FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. **10489**
November 18, 1991]

1992 FEE SCHEDULES FOR PRICED SERVICES

— Check Collection, ACH, Funds Transfer and Net Settlement, Book-Entry Securities, Definitive Securities Safekeeping, Noncash Collection, Special Cash Services, and Electronic Connections

— 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, 1992. Following is the text of a statement issued by the Board of Governors in that regard, including notice of the Board's approval of the 1992 Private Sector Adjustment Factor (PSAF) for Federal Reserve priced services:

> The Federal Reserve Board has announced the 1992 fee schedules for services provided by the Reserve Banks. The fees become effective January 1, 1992.
>
> The fee schedules apply to check collection, automated clearing house, funds transfer and net settlement, book-entry securities, definitive safekeeping, noncash collection, special cash services, and electronic connections to the Federal Reserve. The 1992 fee schedules are available from the Reserve Banks.
>
> In 1992 total costs for priced services, including float and the Private Sector Adjustment Factor (PSAF), are projected to be $781.3 million. Total revenue is projected to be $785.6 million, resulting in a 100.6 percent recovery rate. The fees for 1992 are based on total costs, including the PSAF, but excluding special project costs.
>
> At the same time, the Board approved the 1992 PSAF for Reserve Bank priced services of $79.9 million, a decrease of $5.9 million or 6.8 percent from the $85.8 million targeted for 1991.
>
> 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.

Printed on the following pages is the text of the Board's official notice in this matter, which has been reprinted from the *Federal Register* of November 6. 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 (at the Buffalo Branch).

New fee schedules for check services and revised fee schedules for certain other priced services offered by this Bank will be sent to you as soon as they are available.

E. GERALD CORRIGAN,
President.

FEDERAL RESERVE SYSTEM

[Docket R-0739]

Federal Reserve Bank Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice.

SUMMARY: The Board has approved a Private Sector Adjustment Factor ("PSAF") for 1992 of $79.9 million, as well as 1992 fee schedules for Federal Reserve priced services. These actions were taken in accordance with the requirements of the Monetary Control Act of 1980, which requires that fees for Federal Reserve priced services be established on the basis of all direct and indirect costs, including the PSAF. The Board also has authorized Reserve Banks to make certain minor price and service level changes within specified parameters during 1992 without prior Board review.

EFFECTIVE DATE: The PSAF, the fee schedules, and the price and service level change categories subject to the modified approval procedures become effective January 1, 1992.

FOR FURTHER INFORMATION CONTACT: For questions regarding the Private Sector Adjustment Factor: Gregory Evans, Senior Accounting Analyst, (202/452-3945), Division of Reserve Bank Operations and Payment Systems; for questions regarding fee schedules: Kathleen M. Connor, Senior Financial Services Analyst, Check Payments (202/452-3917), Tina Slater, Senior Financial Services Analyst, Electronic Payments (202/452-2539), Felicia Cataldo, Financial Services Analyst, Securities (202/452-2223) or James Epps, Senior Financial Services Analyst, Cash (202/452-2222), Division of Reserve Bank Operations and Payment Systems; for the hearing impaired only: Telecommunications Device for the Deaf, Dorothea Thompson (202/452-3544).

Copies of the 1992 fee schedules for check collection, automated clearing house, funds transfer and net settlement, book-entry securities, definitive safekeeping, noncash collection, special cash services, and electronic connections to the Federal Reserve, are available from the Reserve Banks

SUPPLEMENTARY INFORMATION:

Private Sector Adjustment Factors (PSAF)

The Board has approved a 1992 Private Sector Adjustment Factor (PSAF) for Federal Reserve Bank priced services of $79.9 million. This amount represents a decrease of $5.9 million or 6.8 percent under the PSAF of $85.8 million targeted for 1991.

The Monetary Control Act of 1980 requires that fee schedules for the Federal Reserve's priced services include an allocation of imputed costs for "taxes that would have been paid and the return on capital that would have provided had the services been furnished by a private business firm." These imputed costs are based on data developed in part from a model comprised of the nation's 50 largest bank holding companies (BHCs).

