

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 10812]
[November 14, 1995]

**FEDERAL RESERVE PRICED SERVICES
1996 Fee Schedules and 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 1996 fee schedules, and the Private Sector Adjustment Factor (PSAF), for services provided by the Federal Reserve Banks, effective January 2, 1996. Following is the text of the Board's announcement:

The Federal Reserve Board has announced the 1996 fee schedules for services provided by the Federal Reserve Banks.

The fees become effective January 2, 1996.

The fees apply to the check, automated clearing house, funds transfer and net settlement, book-entry securities, noncash collection, and special cash services, as well as electronic connections to the Federal Reserve. The 1996 fees are available from the Reserve Banks.

In 1996, total costs for priced services, including float, a portion of special project costs, and the private sector adjustment factor (PSAF), are projected to be \$749.3 million. Total revenue is projected to be \$791.6 million, resulting in net income of \$42.3 million, compared with a targeted return on equity of \$36.7 million.

At the same time, the Board has approved the 1996 PSAF for Reserve Bank priced services of \$85.8 million, a decrease of \$8.9 million, or 9.4 percent compared with the 1995 PSAF of \$94.7 million.

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

Printed on the following pages is the text of the Board's official notice in this matter, as published in the *Federal Register*. Questions regarding our priced services may be directed to your Account Manager (Tel. No. 212-720-6600 at the Head Office; Tel. No. 716-849-5085 at the Buffalo Branch).

WILLIAM J. McDONOUGH,
President.

FEDERAL RESERVE SYSTEM

[Docket No. R-0899]

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 1996 of \$85.8 million, as well as fee schedules for Federal Reserve priced services and electronic connections. These actions were taken in accordance with the requirements of the Monetary Control Act of 1980, which requires that, over the long run, fees for Federal Reserve priced services be established on the basis of all direct and indirect costs, including the PSAF.

DATES: The PSAF and the fee schedules become effective January 2, 1996.

FOR FURTHER INFORMATION CONTACT: For questions regarding the private sector adjustment factor: Elizabeth Tacik, Accounting Analyst (202/452-2303), Division of Reserve Bank Operations and Payment Systems; for questions regarding fees schedules: Scott Knudson, Senior Financial Services Analyst, ACH Payments (202/452-3959), Michele Braun, Senior Financial Services Analyst, Check Payments (202/452-2819), Darrell Mak, Financial Services Analyst, Funds Transfer and Book-Entry Securities Services, (202/452-3223), Ken Buckley, Manager, Information Technology (electronic connections), (202/452-3646), Michael Bermudez, Financial Services Analyst, (202/452-2216), or Marianne Hansberry, Financial Services Analyst, Cash Section, (202/452-2760), Division of

Reserve Bank Operations and Payment Systems. For users of Telecommunications Device for the Deaf *only*, please contact Dorothea Thompson (202/452-3544).

Copies of the 1996 fee schedules for the check, automated clearing house (ACH), funds transfer and net settlement, book-entry securities, noncash collection, and special cash services, as well as electronic connections to Reserve Banks, are available from the Reserve Banks.

SUPPLEMENTARY INFORMATION:
I. Private Sector Adjustment Factor

A. Overview—The Board has approved a 1996 PSAF for Federal Reserve priced services of \$85.8 million. This amount represents a decrease of \$8.9 million or 9.4 percent from the PSAF of \$94.7 million targeted for 1995.

As required by the Monetary Control Act (MCA) (12 U.S.C. 248a), the Federal Reserve's fee schedules for priced services include "taxes that would have been paid and the return on capital that would have been 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 (in asset size) bank holding companies (BHCs).

The methodology first entails determining the value of Federal Reserve assets that will be used in producing priced services during the coming year. Short-term assets are assumed to be financed by short-term liabilities; and long-term assets are assumed to be financed by a combination of long-term debt and equity derived from the BHC model. For 1995, the mix of long-term debt and equity was modified slightly to ensure an imputed equity to asset ratio of 4 percent as required for adequately capitalized institutions under provisions of Regulation F (12 CFR 206.5). This was not necessary for 1996.

Imputed capital costs are determined by applying related interest rates and rates of return on equity (ROE) derived from the BHC model to assets used in providing priced services. The rates drawn from the BHC model are based on consolidated financial data for the 50 largest BHCs 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.

In addition to capital costs, the PSAF includes imputed sales taxes, expenses of the Board of Governors related to priced services, and an imputed Federal

Deposit Insurance Corporation (FDIC) insurance assessment on clearing balances held with the Federal Reserve to settle transactions.

B. Asset Base—The estimated value of Federal Reserve assets to be used in providing priced services in 1996 is reflected in table A-1. Table A-2 shows that the assets assumed to be financed through debt and equity are projected to total \$637.3 million. As shown in table A-3, this represents a net increase of \$14.4 million or 2.3 percent from 1995. This increase results primarily from a higher priced asset base at the Reserve Banks. A decrease of \$10.6 million or 14.3 percent in the FRAS priced asset base due to a reduction in capital purchases and a reduction in the FRAS priced percentage slightly offset the increase in Reserve Bank asset levels.

C. Cost of Capital, Taxes, and Other Imputed Costs—Table A-3 shows the financing and tax rates, as well as the other required PSAF recoveries proposed for 1996, and compares the 1996 rates with the rates used for developing the PSAF for 1995. The pre-tax return on equity rate increased from 12.1 percent in 1995 to 14.2 percent for 1996. The increase is a result of stronger 1994 BHC financial performance included in the 1996 BHC model, relative to the 1989 BHC financial performance in the 1995 BHC model.

