Factor (PSAF) for Federal Reserve priced services:

The Federal Reserve Board has announced the 1988 fee schedules for services provided by the Reserve Banks. The majority of the 1988 fees are the same as those currently imposed and they become effective January 1, 1988.

In 1988 total costs for priced services, including the Private Sector Adjustment Factor (PSAF), are projected to be \$647.1 million. Total revenue is estimated at \$658.8 million, resulting in a 101.8 percent overall recovery rate for all priced services. However, the recovery rate for wire transfer of funds and net settlement service alone may be lower due to additional expenses associated with improving services and implementing new contingency backup arrangements.

As a result of the Expedited Funds Availability provision in the Competitive Equality Banking Act, Reserve Banks will offer new services to speed the return of unpaid checks beginning September 1, 1988. The costs and revenues associated with these services are not included in the 1988 check collection fees.

At the same time, the Board approved the 1988 PSAF for Reserve Bank priced services of \$76.2 million, an increase of 7.5 percent over the 1987 level.

The PSAF is an allowance for the taxes that would have been paid and the return on capital that would have been provided had the Federal Reserve's priced services been furnished by a private business firm.

(OVER)

Enclosed is a copy of the Board's official notice in this matter, which has been reprinted from the *Federal Register* of November 13 (52 FR 219). The notice includes fee schedules of Federal Reserve priced services for ACH, funds transfer and net settlement, definitive securities safekeeping and noncash collection, and book-entry securities services; fee schedules for our check collection services were sent to you with our Circular No. 10200 on November 2.

Requests for additional information regarding our priced services may be directed to your Account Manager, Tel. No. 212-720-6600 (at the Head Office), or Tel. No. 716-849-5108 or 5085 (at the Buffalo Branch).

Additional copies of this enclosure and the check collection fee schedules will be furnished upon request directed to our Circulars Division (Tel. No. 212-720-5215 or 5216).

E. GERALD CORRIGAN,
President.

1988 FEE SCHEDULES FOR PRICED SERVICES

- ACH, Funds Transfer and Net Settlement, Definitive Securities Safekeeping and Noncash Collection, and Book-Entry Securities Services
- Private Sector Adjustment Factor

Reprint from

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Vol. 52, No. 219

November 13, 1987

FEDERAL RESERVE SYSTEM

[Docket No. R-0618]

Fee Schedules for Federal Reserve Bank Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Approval of a Private Sector Adjustment Factor and fee schedules for Federal Reserve Bank priced services for 1988, and approval of a change in methodology used to calculate the Private Sector Adjustment Factor.

SUMMARY: The Board of Governors has approved a Private Sector Adjustment Factor ("PSAF") for 1988 of \$76.2 million. This represents an increase of \$5.3 million, or approximately 7.5 percent, from the 1987 target PSAF of \$70.9 million. The PSAF is a recovery of imputed costs that takes into account the taxes that would have been paid and the return on capital that would have been provided had the Federal Reserve's priced services been furnished by a private business firm. This factor will now be calculated using three-year averages of bank holding company data, rather than a single year's data. The Board also approved 1988 fees schedules for the check collection, automated clearing house, wire transfer of funds and net settlement, definitive securities safekeeping and noncash collection, and book-entry securities services.

EFFECTIVE DATE: The new PSAF will take effect on January 1, 1988. Fees for check collection, Interdistrict Transportation System ("ITS"), wire transfer of funds and net settlement, definitive safe-keeping and noncash collection, book-entry securities services, and automated clearing house services will also take effect on January 1, 1988.

FOR FURTHER INFORMATION CONTACT: Elliott McEntee, Associate Director (202/452-2231), or Paul W. Bettge, Analyst (202/452-3174), Division of Federal Reserve Bank Operations; Oliver I. Ireland, Associate General Counsel (202/452-3625), or Joseph R. Alexander, Senior Attorney (202/452-2489), Legal Division; or, *For the hearing impaired only*, Earnestine Hill or Dorothea Thompson,

Telecommunications Device for the Deaf (202/452-3254), Board of Governors of the Federal Reserve System, Washington, DC 20551.