Briefly stated, the methodology, which is unchanged from last year, 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 rates of return on equity derived from the bank holding company model to the assumed debt and equity values. The rates drawn from the BHC model are based on consolidated financial data for the 50 largest BHCs (in terms of asset size) in each of the last five years. Because short-term debt, by definition, matures within one year, only data for the most recent year are used for computing the short-term debt rate.

Capital costs, together with imputations for estimated sales taxes, FDIC insurance assessment on clearing balances held with the Federal Reserve to settle 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:

Asset Base

The estimated value of Federal Reserve assets to be used in providing priced services in 1992 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 $563.6 million. As shown in Table 3, this represents a net increase of $32.9 million or 6.2 percent from 1991. This increase results primarily from planned 1992 capital expenditures for Reserve Bank building projects and the full year effect of 1991 bank premises capital expenditures.

Cost of Capital, Taxes and Other Imputed Costs

Table 3 shows the financing and tax rates as well as the other required PSAF recoveries proposed for 1992 and compares them with the rates used for developing the PSAF for 1991. The large decrease in the pre-tax return on equity rate from 14.5 percent in 1991 to 10.7 percent for 1992 is attributed to the weaker 1990 financial performance of the BHCs included in the model relative to the 1985 BHC performance that was included in the 1991 calculation.

Capital Adequacy

A shown in table 4, the amount of capital imputed for the proposed 1992 PSAF totals 30.9 percent of risk-weighted assets, well above the 8 percent capital guideline for state member banks and BHCs.

1992 Fee Schedules

The Monetary Control Act requires that, over the long run, fees for Federal Reserve priced services be established on the basis of all direct and indirect costs incurred in providing the priced services, including the PSAF. Total revenue for all Federal Reserve services must, in the aggregate, recover all costs, including the PSAF. The Board's pricing principles state that fees will be set so that revenues match costs (including the PSAF) for major service categories. The Board may set fees for a service line that do not fully recover costs, in the interest of providing an adequate level of services nationwide.

Last year the Board approved fees that were set to recover 101.0 percent of the costs of providing priced services in 1991, including the PSAF and the cost of float. Through the first eight months of 1991, the System recovered 102.0 percent of total costs. The Reserve Bank estimate that total 1991 costs, including the PSAF, will be $754.4 million. Total revenue is estimated to be $758.3 million, which would result in a 100.5 percent recovery rate.[1]

In 1992, total priced services costs, including the PSAF, are projected to be $781.3 million. Total revenue is projected to be $785.6 million, which would result in a 100.6 percent recovery rate. Since 1984, as the table below shows, the System experience has moved closer to a targeted 100 percent recovery of costs.

[1] The magnitude of the revenue and cost data reflected in this memorandum differs from that reported in the Board's Annual Report. In this memorandum, income on clearing balances and the cost of earnings credits are included on a net basis while they are reflected in gross amounts in the Annual Report. In addition, the credit to expenses resulting from accounting for pensions in accordance with FASB 87 is not reflected in price setting for individual services and is not included in this memorandum.

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TOTAL PRICED FINANCIAL SERVICES

	($ millions)		Recovery rate (percent)	Variation from 100 (percent)
	Total cost	Total revenue		
1984	519.1	559.8	107.8	7.8
1985	571.2	603.8	105.7	5.7
1986	599.3	627.7	104.7	4.7
1987	627.3	649.7	103.5	3.5
1988	674.7	667.7	99.0	1.0
1989	730.3	718.7	98.4	1.6
1990	735.3	746.5	101.5	1.5
1991 est.	754.4	758.3	100.5	0.5
1992 proj.	781.3	785.6	100.6	0.6

The total costs in the table do not include special projects, which are projected to total $4.5 million in 1992 and which are not considered when establishing priced service fees. Inclusion of special project costs would reduce the estimated 1991 and projected 1992 recovery rates to 100.3 percent and 100.0 percent, respectively.