The decrease in the FDIC insurance assessment from \$19.0 million in 1995 to \$2.2 million in 1996, as shown in table A-3, is attributable to the impact of the new lower rate for deposit insurance and lower clearing balances. The FDIC rate of \$0.26 for every \$100 in clearing balances was reduced to \$0.04 as of June 1, 1995.

D. Capital Adequacy—As shown on table A-4, the amount of capital imputed for the proposed 1996 PSAF totals 34.4 percent of risk-weighted assets, well in excess of the 8 percent capital guideline for state member banks and BHCs.

II. Priced Services

A. Overview—Over the period 1985 through 1994, the Reserve Banks recovered 100.7 percent of the total costs of providing priced services, including special project costs that were budgeted for recovery and targeted ROE.¹ Table 1 summarizes the cost and revenue performance for priced services since 1985.

B. 1995 Performance—The 1995 fees approved by the Board were expected to recover 100.6 percent of the costs of providing priced services, including imputed expenses, automation consolidation special project costs budgeted for recovery, and targeted ROE. Through August 1995, the System recovered 98.7 percent of total priced services expenses, including automation

consolidation special project costs and targeted ROE. The Reserve Banks now estimate that priced services revenues will yield a net income of \$25.8 million for the year, compared with a targeted ROE of \$31.5 million. The recovery rate after ROE is expected to be 99.3 percent. Approximately \$19.8 million in automation consolidation special project costs will be recovered in 1995, leaving \$36.0 million in accumulated costs to be financed and recovered later.²

The variation in the cost recovery performance from the original 1995 projections can be attributed to the following major factors. First, the pre-tax credits arising from accounting for pensions under the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 87 (SFAS 87) were revised downward by \$16.1 million from the estimate used to set 1995 fees. This reduction was due primarily to a lower return on assets in 1994 and a slightly lower discount rate for valuing pension plan assets. On the other hand, the FDIC insurance assessment was reduced, which lowered imputed expenses by \$9.4 million. If these two changes had not occurred, the Reserve Banks' estimated 1995 recovery rate would have been 99.8 percent, or 0.5 percentage points higher than now forecast.

TABLE 1.—PRO FORMA COST AND REVENUE PERFORMANCE (A)
[\$ millions]

Year	1 Revenue	2 Operating costs and imputed ex- penses	3 Special project costs recov- ered	4 Total ex- pense	5 Net income (ROE)	6 Target ROE	7 Recovery rate after target ROE (percent)	8 Special project costs def- erred and financed
	(b)	(c)	(d)	[2+3]	[1-4]	(e)	[1/(4+6)]	(f)
1985	613.8	555.3	0.0	555.3	58.5	23.9	106.0	0.0
1986	627.7	571.6	0.0	571.6	56.1	27.3	104.8	0.0
1987	649.7	598.2	0.0	598.2	51.5	29.3	103.5	0.0
1988	667.7	641.1	3.2	644.3	23.4	32.7	98.6	0.0
1989	718.6	692.1	4.6	696.7	21.9	32.9	98.5	0.0
1990	746.5	698.1	2.8	700.9	45.6	33.6	101.6	0.0
1991	750.2	710.0	1.6	711.6	38.6	32.5	100.8	0.0
1992	760.8	731.0	11.2	742.2	18.6	26.0	99.0	1.6
1993	774.5	722.4	27.1	749.5	25.0	24.9	100.0	12.5
1994	767.2	748.3	8.8	757.1	10.1	34.6	96.9	33.9
1995 (Est)	757.7	712.1	19.8	731.9	25.8	31.5	99.3	36.0

¹ Certain offsets to costs and certain costs are treated differently in the *pro forma* income statement for Federal Reserve priced services that is published in the Board's *Annual Report* than they are for purposes of setting fees. For example, offsets to costs associated with the transition to and retroactive application of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 87 (SFAS 87), pension

accounting, and SFAS 106, other post-retirement employee benefits accounting, have not been considered in setting fees for priced services. Under the procedures used to prepare the *pro forma* income statement, the Reserve Banks recovered 101.4 percent of the expenses incurred in providing priced services, including targeted ROE, from 1985 through 1994.

² In 1981, the Board adopted a policy that permits the Reserve Banks to defer and finance development costs if the development costs would have a material effect on unit costs, provided a conservative time period is set for full cost recovery and a financing factor is applied to the deferred portion of development costs.

TABLE 1.—PRO FORMA COST AND REVENUE PERFORMANCE (A)—Continued
[\$ millions]

Year	1 Revenue	2 Operating costs and imputed ex- penses	3 Special project costs recov- ered	4 Total ex- pense	5 Net income (ROE)	6 Target ROE	7 Recovery rate after target ROE (percent)	8 Special project costs de- ferred and financed
	(b)	(c)	(d)	[2+3]	[1-4]	(e)	[1/(4+6)]	(f)
1996 (Bud)	791.6	723.7	25.5	749.3	42.3	36.7	100.7	33.1

(a) Details may not sum to totals because of rounding. The revenues and expenses for 1985 through 1993 include the definitive safekeeping service, which was discontinued in 1993. The table includes revised revenue and expense data for 1992 and 1993.

(b) Beginning in 1987, net income on clearing balances is included in revenue.

(c) Imputed expenses include interest on debt, taxes, FDIC insurance, and the cost of float. Credits for prepaid pension costs under SFAS 87 and the charges for post-retirement benefits in accordance with SFAS 106 are included beginning in 1993.

(d) Special project costs include Electronic Payment System (EPS) costs from 1988 through 1990, check image project costs from 1988 through 1993, and certain categories of automation consolidation costs from 1992 through 1996.

(e) Targeted ROE is based on the ROE included in the PSAF and has been adjusted for taxes, which are included in column 2. Targeted ROE has not been adjusted to reflect automation consolidation special project costs deferred and financed. The Reserve Banks plan to recover these costs in the future.