Copies of the fee schedules for Federal Reserve Bank priced services for 1988 are available from local Federal Reserve Banks.

SUPPLEMENTARY INFORMATION:

Private Sector Adjustment Factor

Section 11A of the Federal Reserve Act, 12 U.S.C. 248a, provides that fees for Federal Reserve services include "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 provided by a private business firm * * * ." The Private Sector Adjustment Factor ("PSAF") is intended to reflect the imputed costs related to taxes and return on capital. As in past years,¹ the PSAF for 1988 is based on data developed in part from a model comprised of the nation's 25 largest bank holding companies.

Briefly stated, the methodology first entails determining the value of Federal Reserve assets that will be used directly in producing priced services during the coming year, including the net effect of assets planned to be acquired or disposed of during the year. Short-term assets are assumed to be financed by short-term liabilities; long-term assets are assumed to be financed by a combination of long-term debt and equity.

Imputed capital costs are determined by applying related interest rates and rate of return on equity derived from the bank holding company model to the assumed debt and equity values. These costs, together with imputations for estimated sales taxes, FDIC insurance assessment on clearing balances held with the Federal Reserve to settle for transactions, and expenses of the Board of Governors related to priced services, comprise the PSAF.

Details regarding the derivation of the PSAF are as follows:

¹ See 49 FR 11251 (Mar. 26, 1984); 49 FR 44556 (Nov. 7, 1984); 50 FR 47624 (Nov. 19, 1985); 51 FR 42630 (Nov. 25, 1986).

Asset Base

The estimated value of Federal Reserve assets used in providing prices services in 1988 is reflected in Table 1. Table 2 shows that the value of assets assumed to be financed through debt and equity are projected to total \$417.2 million in 1988, an increase of \$23.4 million, or 6 percent, from 1987. This increase results largely from capital expenditures for bank premises, furniture, and equipment planned by the Reserve Banks next year.

Cost of Capital and Taxes

Because of abnormal earnings performance by bank holding companies included in the model, the Board has approved imputing the cost of equity capital for the PSAF using a three-year average of rates of return on equity derived from the model in each of the last three years. The Board has now approved use of the three-year average of rates as the standard methodology in place of a single year's data. Three-year averages will also be used for determining imputed interest costs for long-term debt, and for income taxes.

Table 3 shows the interest, equity, and tax rates to be used in 1988 and compares them with the rates used for developing the PSAF for 1987. The sample of 25 bank holding companies used to calculate the rates for 1988 is slightly different from that used for the 1987 PSAF. Because of mergers or changes in asset size, three bank holding companies replaced other bank holding companies in the sample. One large bank holding company was again removed from the sample because of unique government oversight over bank management decisions during the past year, and the twenty-sixth largest bank holding company was substituted. The bank holding companies with the highest and lowest rates of return on equity before taxes were also excluded, consistent with the methodology for determining the PSAF. Calculations were then based on the remaining 23 bank holding companies.

Other Imputed Costs

As shown in Table 3, other required PSAF recoveries for 1988 for sales taxes, FDIC insurance, and Board expenses

total \$11.8 million, up \$1.2 million from 1987. Most of the increase is in imputed sales taxes, which is attributable primarily to a projected increase in capital expenditures planned for 1988 over 1987. The remainder of the increase is in imputed cost for FDIC insurance, resulting from the expected rise in clearing balances reflected in Table 1.

1988 Fee Schedules

The fees for priced services that were approved by the Board for 1987 were set to recover 101.9 percent of the cost of providing such services, including the PSAF and the cost of float. Through the first eight months of 1987, the System experienced a recovery rate of 103.4 percent. The Board estimates that total costs including the PSAF for 1987 will be \$627.1 million and revenue will be \$648.5 million, resulting in a 103.4 percent recovery rate for the entire year.