Following is a discussion of estimated 1991 and projected 1992 financial performance, and 1992 fees for the individual priced services.

Check Collection

Estimated 1991 and projected 1992 cost recovery performance for the commercial check service is shown in the table below.

	($ million)		Recovery rate
	Total cost	Total revenue	
1991	572.7	578.2	101.0%
1992	588.2	592.7	100.8%

Inclusion of special project costs would reduce the 1991 and 1992 recovery rates to 100.6 percent and 100.2 percent, respectively. Special project costs in 1991 relate to research and development of the application of image technology to the check service. Special project costs in 1992 relate to automation consolidation [2] and the check image project.

Overall, 1992 check collection costs, including PSAF, are expected to increased 2.8 percent, while 1992 volume is expected to be flat, with a projected increase of 0.1 percent from 1991. Forward check collection processed volume is projected to increase 0.2 percent in 1992, compared to an estimated 0.5 percent decrease in 1991. Accordingly, the Board anticipates that unit costs will begin to increase in the future.

Fifty-four percent of the 1992 fees for the check collection service (excluding ITS fees, which are discussed below) are the same as those currently in effect. The 1992 fees result in a 3.0 percent weighted average increase in forward and return check collection fees; the increase in forward collection fees is 1.3 percent, while the increase in return items fees is 13.6 percent. Systemwide, 768 processed forward collection fees would remain unchanged, 350 fees would increase, and 132 fees would decrease.

The forward collection per item fees include tiered pricing for selected check deposit products in twenty Federal Reserve offices. Under a tiered pricing structure, different fees are assessed depending on whether a check is presented to a high-cost or low-cost endpoint in a given check collection zone. The Board approved tiered pricing as a permanent fee structure in the Minneapolis and Kansas City offices in 1986. In January 1991, seven additional offices implemented tiered pricing. In May 1991, the Board adopted modifications to the criteria for offering a tiered pricing structure in the Federal Reserve's check collection service (56 FR 22168, May 14, 1991). The revised criteria are as follows:

(1) Tiered pricing may be applied to deposits in any collection zone, provided clear cost differences exist between groups of checks within that collection zone;

(2) Tiered prices may be used only where they have the potential to provide net savings for a substantial number of depositing institutions or a substantial amount of deposited volume;

(3) A blended per item fee will be offered as an alternative to tiered prices for each deposit category; and

(4) Federal Reserve Banks may offer more than two tiers within a collection zone, provided clear cost differences exist to justify them.

The revised criteria will enable Federal Reserve Banks to set fees that more precisely reflect their costs to collect checks drawn on paying banks within a given check collection zone. These costs are generally based on the location of, and volume of checks presented to, each endpoint.

An additional eleven offices will implement tiered pricing in 1992. All twenty offices implementing 1992 tiered fees meet the Board's criteria of offering a tiered pricing structure. Beginning in 1992, there Reserve Bank offices will automatically assess tiered fees unless the blended fee is requested by the depositor. A tiered pricing structure will be applicable to approximately 30 percent of total Federal Reserve check volume in 1992.

The weighted average increase in returned check fees is 13.7 percent, excluding fine sort, compared to an increase in 1991 fees of 8.9 percent. Of the 848 returned check fees, excluding fine sort, 270 would remain unchanged, 553 would increase, and 25 would decrease. Return item volume is projected to decrease 0.7 percent, with the proportion of total returns that are qualified, rather than deposited as raw returns, increasing slightly from an estimated 90.7 percent in 1991 to 91.4 percent in 1992.

A weighted average fine sort fee increase of 2.5 percent for both forward collection and return items was also approved. Of the fine sort fees, 353 would remain unchanged, 94 would increase, and 24 would decrease. Fine sort volume is projected to decrease 0.2 percent in 1992, compared to an increase of 1.1 percent in 1991.