(f) Totals are cumulative and include financing costs.

Second, for the second year, the check service's volume losses were greater than anticipated, reflecting increasing use of direct presentments and continuing consolidation in the banking industry. The Reserve Banks' current estimates indicate that check revenues will be about \$10.0 million lower than original projections. Conversely, ACH volume has grown more rapidly than the Reserve Banks initially projected and revenues are nearly \$4.0 million higher than anticipated.

C. 1996 Projection—In 1996, all priced services expect to recover

operating costs and imputed expenses, including targeted ROE. Total revenues in 1996 are projected to increase 4.5 percent compared with 1995 estimated revenues.³ Based on the Reserve Banks' budgeted costs, volumes, and revenues, the proposed 1996 fees will yield net income of \$42.3 million for the year, compared with a targeted ROE of 36.7 percent. These estimates result in a 100.7 percent cost recovery rate, including automation consolidation special project costs budgeted for recovery and targeted ROE. Priced services expenses before special project

costs are projected to increase 1.6 percent compared with estimated 1995 levels. Approximately \$25.5 million in automated consolidation special project costs will be recovered, leaving \$33.1 million of accumulated special project costs to be recovered in the future. The following sections discuss the 1994 and 1995 year-to-date performance for each priced service, as well as the changes to fees that were approved by the Board.

D. Check—Table 2 presents the actual 1994, estimated 1995, and projected 1996 cost recovery performance for the check service.

TABLE 2.—CHECK PRO FORMA COST AND REVENUE PERFORMANCE
[\$ millions]

Year	1 Revenue	2 Operating costs and imputed ex- penses	3 Special project costs recov- ered	4 Total ex- pense	5 Net income (ROE)	6 Target ROE	7 Recovery rate after target ROE (percent)	8 Special project costs de- ferred and financed
				[2+3]	[1-4]		[1/(4+6)]	
1994	582.4	579.8	0.0	579.8	2.6	26.3	96.1	11.3
1995 (Est)	569.2	548.9	5.3	554.2	15.0	24.0	98.4	12.0
1996 (Bud)	595.0	561.3	5.6	566.9	28.1	28.0	100.0	10.9

1. 1994 Performance—The check service recovered 96.1 percent of total expenses in 1994, including targeted ROE. The volume of checks collected decreased 13.3 percent from 1993 levels as a result of the implementation of the same-day settlement regulation, as well as bank consolidation and merger activity. Return item volume decreased 1.7 percent.

2. 1995 Performance—Through August 1995, the check service

recovered 98.2 percent of total expenses, including automation consolidation special projects costs and targeted ROE, compared with the targeted 1995 recovery rate of 100.0 percent. The volume of checks collected decreased 7.0 percent from 1994 levels, reflecting a 3.7 percent decrease in processed volume and a 19.2 percent decrease in fine sort volume. Return item volume increased 2.6 percent.

The Reserve Banks now estimate that 1995 net income will amount to \$15.0 million, compared with the \$24.0 million budgeted. Two significant factors contribute to the variation. First, the decline in check collection volume experienced through August is expected to accelerate. The Reserve Banks now expect volume to decline by 9.3 percent for the year, versus the budgeted volume loss of 2.4 percent. As a result, check revenues are expected to be

³ The projected revenues include net income on clearing balances.

approximately \$10 million lower than the Reserve Banks' original projections. Second, although the Reserve Banks took steps to reduce production costs, those steps were largely offset by a net increase in other expenses of \$5.2 million. This increase is due to a \$12.4 million pre-tax reduction in pension credits, which increased expenses, offset by a \$7.2 million reduction in the FDIC insurance assessment. As a result, several Reserve Banks implemented selective price increases during the year to address the revenue shortfall. On a volume-weighted average basis, forward collection and return check fees were increased by about 1.5 percent and about 9.5 percent, respectively, since January 1995.

In addition, the Federal Reserve Bank of Chicago opened a new check processing facility in Peoria, Illinois in September, which is expected to contribute to processing efficiency over the long run.

3. *1996 Issues*—As in 1995, the Reserve Banks will be challenged by the changes occurring in the check processing environment. In particular, the evolution to interstate banking is likely to lead to significant changes in the interbank check collection market. To ensure that the Reserve Banks will be able to provide efficient, fairly priced check services and to contribute to improving the efficiency of the payments system, the Banks will (1) emphasize the use of electronic check products that increase the efficiency of the check collection process, (2) introduce a set of consistent national products, and (3) continue to pursue operational efficiencies.

To encourage the use of electronics, the Reserve Banks will continue to promote electronic check presentment (ECP) products. In addition, by year-end

1996, all Reserve offices will offer electronic cash letter (ECL) deposit products. These products reduce Reserve Bank operating costs by reducing manual processing. As a result, the Reserve Banks will offer ECL deposit products at lower per-item fees or later deposit deadlines than traditional check deposit products. The Reserve Banks believe that widespread use of ECL and ECP products ultimately will reduce the costs incurred in transporting and handling paper checks and, thus, will reduce the total costs of the check collection system.

To address the needs of multi-district depository institutions, the Reserve Banks will implement a set of national core check products. The core products will have identical features and names, although fees for the products will be set at the local office level to reflect the difference in the Reserve Banks' cost structures. In addition, Reserve Banks are expanding the use of tiered prices to ensure that fees take into consideration the cost of collecting checks drawn on various paying institutions, adding low-priced group sort products to provide depositing institutions increased options for reducing check collection costs, and improving deposit deadlines to improve funds availability.