In 1988, the Board projects that total costs for priced services including the PSAF will be \$647.1 million and total revenue will be \$658.8 million, resulting in a 101.8 percent recovery rate. The majority of the 1988 fees are the same as those in effect for 1987.

Discussion of the fee schedules for individual service categories follow:

Commercial Check Collection

Ninety-one percent of the 1988 prices for the check service are the same as those currently in effect. In the Interdistrict Transportation System ("ITS"), 70 percent of the 4,300 prices will not change from current prices. Of the 30 percent of prices which will change, 90 percent will be lowered.

Commercial check collection fees for 1988 are available from the local Federal Reserve Banks.

Automated Clearing House ("ACH")

The current basic transaction fees for processing automated clearing house transactions will be lowered in 1988. The interregional per-item fee is being lowered from 1.8¢ to 1.7¢ due to cost savings from the elimination of duplicate editing between the originating Reserve Bank and the

receiving Reserve Bank. The ACH night cycle credit and debit surcharges are being reduced from 3.0¢ to 2.0¢ and 6.0¢ to 4.5¢, respectively, due to reduced operating costs and lower float costs resulting from improved operating procedures.

Over 80 percent of the fees for nonautomated services will increase in 1988. However, the proposed increases are modest, allowing Reserve Banks to more fully recover the costs associated with providing labor-intensive services.

ACH fees for 1988 are listed in Attachment I.

Funds Transfer and Net Settlement

In 1988, funds transfer costs, including the PSAF, are projected to increase by \$0.5 million or less than 1 percent over 1987. The volume of basic funds transfers originated is expected to increase by 6.4 percent in 1988.

The net settlement per entry fee will be reduced from \$1.30 to \$1.00. Based upon this fee reduction and Reserve Bank cost and volume estimates for 1988, retaining the basic funds transfer fee of \$.50 would result in a recovery rate of about 106 percent. In view of this projection, the Board has reduced the basic transfer fee to \$.47, resulting in a projected recovery of 102.7 percent.

Electronic connection fees are not changing at this time. However, the System is reviewing the pricing structure and fees for electronic connections and changes may be proposed at a later date.

Wire transfer and net settlement fees are listed in Attachment II, and electronic connection fees are listed in Attachment III.

Definitive Securities Safekeeping and Noncash Collection

Definitive securities safekeeping and noncash collection costs are expected to increase by 3.0 percent in 1988. Volume declines are expected to continue as remaining bearer securities gradually mature or are called. Although total revenue is expected to increase by 4.2

percent as a result of price increases in ten Reserve Banks, volume declines and increased costs will result in a small net revenue deficit of \$54,000.

In definitive securities safekeeping, volumes are expected to decline about 8.3 percent in 1988. Nine out of eleven Districts offering this service are increasing prices to offset volume declines. Price increases range from \$.75 to \$5.00 for deposits and withdrawals; from \$.15 to \$.75 for receipts/issues maintained; and from \$.75 to \$5.00 for purchases and sales and reregistration transactions.

For the noncash collection service, eight of the eleven Districts that offer the service will increase prices to offset an anticipated 7.5 percent volume decline. Price increases range from \$.10 to \$1.00 per envelope for collection of coupons, and from \$.50 to \$10.00 for return items and bond collections.

Fees for definitive securities safekeeping and noncash collection services are listed in Attachment IV.

Book-Entry Securities Services

Although the 1988 recovery rate is expected to 97.9 percent, no changes in the fees for book-entry services are being made at this time. Costs are projected to increase about 15 percent due to a change in the cost allocation methodology used to distribute data processing and data communication costs, and, in some Districts, the costs of providing contingency capabilities. The Reserve Banks have projected that volume will increase 12.8 percent, resulting in a 5.3 percent gross revenue growth in 1988. The Board believes that, given a continued strong market in federal agency mortgage-backed securities, actual volume and recovery rates will be higher.

By order of the Board of Governors of the Federal Reserve System, November 6, 1987.
William W. Wiles,
Secretary of the Board.