A new payor bank services fee structure will be fully implemented in all twelve Reserve Bank offices in 1992. The fee structure, approved in June 1990, will result in a uniform approach to pricing of payor bank services, including extended MICR capture and truncation

[2] The Federal Reserve Banks are consolidating their general purpose, mainframe-based data processing at three sites. The proposed special project for automation consolidation will capture the transitional expenses associated with the automation consolidation sites.

services.[3] Seven Reserve Banks implemented the new structure in 1991. The Boston, New York, Philadelphia, Chicago, and San Francisco Reserve Banks will implement the new structure in 1992.

With regard to the Interdistrict Transportation System (ITS), 15 percent of the 4,512 prices would not change from those currently in effect, 33 percent would increase, and 52 percent would decrease. The weighted average ITS weekday fee will increase 15.9 percent, compared to 7.7 percent decrease in weekend fees. ITS fees are charged explicitly to consolidated shippers and are imbedded in the mixed or Other Fed per-item check collection fees charged by Federal Reserve Bank offices. ITS volume is projected to increase approximately 2.5 percent in 1992.

The Board has approved modifying 52 check collection deadlines for 1992. Most deadline changes will extend the current deadlines by times ranging from 15 minutes to 1 hour.

Automated Clearing House (ACH)

Estimated 1991 and projected 1992 cost recovery performance for the commercial ACH service is shown in the following table.

	($ millions)		
	Total cost	Total revenue	Recovery rate
1991........	58.9	58.8	99.9%
1992........	64.7	64.8	100.1%

Total 1992 costs do not include the automation consolidation special project, which would reduce the Reserve Banks' 1992 projected recovery rate to 99.4 percent.

The Reserve Banks expect commercial ACH volume to increase 17.6 percent in 1992, which is lower than the estimated 19.7 percent growth rate for 1991. A slower growth rate has been the general trend over the years, as the ACH volume base has grown. ACH unit costs have steadily declined over the past few years, resulting primarily from scale economies and increased automated processing, as depository institutions convert to an electronic environment.

The majority of the 1992 ACH price changes involves nonautomated fees. Although nonelectronic input and output fees have increased in recent years to better reflect the cost of providing these ACH services, current tape and paper fees still do not fully recover the costs incurred. In conjunction with the all-electronic ACH initiative adopted in June 1991, the Board approved a change to the ACH price structure for nonautomated input and output, in which the tape input, nonelectronic delivery, and messenger pickup fees would be replaced by tape input and output and paper output fees. For 1992, the Board has approved a $15.00 fee for tape input and output, and an $8.00 fee for paper output (compared to $4.50 or $5.25 for output or $6.00 for input in 1991). These fees are within the estimated price ranges included in the Board's action on the all-electronic ACH proposal. The Board also has approved an increase in the diskette output fee to $15.00, since the costs to provide this form of output are similar to those for tape output. The Board approved elimination of the $0.75 differential between messenger pickup and courier delivery of output, which penalizes customers that are not located near Reserve Bank offices and thus cannot easily use messenger pickup.

The Board has approved an increase in the off-line telephone-originated return and telephone advice fees (currently $6.00 and $4.00, respectively) to $7.00, and an increase from $4.00 to $5.00 in the fee for commercial returns and notifications of change converted by the Federal Reserve from paper to electronic form. These fees more fully reflect the actual costs of providing these nonelectronic services.

Finally, the Board has approved establishment of a standard national fee of $1.50 for return items and notifications of change that are submitted through a Reserve Bank's voice response system. This service is presently offered by several Reserve Banks, and the fee currently varies by Reserve Bank. All Reserve Banks will implement voice response systems by year-end 1992.

There are no changes to the basic ACH transaction fees. However, since analysis has shown that the additional cost to provide most night cycle payment services is negligible, the Board has approved elimination of the night cycle credit surcharge and the non-value debit surcharge of $0.01. The Board also approved a reduction in the night cycle value debit surcharge from $0.02 to $0.01. In addition to better reflecting the costs and risks of night cycle processing, the Board believes that these fee changes will encourage the use of the night cycle for certain ACH payments.