Several Reserve Banks are also introducing digital image technology into their commercial check operations and offering image-enhanced check products to payor banks. The use of image technology has the potential to reduce Reserve Banks' operating costs and increase the acceptance of ECP and check truncation.

Total check service operating costs plus imputed expenses are projected to increase by \$12.4 million, or 2.3 percent above estimated 1995 expenses. Total check collection volume is expected to

decline by 1.1 percent in 1996. The Reserve Banks project an increase of approximately 0.7 percent in processed volume, a decrease of 9.5 percent in fine sort volume, and a decrease of 1.1 percent in return item volume.

4. *1996 Fees*—The check fees approved by the Board reflect more accurately the fixed and variable costs of providing check services. In addition, the fees reflect the Reserve Banks' continued efforts to encourage the use of electronics to improve the efficiency of the check collection mechanism.

Overall, 1996 fees for forward collection products will increase by about 1.8 percent on a volume-weighted average basis, compared with current prices.⁴ The most significant increases are in processed cash-letter and fine sort per-item fees, which are increasing 10.6 percent and 5.9 percent, respectively. Forward processed per-item fee increases are modest. Of the 2,166 forward collection and fine sort fees, about 69 percent will remain unchanged, 22 percent will increase, 5 percent will be for new products, and 4 percent will be reduced. About 125 fees that were in place in 1995 will be discontinued.

Compared with current prices, the volume-weighted average increase in fees for return item products will increase approximately 4.0 percent.⁵ Of the 1,442 return item fees, 63 percent will remain unchanged, 34 percent will increase, 2 percent will be for new products, and 1 percent will decline. About 76 fees that were in place in 1995 will be discontinued. No changes in the fees for the Interdistrict Transportation Service (ITS) are recommended.

Table 3 highlights selected 1995 and 1996 check fees.

TABLE 3.—SELECTED CHECK FEES

Items:	Products	1995 price ranges	1996 price ranges
		(per item)	(per item)
Forward processed			
City		\$0.003 to 0.049	\$0.003 to 0.080
Regional Check Processing Center (RCPC)		0.003 to 0.069	0.003 to 0.079
Fine Sort			
City		0.002 to 0.012	0.003 to 0.012
RCPC		0.002 to 0.017	0.002 to 0.017
Qualified return items			
City		0.100 to 0.740	0.100 to 1.110
RCPC		0.120 to 1.040	0.120 to 1.560
Raw return items			
City		0.580 to 2.180	0.580 to 4.000
RCPC		0.800 to 2.180	0.900 to 4.000

⁴ Selected price increases were implemented during 1995. Combining the Reserve Banks' recommended price changes for January 1996 with the price increases that were implemented since January 1995, the volume-weighted average

increase in fees for forward collection products is approximately 3 percent.

⁵ Combining the Reserve Banks' recommended price changes for January 1996 with the price

increases that were implemented since January 1995, the volume-weighted average increase in return fees is about 14 percent.

TABLE 3.—SELECTED CHECK FEES—Continued

Products	1995 price ranges	1996 price ranges
Cash letters:	(per cash letter)	(per cash letter)
Forward processed	\$1.50 to 8.00	\$1.50 to 9.00
Forward fine-sort package	2.50 to 11.00	2.50 to 11.00
Return items: raw and qualified	1.50 to 8.00	1.50 to 8.00

Payor bank service revenue is expected to grow by approximately 22 percent in 1996, primarily due to more widespread acceptance of the Reserve Banks' electronic presentment and image-enhanced check products.

The Reserve Banks project that the check service will recover 100 percent of total costs, including \$5.6 million in automation consolidation special project costs and targeted ROE. Approximately \$10.9 million in

automation consolidation special project costs will be deferred and financed for recovery in future years.

While most Reserve Banks' plans for 1996 are conservative, several Reserve Banks have adopted fairly aggressive pricing and product development strategies and plan significant operational changes aimed at improving efficiency and reducing costs. Because of the aggressiveness of some plans, the Board believes that there are risks in

achieving the Reserve Banks' aggregate volume projections, in particular. Because additional steps could be taken during 1996 to reduce operating costs if volume projections were not met, the Board approved the 1996 check fees proposed by the Reserve Banks.

E. Automated Clearing House (ACH)—Table 4 presents the actual 1994, estimated 1995, and projected 1996 cost recovery performance for the commercial ACH service.

TABLE 4.—ACH PRO FORMA COST AND REVENUE PERFORMANCE
[\$ millions]

Year	1 Revenue	2 Operating costs and imputed ex- penses	3 Special project costs recov- ered	4 Total ex- penses [2+3]	5 Net income (ROE) [1-4]	6 Target ROE	7 Recovery rate after Target ROE (percent) [1/(4+6)]	8 Special project costs def- erred and financed
1994	66.9	64.6	0.0	64.6	2.3	3.4	98.3	19.6
1995 (Est)	74.7	66.3	4.0	70.2	4.5	3.1	101.9	21.5
1996 (Bud)	78.9	66.0	9.2	75.2	3.6	3.6	100.0	17.3

1. 1994 Performance—Revenues from the ACH service recovered 98.3 percent of total expenses, including targeted ROE, during 1994. The factors contributing to the net revenue shortfall included the costs associated with the transition to FRAS and Fednet and the expenses associated with the development of the new Fed ACH application software. Commercial ACH volume increased by 16.8 percent over the 1993 volume level.

2. 1995 Performance—Through August 1995, the ACH service recovered 103.2 percent of total expenses, including automation consolidation special project costs and targeted ROE, compared with the targeted 1995 recovery rate of 100.0 percent. The higher cost recovery rate is due primarily to a higher than expected commercial volume growth rate. Year-to-date commercial ACH volume increased 18.4 percent over the 1994 level, compared with the projected 1995 increase of 12.9 percent. The Reserve Banks now project net income of \$4.5 million, compared with the \$3.1 million budgeted for 1995. Commercial ACH

volume is expected to increase 17.5 percent over the 1994 level.