TABLE 1.—COMPARISON OF PRO FORMA BALANCE SHEETS FOR FEDERAL RESERVE PRICED SERVICES

[Millions of Dollars—Average for Year]

	1988	1987
Short-term assets:		
Imputed reserve requirement on clearing balances	\$268.2	\$239.2
Investment in marketable securities	1,967.0	1,753.8
Receivables ¹	28.0	26.8
Materials and supplies ²	6.4	4.4
Prepaid expenses ¹	5.8	4.2
Net items in process of collection (float)	438.3	363.5
Total short-term assets	\$2,713.7	\$2,391.9
Long-term assets:		
Premises ^{1 2}	\$245.4	\$229.6
Furniture and equipment ²	129.5	126.8
Capital leases	2.5	1.8
Leasehold improvements ³	2.2	2.0
Total long-term assets	379.6	360.2
Total assets	\$3,093.3	\$2,752.1
Short-term liabilities:		
Clearing balances	\$2,325.2	\$1,993.0
Balances arising from early credit of uncollected items	438.3	363.5
Short-term debt ³	401.1	35.4
Total short-term liabilities	\$2,713.6	\$2,391.9
Long-term liabilities:		
Obligations under capital leases	\$2.5	\$1.8
Long-term debt ³	136.4	126.2
Total long-term liabilities	\$138.9	\$128.0
Total liabilities	2,852.5	2,519.9
Equity ³	240.7	232.2
Total liabilities and equity	\$3,093.2	\$2,752.1

¹ Financed through PSAF; other assets are self-financing.

² Includes allocations in Board of Governors' assets to priced services on \$0.5 million for 1988 and \$0.6 million of 1987.

³ Imputed figures; represent the source of financing for certain priced services assets.

Note: Details may not add to totals due to rounding.

TABLE 2.—DERIVATION OF THE 1988 PSAF

[Millions of dollars]	
A. Assets to be Financed: ¹	
Short-term	\$40.1
Long-term	377.1
	417.2
B. Weighted Average Cost:	
1. Capital Structure: ³	
Short-term Debt	9.6%
Long-term Debt	32.7%
Equity	57.7%
2. Financing Rates/ Costs: ³	
Average rates paid by the bank holding companies included in the sample:	
Short-term Debt	7.1%
Long-term Debt	9.7%
Pre-tax Equity ⁴	20.1%
3. Elements of Capital Costs:	
Short-term Debt	$\$40.1 \times 7.1\% = \2.8
Long-term Debt	$136.4 \times 9.7\% = 13.3$
Equity	$240.7 \times 20.1\% = 48.3$
	\$64.4

TABLE 2.—DERIVATION OF THE 1988 PSAF—Continued

[Millions of dollars]	
C. Other Required PSAF Recoveries:	
Sales Taxes	\$8.2
Federal Deposit Insurance Assessment	1.9
Board of Governors Expenses	1.7
	\$11.8
D. Total PSAF Recoveries	\$76.2
As a percent of capital	18.3%
As a percent of expenses ⁵	16.3%

¹ Priced service asset base is based on direct determination of assets method.

² Consists of total long-term assets less capital leases that are self-financing.

³ All short-term assets are assumed to be financed by short-term debt. Of the total long-term assets, 36.2 percent are assumed to be financed by long-term debt and 63.8 percent by equity.

⁴ The pre-tax rate of return on equity is based on average after-tax rates of return on equity for the bank holding company sample, adjusted by the effective tax rate to yield the pre-tax rate of return on equity. The 1988 figure for after-tax equity and the tax rate are based upon a three-year average of these rates.

⁵ Systemwide 1988 budgeted priced service expenses less shipping are \$466.8 million.