Funds Transfer and Net Settlement

Estimated 1991 and projected 1992 cost recovery performance for the funds transfer and net settlement service is shown in the following table.

	$ millions	Recovery rate	
		Total cost	Total revenue
1991........	81.1	79.6	98.2%
1992........	86.8	87.2	100.4%

The costs in the table do not include the automation consolidation special project, which would reduce the Reserve Banks' 1992 projected recovery rate to 99.5 percent. Total funds transfer costs, including the PSAF, are projected to increase 7.0 percent in 1992. Funds transfer volume is estimated to increase 4.5 percent in 1991 and a 4.8 percent increase is projected in 1992. The Board believes the 1992 forecast is optimistic in light of banking industry consolidations, which may limit the future growth of funds transfers. The unit cost of funds transfer has declined over the past years due to scale economies from automated processing. In 1992, however, projected costs associated with relocating the New York and Dallas Federal Reserve Banks' computer data centers, as well as initiatives to improve contingency backup and reliability, will increase unit costs approximately 4 percent. To recover the projected costs for the funds transfer service in the upcoming year, the Board has approved an increase in the basic transfer fee from $.50 to $.53 in 1992.

In addition, the Board has approved an increase in various fees associated with handling transfers for off-line institutions. The off-line origination surcharge, telephone surcharge, and net settlement telephone advice surcharge (currently $6.00, $4.00, and $4.00, respectively) will be set at $7.00 to better reflect the expense of continuing to provide these labor-intensive services. The fee increases also reflect the cost of the more stringent security procedures recently implemented in response to Article 4A of the Uniform Commercial Code.

Book-Entry Securities

Estimated 1991 and projected 1992 cost recovery performance for the book-

[3] Under the extended MICR capture service, presentment is made to the paying bank by electronic delivery of the MICR-line data. The physical checks are retained by the Federal Reserve Bank office for several days prior to delivery to the paying bank so the Federal Reserve can return those checks that have not been paid, following instructions received from the paying bank. Under the truncation service, presentment to the paying bank is also made by electronic delivery of the MICR-line data, and the Federal Reserve provides return services. Unlike the extended MICR capture service, the physical checks are not delivered to the paying bank, other than on an exception basis under the Federal Reserve's retrieval service.

entry securities service[4] is shown in the following table.

	($ millions)		Recovery rate
	Total cost	Total revenue	
1991........	11.6	11.6	100.0%
1992........	12.2	12.3	101.1%

The costs do not include the automation consolidation special project, which would reduce the Reserve Banks' 1992 projected recovery rate to 99.9 percent. Book-entry securities on-line origination volume is estimated to increase 9.1 percent in 1991 and is projected to increase 6.4 percent in 1992. Costs are projected to increase approximately 5 percent in 1992; this increase is primarily attributable to costs for development of a new book-entry system, data communication costs, and accounting-related overhead costs, offset by a decrease in automation costs.

The Board has approved a fee increase from $7.00 to $8.50 for off-line transfers originated or received, and for off-line reversals received, that will more accurately reflect the cost of processing off-line securities transfers. The increase also is consistent with Treasury's plans to increase off-line fees for the transfer of Treasury securities. The increased fees also may serve as an incentive to large volume off-line customers to convert to on-line access methods. All other book-entry fees will remain unchanged from their 1991 levels.

Electronic Connections

Fees are charged for electronic connections to the Reserve Banks for Federal Reserve priced services. Cost and revenue associated with electronic access are allocated to the various priced services based on usage.

The 1992 electronic access fees are unchanged from 1991, except for the "gateway" access fee. Gateway is a service by which depository institutions with operations in multiple Federal Reserve districts funnel their data communications traffic through one physical access point, or gateway, to access a single service in multiple Federal Reserve districts. A $100 monthly surcharge per participating district was established for gateway access in 1991. The Board has approved a modification of the surcharge for gateway access to more closely recover the associated costs. The Board has approved a "stair-step" pricing policy, in which the gateway surcharge increases by $25.00 increments, depending on progressive volume thresholds. Under this pricing policy, a $25.00 per district surcharge will apply for every 100,000 ACH or check items, or 20,000 funds transfers, or any combination thereof, transmitted per month via the gateway connection. Each increment of these volume thresholds will result in additional monthly surcharge of $25.00 per district.