3. 1996 Issues—During 1996, the Reserve Banks plan to complete implementation of the Fed ACH application software, which was developed over the last several years. Because no Reserve Banks had completed their transition to Fed ACH when the 1996 budgets were prepared, there is some uncertainty about the ongoing costs of operating the new software in the FRAS automation environment. The projected commercial volume growth rate of 17.5 percent may be aggressive in light of the continuing consolidation in the banking industry. The Reserve Banks believe, however, that their marketing efforts with the National Automated Clearing House Association have the potential to spur volume growth.

4. 1996 Fees—The ACH service is capital intensive and demonstrates increasing returns to scale over wide volume ranges. As a result, the volume growth realized over the last several years has resulted in declining per-item processing costs. The Board anticipates that per-item costs will decline further

after all ACH processing is consolidated, following the implementation of Fed ACH. The Board has approved several modifications to the current ACH fees for 1996. These modifications are shown in table 5.

TABLE 5

Fee category	Current fees	Fees as of January 1996
Interdistrict Items	\$0.014	\$0.012
Presorted Items	\$0.012	\$0.010
Interdistrict Addenda .	\$0.005	\$0.004
Account Servicing Fee	\$20.00	\$25.00
Nonautomated Serv- ices	\$10.00	\$15.00

As table 5 indicates, the Board has approved per-item fees reductions for unsorted and presorted interdistrict transactions of \$0.002. In addition, the interdistrict fee for addenda items, which provide supplementary payment-related data, will be reduced by \$0.001, eliminating the differential between local and interdistrict addenda items. Because of the high fixed costs

associated with providing the ACH service, the Board has approved an increase of \$5.00 per month in the account servicing fee. Finally, the Board has approved a \$5.00 increase in the fees for paper return items and notifications of change (NOC), government paper NOCs, telephone return items, and telephone advices to reflect the labor intensive nature of processing, and to provide an incentive for depository institutions to automate these processes.

After the Reserve Banks have fully implemented Fed ACH, they plan to propose further reductions in per-item

fees and to offer a number of new products, including products designed to assist receiving institutions, as well as products designed to permit high-volume originating institutions to obtain lower fees by sorting transactions before transmitting them to the Federal Reserve. The Board anticipates that it will be requested to approve additional fee reductions and service enhancements in mid-1996.

Based on the fee schedule proposed by the Reserve Banks, they are projecting that the ACH service will recover 100.0 percent of costs, including \$9.2 in automation consolidation

special project costs and targeted ROE. Approximately \$17.3 million in automation consolidation special project costs will continue to be deferred and financed for recovery in future years. The Board has approved the 1996 fees proposed by the Reserve Banks.

F. Funds Transfer and Net Settlement—Table 6 presents the actual 1994, estimated 1995, and projected 1996 cost recovery performance for the funds transfer and net settlement service.

TABLE 6.—FUNDS TRANSFER PRO FORMA COST AND REVENUE PERFORMANCE
[Dollars in millions]

Year	1 Revenue	2 Operating costs and imputed ex- penses	3 Special project costs recov- ered	4 Total ex- pense [2+3]	5 Net income (ROE) [1-4]	6 Target ROE	7 Recovery rate after target ROE (percent) [1/(4+6)]	8 Special project costs def- erred and financed
1994	91.6	79.1	7.1	86.2	5.4	3.8	101.7	2.1
1995 (Est)	89.0	73.2	9.7	82.9	6.1	3.4	103.1	0.0
1996 (Bud)	90.5	71.8	9.3	81.1	9.4	3.8	106.6	0.0

1. *1994 Performance*—For 1994, the funds transfer and net settlement service recovered 101.7 percent of total expenses, including automation consolidation special project costs and targeted ROE. The net revenue surplus was largely due to lower data communications and accounting overhead costs. Funds transfer volume increased 3.4 percent over the 1993 volume level.

2. *1995 Performance*—Through August 1995, the funds transfer and net settlement service recovered 99.2 percent of total expenses, including automation consolidation special project costs and targeted ROE, compared with the targeted 1995 recovery rate of 106.5 percent. The lower cost recovery rate is due in part

to the lower than expected pension credit and delays in the conversion of several Reserve Banks to the centralized funds transfer application software. This conversion has now been completed. The Reserve Banks now project net income of \$6.1 million, compared with the \$8.2 million budgeted for 1995. Funds transfer volume is expected to increase 3.1 percent over the 1994 volume level, which is consistent with the growth rate through August.

3. *1996 Issues*—The Reserve Banks expect continuing consolidation of the banking industry to affect funds transfer volume growth. For 1996, an increase of 2.1 percent over the 1995 level is projected, which is somewhat lower than historical trends. The Reserve Banks project that operating costs will

decline modestly, reflecting the full year effect of consolidated processing.

4. *1996 Fees*—Based on retaining the 1995 fee schedule, the Reserve Banks project that revenues will recover 106.6 percent of total expenses, including \$9.3 million in automation consolidation special project costs and targeted ROE. Although the Reserve Banks' net income projection exceeds the targeted ROE by \$5.6 million, lower than projected volume growth could reduce revenues significantly. The Board has approved retaining the 1995 funds transfer fees for 1996.

*G. Book-Entry Securities*⁶—Table 7 presents the actual 1994, estimated 1995, and projected 1996 cost recovery performance for the book-entry securities service.