TABLE 3.—CHANGES BETWEEN 1988 AND 1987 PSAF COMPONENTS

	1988	1987
A. Assets to be Financed (millions of dollars)		
Short-term	\$40.1	\$35.4
Long-term	377.1	358.4
B. Cost of Capital:		
Short-term Debt Rate	7.1%	8.5%
Long-term Debt Rate	9.7%	10.2%
Pre-tax Return on Equity ¹	20.1%	19.1%
Weighted Average Cost of Capital	15.4%	15.3%
C. Tax Rate ¹	32.3%	33.9%
D. Capital Structure:		
Short-term Debt	9.6%	9.0%
Long-term Debt	32.7%	32.0%
Equity	57.7%	59.0%
E. Other Required PSAF Recoveries (millions of dollars):		
Sales Taxes	\$8.2	\$7.3
Federal Deposit Insurance Assessment	1.9	1.6
Board of Governors Expenses	1.7	1.7
F. Total PSAF		
Required Recovery	\$76.2	\$70.9
As Percent of Capital	18.3%	18.0%
As Percent of Expenses	16.3%	15.8%

¹ The 1988 figures for pre-tax equity and the tax rate are based on a three-year average of these rates:

	1984	1985	1986	Average
Pre-tax equity rate	19.6%	21.1%	19.7%	20.1%
Tax rate	38.9%	29.1%	28.7%	32.3%

**ATTACHMENT I—FEDERAL RESERVE SYSTEM AUTOMATED CLEARING HOUSE FEE SCHEDULE, LOCALLY ESTABLISHED
NONAUTOMATED FEES**

[Effective January 1, 1988]

	Tapes billed fee	Non-electronic delivery fee	Messenger pickup fee	Telephone advice fee	Common paper returns & NOC fee	Diskette output fee
Boston	\$3.75	\$3.75	\$3.00		\$3.75	
New York		4.50				
Philadelphia.....	3.00	4.50	2.75	2.50	2.75	
Cleveland	3.75	4.75	3.50	3.50	3.75	3.00
Richmond.....	3.75	4.25	3.25	3.50	3.25	3.00
Atlanta	3.00	3.75	2.75	3.50	2.75	3.00
Chicago	3.75	4.50	3.25	3.00	3.75	3.00
St. Louis	3.50	4.75	3.50	3.50	3.75	
Minneapolis.....	3.75	4.25	3.50	3.50	3.75	
Kansas City.....	3.50	3.75	2.75	3.50	3.00	2.50
Dallas.....	3.75	4.75	3.75	3.50	3.75	3.00
San Francisco.....	3.75	4.75	3.75	3.50	3.75	3.00

**ATTACHMENT II—FEDERAL RESERVE
SYSTEM WIRE TRANSFER AND NET
SETTLEMENT FEE SCHEDULE**

[Effective January 1, 1988]

Wire transfer of funds	Fees
Basic Transfer Originated	\$.47
Basic Transfer Received47
Off-Line Origination Surcharge....	6.00
Telephone Advice Surcharge	3.50
Net Settlement :¹	
Settlement Entry.....	1.00
Off-Line Settlement Sur- charge.....	8.00
Telephone Advice Surcharge	3.50

¹ In cases where net settlement arrangements resulted in higher operating costs than those incurred for standard arrangements, the Reserve Banks may establish higher fees.

**ATTACHMENT III—FEDERAL RESERVE
SYSTEM ELECTRONIC CONNECTIONS
FEE SCHEDULES**

[Effective January 1, 1988]

Electronic connections	Fees (month)
Dedicated Leased Line	\$400
Multi-Drop Leased Line	250
Dial-Up.....	60

ATTACHMENT IV—FEDERAL RESERVE SYSTEM, DEFINITIVE SAFEKEEPING FEE SCHEDULE

[Effective January 1, 1988]