Definitive Safekeeping and Noncash Collection

Estimated 1991 and projected 1992 cost recovery performance for the definitive safekeeping and noncash collection service is shown in the following table.

	($ millions)		Recovery rate
	Total cost	Total revenue	
1991........	15.4	15.0	97.6%
1992........	14.3	13.2	92.3%

There are no 1992 special project costs related to the definitive safekeeping and noncash collection service. Definitive safekeeping and noncash collections costs are estimated to decrease by 3.6 percent in 1991 and are projected to decrease by 7.2 percent in 1992 as the Reserve Banks continue to address volume declines by reducing costs through consolidation of noncash collection processing sites. Definitive safekeeping volume is estimated to decrease 30 percent in 1991 and is projected to decrease 22.4 percent in 1992. Noncash collection volume is estimated to decrease by 14 percent in 1991 and is projected to decrease by 13.6 percent in 1992. Unit costs for this service have been increasing steadily over the past several years. Excluding one-time costs for a new automated system in the Atlanta Reserve Bank, the System recovery rate for the combined service is projected to be 93.2 percent.

For definitive safekeeping, the Board has approved 1992 fee increases for nine districts. The approved 1992 fees range from $18.00 to $40.00 for deposit and withdrawal transactions, including fee increases of $2.00 to $8.00. The 1992 fees for receipts or issues maintained range from $1.70 to $7.20, including fee increases of $.20 to $1.40. For purchases and sales, the fees are $23.00 to $40.00, including fee increases of $2.00 to $5.00. Lastly, the reregistration fees are $11.00 to $40.00, including fee increases of $2.00 to $8.00.

For noncash collection, the Board has approved fee increases for nine districts in 1992. For the collection of local coupons, the approved fees are $2.00 to $5.00, including increases of $.15 to $.55. For the collection of interdistrict coupons, the fees are $4.00 to $6.75, including increases of $.30 to $1.00. The Board has approved add-on fees to the nonmixed deposit product for interdistrict coupons ranging from $3.25 to $6.60, including increases of $.50 to $1.10. For return item processing and collection of matured or called bonds, the fees are $20.00 to $40.00, including fee increases of $2.00 to $6.00. The Board has approved a reduction in the Cleveland Reserve Bank's fee for local coupons submitted by out-of-region customers from $4.50 to $4.25.

Definitive securities volumes have been declining since the mid-1980s because there are virtually no new issues of bearer securities and there is continued immobilization of outstanding definitive securities. Effective January 2, 1991, the Minneapolis Reserve Bank began to consolidate its noncash collection functions at the Federal Reserve Bank of Cleveland and its Twelfth District noncash connection functions[5] at the Federal Reserve Bank of Atlanta (Jacksonville Branch). In July 1991, the Board approved further consolidation of the noncash collection function at the Federal Reserve Banks of Cleveland and Atlanta (Jacksonville Branch), beginning in the fourth quarter of 1991. Effective October 1, 1991, Tenth District noncash collection volume has been processed at the Federal Reserve Bank of Cleveland.[6]

The Reserve Banks have found it increasingly difficult to match costs and revenue in the noncash collection service in light of declining volumes and high fixed costs. The consolidation of the noncash collection service will reduce overall costs and enable Reserve Banks to offer this service nationwide and to recover costs for the foreseeable future. Under consolidation, depository institutions experience little change to the service received because consolidation sites generally charge the same or lower prices and offer the same or improved availability. In the near future, the Board anticipates that it will request public comment on a proposed plan for management of the definitive safekeeping service in future years in

[4] These financial data relate only to book-entry transfers of Government agency securities, which are priced by the Federal Reserve. The U.S. Treasury establishes fees for book-entry transfers of Treasury securities.