TABLE 7.—BOOK-ENTRY SECURITIES PRO FORMA COST AND REVENUE PERFORMANCE
[In millions of dollars]

Year	1 Revenue	2 Operating costs and imputed ex- penses	3 Special project costs recov- ered	4 Total ex- pense [2+3]	5 Net income (ROE) [1-4]	6 Target ROE	7 Recovery rate after target ROE (percent) [1/(4+6)]	8 Special project costs def- erred and financed
1994	15.8	13.7	1.7	15.4	0.4	0.7	98.1	1.2
1995 (Est)	15.8	14.2	0.9	15.1	0.7	0.7	100.1	2.5
1996 (Bud)	15.8	13.6	1.4	15.0	0.7	0.8	100.0	4.5

⁶Includes Purchase and Sale Activity.

1. *1994 Performance*—Revenues from the book-entry securities service recovered 98.1 percent of total expenses, including automation consolidation special project costs and targeted ROE during 1994. Book-entry securities transfer volume increased only 1.6 percent over 1993 levels due to a sharp decline in trading activity associated with increasing mortgage interest rates in mid-1994.

2. *1995 Performance*—Through August 1995, the book-entry securities service recovered 99.3 percent of total expenses, including automation consolidation special project costs and targeted ROE, compared with the targeted 1995 recovery rate of 100.1 percent. During the same period, book-entry securities transfer volume decreased 4.2 percent compared with the 1994 level, reflecting the continuing decline in the volume of mortgage-backed securities activity. Although operating expenses are now expected to be slightly higher than originally projected, the Reserve Banks expect to achieve their targeted recovery rate for 1995. This projection is based on two factors. First, the volume of book-entry securities transfers, which declined through mid-1995, has begun to increase over 1994 levels. The Reserve Banks now project a decrease in book-entry securities transfers of only 0.8 percent for the year. Second, the number of accounts maintained and securities

issues held, as well as the volume of off-line transfers, are expected to be higher than budgeted.

3. *1996 Issues*—The Reserve Banks expect book-entry securities transfer volume to remain at approximately the 1995 level. Participants Trust Company (PTC) announced its intent to expand its mortgage-backed securities business to include securities issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. PTC, however, has not indicated when these securities will be included in their system. The Reserve Banks anticipate that the effect on 1996 volume will be minimal, but the effect on volume levels in the future could be substantial.

The Reserve Banks plan to begin their conversion to the National Book-Entry System (NBES) in April 1996. Once the conversion is complete, the Reserve Banks expect to reduce data processing costs substantially. Unlike the current system, the NBES requires that securities held as collateral be held in separate securities accounts, rather than combined into one account. The Reserve Banks plan to analyze the effect of this change and recommend that the Board approve a modified fee in mid-1996.

4. *1996 Fees*—Although there are uncertainties with respect to volume projections beyond 1996, based on the approved fee schedule, the Reserve Banks project that the book-entry

securities service will recover 100.0 percent of costs, including \$1.4 million in automation consolidation special project costs and targeted ROE. The Board has approved retaining the 1995 book-entry securities fees for 1996.

H. *Electronic Connections*—The Federal Reserve Banks charge fees for the electronic connections used by depository institutions to access priced services. The costs and revenues associated with electronic connections are allocated to the various priced services based on the relative number of connections that are used to access each service.

In 1995, the Federal Reserve Board increased fees for several types of electronic connections due to the increasing costs of implementing Fednet. The Board also approved two new categories of electronic connections—(1) high-speed dedicated leased-line connections of 128 kilobits per second (kbps) and 256 kbps and (2) standard dedicated and shared options to support contingency testing by depository institutions with dedicated leased-line connections.

The Board has approved retaining the 1995 fees for electronic connections during 1996.

I. *Noncash Collection*—Table 8 presents the actual 1994, estimated 1995, and projected 1996 cost recovery performance for the noncash collection service.

TABLE 8.—NONCASH COLLECTION PRO FORMA COST AND REVENUE PERFORMANCE
[\$ millions]

Year	1 Revenue	2 Operating costs and imputed ex- penses	3 Special project costs recov- ered	4 Total ex- pense [2+3]	5 Net income (ROE) [1-4]	6 Target ROE	7 Recovery rate after target ROE (percent) [1/(4+6)]	8 Special project costs de- ferred and financed
1994	4.1	4.9	0.0	4.9	(0.8)	0.2	80.1	0.2
1995 (Est)	3.8	4.2	0.0	4.2	(0.4)	0.2	86.3	0.2
1996 (Bud)	4.8	4.5	0.0	4.5	0.2	0.2	100.0	0.2

1. *1994 Performance*—Revenues from the noncash collection service recovered 80.1 percent of total expenses, including targeted ROE, in 1994. The revenue shortfall is attributed to the costs associated with consolidating operations and a volume decline of approximately 37 percent from 1993 levels.

2. *1995 Performance*—Through August 1995, the noncash collection service recovered 81.8 percent of total expenses including targeted ROE, compared with the targeted 1995 recovery rate of 91.4 percent. The

volume of noncash collection items increased 12.2 percent, compared with the projected 1995 increase of 21.6 percent. A recovery rate of 86.3 percent is now projected for 1995. The improvement compared with year-to-date performance reflects the Reserve Banks' projection of higher volume levels during the fourth quarter of 1995 because one of the major noncash collection service providers withdrew from the business in August. In addition, the consolidation of noncash collection operations at the Cleveland and Jacksonville offices was completed

in July and should assist in controlling operating costs.

3. *1996 Issues*—The Reserve Banks are projecting an increase of 22.5 percent in noncash collection volume for 1996. Several factors may affect 1996 volume growth. All of the major service providers discontinued providing noncash collection services during 1995. At the same time, several smaller entities continue to provide noncash collection services. In addition, the Depository Trust Company (DTC), the largest national securities depository, has proposed to collect municipal

coupons on behalf of its participants. While some volume may shift to the Reserve Banks, the DTC's potential presence complicates forecasting 1996 volume levels.