	Deposits	Withdrawals	Receipts/issues per month		Purchases and sales	Re-registrations	Per month per \$1,000 par value ¹
			1-400	400 +			
Boston.....	\$13.25	\$13.25	\$3.05	\$2.35	\$18.00	\$13.25	
New York.....	40.00	40.00	5.35	4.75		40.00	\$0.0050
Philadelphia ²	16.00	16.00	3.50	2.50	20.00	20.00	
Cleveland.....	18.00	18.00	2.90	2.00	30.00	20.00	0.0080
Richmond.....	17.50	17.50	2.25	1.75	20.00	20.00	
Atlanta ³	0.00	7.00	(⁴)	(⁴)		5.00	
Chicago.....	17.50	17.50	4.25	3.25	25.00	17.50	
St. Louis.....	23.00	23.00	4.00	1.70		20.00	
Minneapolis.....	15.00	15.00	3.25	1.50	25.00	15.00	
Kansas City.....	18.00	18.00	3.30	2.80	25.00	18.00	
Dallas.....	10.00	10.00	3.00	2.00	26.50	10.00	0.0100

¹ Applied to coupon bearing securities only.

² Philadelphia imposes a \$2.50 receipt fee for all registered securities. This is to recognize the lower handling costs of registered securities versus bearer securities.

³ Atlanta has a three tier structure: 1-500 receipts at \$2.50; 500-1000 at \$2.00; and 1000+ at \$1.50.

⁴ See below.

ATTACHMENT IV—FEDERAL RESERVE SYSTEM NONCASH COLLECTION FEE SCHEDULE NON-MIXED DEPOSIT PRODUCT

[Effective January 1, 1988]

	Local coupons		Add-on fee for interdistrict coupons	Postage and insurance ¹	Return items	Bond redemptions and sales ²
	City	Country				
Boston.....	\$2.10	\$2.10	\$3.25	\$1.00	\$5.00	\$13.00
New York.....	3.00	4.50	5.50	0.75	10.00	40.00
Philadelphia.....	2.90	2.90	3.45	1.00	10.00	20.00
Richmond.....	2.35	2.35	3.75	1.00	10.00	25.00
Chicago ³	5.00	5.00	3.25	(⁴)	10.00	20.00
Minneapolis ⁵	4.75	4.75	5.00		20.00	22.50
Kansas City.....	4.00	4.00	4.00	\$1.00	15.00	25.00

¹ Per \$1,000 value shipped.

² Plus out-of-pocket expenses if any.

³ Chicago intra-district fine sort coupons \$2.00 per envelope.

⁴ Chicago Postage and Insurance \$1.00 local, \$2.00 interdistrict; postage and insurance fees will not be assessed for city items processed through the Detroit office.

⁵ Minneapolis charges a fee of \$5.00 (including postage and insurance) to collect 12th District coupons and a fee of \$22.50 to collect 12th District bonds.

ATTACHMENT IV—FEDERAL RESERVE SYSTEM NONCASH COLLECTION FEE SCHEDULE—MIXED DEPOSIT PRODUCT

[Effective January 1, 1988]

	Local coupons from in-district DI's		Local coupons from out-of-district DI's		Inter-district fine sort	Coupons mixed	Return items	Bond redemptions and sales
	City	Country	City	Country				
Cleveland.....	\$3.25	\$3.50	\$3.75	\$4.00	\$4.75	\$5.75	\$20.00	\$25.00
Atlanta.....	1.75	2.50	2.65	3.40	2.75	3.75	10.00	15.00
St. Louis ¹	5.00	5.00	5.00	5.00	5.00	5.00	15.00	15.00
Dallas.....	3.50	3.50	3.50	3.50	4.00	4.00	15.00	20.00

¹ St. Louis intra-district fine sort coupons \$2.25 per envelope.

**ATTACHMENT V —FEDERAL RESERVE
SYSTEM BOOK-ENTRY FEE SCHEDULE
[Effective January 1, 1988]**

	Transaction	Fees
On-Line Transfers Originated.	Per Transfer	\$2.25
Off-Line Transfers Originated.	Per Transfer	7.00
Off-Line Transfers Received.	Per Transfer	7.00
Account Maintenance.	Per Account/ Per Month.	15.00
Issues in Accounts Maintained.	Per Issue/Per Month.	.45