[5] Twelfth District noncash collection volumes were consolidated at the Federal Reserve Bank of Minneapolis in 1984.

[6] Tenth District volume from the state of New Mexico is processed at the Federal Reserve Bank of Atlanta (Jacksonville Branch).

light of the changing marketplace and the cost structure for safekeeping of physical securities.

Cash

Special cash services that are priced by the Federal Reserve Banks include cash transportation, coin wrapping, nonstandard packaging of currency orders and deposits, and nonstandard frequency of access to cash services. Estimated 1991 and projected 1992 cost-recovery performance of the special cash priced services is shown in the table below.

[$ millions]

	Total cost ($)	Total revenue ($)	Recovery rate (%)
1991	14.7	15.1	103
1992	15.1	15.4	102

The 1992 prices for special cash services are unchanged from their 1991 levels.

Price and Service Level Changes

The Board has approved a modification of the approval procedures for price and service level changes under which the Board will authorize the Reserve Banks to make, without prior Board review, certain minor price and service level changes that are within specified parameters established by the Board. These categories of price and service level changes are currently approved under delegated authority from the Board to the Director of the Division of Reserve Bank Operations and Payment Systems. This modification of the approval procedures will lower administrative burdens and costs and will permit the Reserve Banks to fine tune services to meet customer needs in a more timely manner. The approved preauthorized categories of 1992 price and several level changes are as follows:

(1) Addition or deletion of an institution from an existing forward collection group sort program, provided that the addition or deletion does not result in an item pass ratio that is supported by a different floor cost;

(2) Deletion of a forward collection group sort where the volume of deposits is very low and the service is not viable;

(3) Addition of a new group sort at the existing fee if the new group sort has a comparable item-pass ratio and deposit deadline to current group sorts;

(4) Improvement of a forward collection or return deposit deadline by one hour or less; and

(5) Addition or deletion of an institution from a check collection price tier.

Competitive Impact Analysis

All operational and legal changes considered by the Board that have a substantial effect on payments system participants are subject to the competitive impact analysis described in the March 1990 policy statement "The Federal Reserve in the Payments System" (55 FR 11648, March 29, 1990). In this analysis, the Board assesses whether the proposed change would have a direct and materials adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services due to differing legal powers or constraints or due to a dominant market position of the Federal Reserve deriving from such legal differences. All operational or legal changes having a substantial effect on payments system participants are subject to a competitive impact analysis. The Board believes that the proposed changes would not have a substantial effect on payments system participants and would not have a direct and material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services.

By order of the Board of Governors of the Federal Reserve System, October 31, 1991.

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]

	1992	1991
Short-term assets:		
Imputed reserve requirement on clearing balances	$372.0	$244.1
Investment in marketable securities	2,728.0	1,790.4
Receivables[1]	32.7	32.8
Materials and supplies[1]	5.6	8.2
Prepaid expenses[1]	11.2	13.7
Items in process of collection	2,868.1	3,637.5
Total short-term assets	$6,017.6	$5,726.7
Long-term assets:		
Premises[1 2]	341.0	305.3
Furniture and equipment[1]	139.2	146.8
Leasehold improvements and long-term prepayments[1]	33.9	23.9
Capital leases	0.1	0.3
Total long-term assets	514.2	476.3
Total assets	$6,531.8	$6,203.0
Short-term liabilities:		
Clearing balances and balances arising from early credit of uncollected items	3,511.4	2,466.7
Deferred credit items	2,456.7	3,205.3
Short-term debt[3]	49.5	54.7
Total short-term liabilities	$6,017.6	$5,726.7
Long-term liabilities:		
Obligations under capital leases	0.1	0.3
Long-term debt[3]	170.4	154.8
Total long-term liabilities	170.5	155.1
Total liabilities	$6,188.1	$5,881.8
Equity[3]	343.7	321.2
Total liabilities and equity	$6,531.8	$6,203.0