Because of the changing environment, the Board believes that the Reserve Banks' presence in the business provides a degree of stability. In early 1996, the Reserve Banks plan to modify the geographical areas serviced by the two processing sites to increase processing efficiency and maintain high quality.

4. 1996 Fees—The Reserve Banks proposed adoption of a national fee schedule for the noncash collection service. To standardize fees, the local and interregional coupon fees assessed by the Cleveland office will be increased by \$0.50. In addition, to reflect more accurately the cost of collecting matured bonds, the bond collection fee will be increased from \$40 to \$50. Based on the proposed fee schedule, the Reserve Banks are projecting that the noncash collection service will recover 100.0 percent of total costs, including targeted ROE. The Board has approved the

national fee schedule proposed by the Reserve Banks for the noncash collection service.

J. Cash Services—Cash services provided 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.

Table 9 presents actual 1994 performance, estimated 1995, and projected 1996 cost recovery performance for the priced cash services.

TABLE 9.—CASH PRO FORMA COST AND REVENUE PERFORMANCE
[\$ millions]

Year	1 Revenue	2 Operating costs and imputed ex- penses	3 Special project costs recov- ered	4 Total ex- pense [2+3]	5 Net income (ROE) [1-4]	6 Target ROE	7 Recovery rate after target ROE (percent) [1/(4+6)]	8 Special project costs def- erred and financed
1994	6.4	6.0	0.0	6.0	0.4	0.2	102.6	0.0
1995 (Est)	5.2	5.1	0.0	5.1	0.1	0.1	99.5	0.0
1996 (Bud)	6.7	6.3	0.0	6.3	0.4	0.2	102.2	0.0

The Reserve Banks expect that 1996 revenues will recover all costs for cash services, including targeted ROE. Projected revenues and costs are higher for 1996 because the San Francisco District will begin to charge fees for access to cash services beyond the basic service level.

III. Competitive Impact Analysis

All operational and legal changes considered by the Board that have a substantial effect on payment system participants are subject to the competitive impact analysis described in the March 1990 policy statement

“The Federal Reserve in the Payments System.” In this analysis, the Board assesses whether the proposed change would 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 due to differing legal powers or constraints, or due to a dominant market position of the Federal Reserve deriving from such legal differences.

The Board believes that the recommended price and service level changes would not have a substantial

effect on payments system participants, and would not have a direct and material effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services. The 1996 fees approved by the Board result in a projected return on equity that meets the target return on equity based on the 50 bank holding company model. Therefore, the Board believes that approval of the proposed fees would not have an adverse effect on the ability of other service providers to compete with the Reserve Banks.

Attachments

TABLE A-1.—COMPARISON OF PRO FORMA BALANCE SHEETS FOR FEDERAL RESERVE PRICED SERVICES
[Millions of dollars—average for year]

	1996	1995
Short-term assets:		
Imputed reserve requirement on clearing balances	\$ 409.6	\$ 619.8
Investment in marketable securities	3,686.7	5,577.9
Receivables ¹	64.4	62.8
Materials and supplies ¹	8.6	5.7
Suspense & Difference ¹	0.0	0.1
Prepaid expenses ¹	13.9	16.1
Items in process of collection	2,413.2	2,592.5
Total short-term assets	\$6,596.4	\$8,874.9
Long-term assets:		
Premises ^{1,2}	\$ 346.4	\$ 337.7
Furniture and equipment ¹	189.4	187.8
Leasehold improvements and long-term prepayments ¹	14.6	12.6
Capital leases	2.3	3.8

TABLE A-1.—COMPARISON OF PRO FORMA BALANCE SHEETS FOR FEDERAL RESERVE PRICED SERVICES—Continued
 (Millions of dollars—average for year)

	1996	1995
Total long-term assets	552.7	541.9
Total assets	\$7,149.1	\$9,416.8
Short-term liabilities:		
Clearing balances and balances arising from early credit of uncollected items	\$4,096.3	\$6,197.7
Deferred credit items	2,413.2	2,592.5
Short-term debt ³	86.8	84.7
Total short-term liabilities	\$6,596.3	\$8,874.9
Long-term liabilities:		
Obligations under capital leases	\$ 2.3	\$ 3.8
Long-term debt ³	182.7	161.6
Total long-term liabilities	185.0	165.4
Total liabilities	\$6,781.3	\$9,040.3
Equity ³	367.8	376.5
Total liabilities and equity	\$7,149.1	\$9,416.8

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

² Includes allocations of Board of Governors' assets to priced services of \$0.5 million for 1996 and \$0.4 million for 1995.

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

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

TABLE A-2.—DERIVATION OF THE 1996 PSAF
 (Millions of dollars)

A. Assets to be Financed: ¹			
Short-term	\$86.9		
Long-term ²	550.4		\$637.3
B. Weighted Average Cost:			
1. Capital Structure ³			
Short-term Debt	13.6%		
Long-term Debt	28.7%		
Equity	57.7%		
2. Financing Rates/Costs ³			
Short-term Debt	3.9%		
Long-term Debt	7.6%		
Pre-tax Equity ⁴	14.2%		
3. Elements of Capital Costs			
Short-term Debt	\$86.9	× 3.9% =	\$3.4
Long-term Debt	182.7	× 7.6% =	13.8
Equity	367.8	× 14.2% =	52.3
			\$69.5
C. Other Required PSAF Recoveries:			
Sales Taxes	\$11.3		
Federal Deposit Insurance Assessment	2.2		
Board of Governors Expenses	2.8		\$16.3
D. Total PSAF Recoveries			\$85.8
As a percent of capital			13.5%
As a percent of expenses ⁵			14.1%

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

² Consists of total long-term assets, including the priced portion of FRAS assets, less self financing capital leases.