[1] Financed through PSAF; other assets are self-financing.
[2] Includes allocations of Board of Governors' assets to priced services of $0.3 million for 1992 and $0.5 million for 1991.
[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 1992 PSAF

[million of dollars]

A. Assets to be Financed[1]			
Short-term	$ 49.5		
Long-term[2]	514.1		$563.6
B. Weighted Average Cost			
1. Capital Structure[3]			
Short-term Debt	8.8%		
Long-term Debt	30.2%		
Equity	61.0%		

TABLE 2—DERIVATION OF THE 1992 PSAF—Continued

[million of dollars]

2 Financing Rates/Costs[3]			
Short-term Debt	7.9%		
Long-term Debt	9.2%		
Pre-tax Equity[4]	10.7%		
3. Elements of Capital Costs			
Short-term Debt	$ 49.5	× 7.9%	= $ 3.9
Long-term	170.4	× 9.2%	= 15.7
Equity	343.7	× 10.7%	= 36.8
			$ 56.4
C. Other Required PSAF Recoveries			
Sales Taxes	$ 10.2		
Federal Deposit Insurance Assessment	11.4		
Board of Governors Expenses	1.9		$ 23.5
D. Total PSAF Recoveries			$ 79.9
As a percent of capital			14.2%
As a percent of expenses [5]			13.2%

[1] Priced service asset base is based on the direct determination of assets method.
[2] Consists of total long-term assets less capital leases, which are self financing.
[3] All short-term assets are assumed to be financed by short-term debt. Of the total long-term assets, 33 percent are assumed to be financed by long-term debt and 67 percent by equity.
[4] The pre-tax rate of return on equity is based on the average after-tax rate of return on equity, adjusted by the effective tax rate to yield the pre-tax rate of return on equity for each bank holding company for each year. These data are then averaged over five years to yield the pre-tax return on equity for use in the PSAF.
[5] Systemwide 1992 budgeted priced service expenses less shipping are $605.4 million.

TABLE 3—CHANGES BETWEEN 1992 AND 1991 PSAF COMPONENTS

	1992	1991
A. Assets to be Financed (millions of dollars)		
Short-term	$49.5	$54.7
Long-term	514.1	476.0
Total	$563.6	$530.7
B. Cost of Capital		
Short-term Debt Rate	7.9%	8.6%
Long-term Debt Rate	9.2%	9.4%
Pre-tax Return on Equity	10.7%	14.5%
Weighted Average Long-term		
Cost of Capital	10.2%	12.9%
C. Tax Rate	29.4%	30.5%
D. Capital Structure		
Short-term Debt	8.8%	10.3%
Long-term Debt	30.2%	29.2%
Equity	61.0%	60.5%
E. Other Required PSAF Recoveries (millions of dollars).		
Sales Taxes	$10.2	$8.7
Federal Deposit Insurance Assessment	11.4	9.2
Board of Governors Expenses	1.9	2.0
F. Total PSAF		
Required Recovery	$79.9	$85.8
As Percent of Capital	14.2%	16.2%
As Percent of Expenses	13.2%	14.7%

TABLE 4—COMPUTATION OF CAPITAL ADEQUACY FOR FEDERAL RESERVE PRICED SERVICES

[millions of dollars]

	Assets	Risk weight	Weighted assets
Imputed reserve requirement on clearing balances	$372.0	0.0	$0.0
Investment in marketable securities	2,728.0	0.0	0.0
Receivables	32.7	0.2	6.5
Materials and supplies	5.6	1.0	5.6
Prepaid expenses	11.2	1.0	11.2
Items in process of collection	2,868.1	0.2	573.6
Premises	341.0	1.0	341.0
Furniture and equipment	139.2	1.0	139.2
Leases & long-term prepayments	34.0	1.0	34.0
Total	$6,531.8		$1,111.1
Imputed Equity for 1992	$343.7		
Capital to Risk-Weighted Assets	30.9%		