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 1995 budgeted priced service expenses less shipping are \$610.3 million.

TABLE A-3.—COMPARISON BETWEEN 1996 AND 1995 PSAF COMPONENTS

	1996	1995
A. Assets to be Financed (millions of dollars):		
Short-term	\$86.9	\$84.7
Long-term	550.4	538.2
Total	\$637.3	\$622.9
B. Cost of Capital:		
Short-term Debt Rate	3.9%	3.5%
Long-term Debt Rate	7.6%	8.2%
Pre-tax Return on Equity	14.2%	12.1%
Weighted Average Long-term Cost of Capital	12.0%	10.9%
C. Tax Rate	29.9%	31.0%
D. Capital Structure:		
Short-term Debt	13.6%	15.4%
Long-term Debt	28.7%	25.4%
Equity	57.7%	59.2%
E. Other Required PSAF Recoveries (millions of dollars):		
Sales Taxes	\$11.3	\$11.3
Federal Deposit Insurance Assessment	2.2	19.0
Board of Governors Expenses	2.8	2.7
F. Total PSAF:		
Required Recovery	\$85.8	\$94.7
As Percent of Capital	13.5%	15.2%
As Percent of Expenses	14.1%	15.7%

TABLE A-4—COMPUTATION OF CAPITAL ADEQUACY FOR FEDERAL RESERVE PRICED SERVICES
[millions of dollars]

	Assets	Risk weight	Weighted assets
Imputed reserve requirement on clearing balances	\$409.6	0.0	\$0.0
Investment in marketable securities	3,686.7	0.0	0.0
Receivables	64.4	0.2	12.9
Materials and supplies	8.6	1.0	8.6
Suspense & Difference	0.0	0.2	0.0
Prepaid expenses	13.9	1.0	13.9
Items in process of collection	2,413.2	0.2	482.6
Premises	346.4	1.0	346.4
Furniture and equipment	189.4	1.0	189.4
Leases & long-term prepayments	16.9	1.0	16.9
Total	\$7,149.1		\$1,070.7
Imputed Equity for 1995	\$367.8		
Capital to Risk-Weighted Assets	34.4%		
Capital to Total Assets	5.1%		

By order of the Board of Governors of the Federal Reserve System, November 2, 1995.

William W. Wiles,

Secretary of the Board.

[FR Doc. 95-27631 Filed 11-8-95; 8:45 am]

BILLING CODE 6210-01-P

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N. Y. 10045-0001

AREA CODE 212 720-6375

FACSIMILE 212 720-8742

CHESTER B. FELDBERG
EXECUTIVE VICE PRESIDENT

November 9, 1995

To: The Chief Executive Officer of Each Member Bank

Subject: Annual Reporting and Disclosure Requirements for Member Bank's Executive Officers and Principal Shareholders Subject to the Board's Regulation O (Form FFIEC 004)

Since 1979, member banks have been subject to certain reporting and disclosure requirements set forth under the Board's Regulation O. These requirements were established in Titles VIII and IX of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA), as amended by the Garn-St Germain Depository Institutions Act of 1982.

A copy of form FFIEC 004 is enclosed to assist your bank and your bank's executive officers and principal shareholders in complying with the requirements set forth in Regulation O. Please duplicate the form, which has been approved by the FFIEC, in accordance with your needs. You should note however, that executive officers and principal shareholders may provide the required information on other forms, if they wish.

Executive officers and principal shareholders subject to the reporting requirements must file annual reports concerning their indebtedness and the indebtedness of their related interests to the correspondent banks of the member bank. These reports should be filed with the member bank's board of directors by January 31 of each year. The 1996 report covers the period January 1 to December 31, 1995.

Each member bank should notify its executive officers and principal shareholders of the reporting requirements. The persons notified should include any person who was an executive officer or principal shareholder of the member bank during the period January 1 to December 31, 1995, since all of these persons are subject to reporting requirements if they were indebted to a correspondent bank of the member bank during this period.

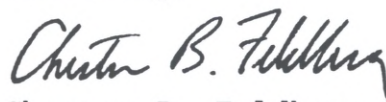
Each member bank is also required to make available to its executive officers and principal shareholders a list of the member bank's correspondent banks. A correspondent bank is defined as a bank that maintains one or more correspondent accounts for a member bank during the calendar year that, when aggregated, exceed certain amounts specified in the regulation.

(Over)

Form FFIEC 004, or a similar form that is filed by executive officers and principal shareholders, must be kept on file at the member bank for a period of three years. These reports are not required to be made available to the public; however, the reports will be reviewed by examiners during the course of an examination of the member bank. The reports filed by executive officers and principal shareholders are not required to be filed with the Reserve Bank or Deputy Comptroller.

Any questions your bank may have on the current forms or the regulation should be directed to John Greco, Examining Officer, Financial Examinations Function at (212) 720-8398.

Sincerely,



Chester B. Feldberg
Executive Vice President

Enclosure

General Instructions

1. Persons Required to File Report

A Report on Indebtedness to Correspondent Banks (Form FFIEC 004), or a similar form containing identical information, must be completed by each executive officer and each principal shareholder of an insured bank who was indebted, or whose related interests were indebted, during the calendar year for which the report is being submitted to a correspondent bank of their bank. All insured banks are required by law to make available to their executive officers and principal shareholders a list of the bank's correspondent banks. "Correspondent bank" means generally a bank that maintains a correspondent account in excess of a certain amount for the officer's or shareholder's bank.

The executive officer or principal shareholder must file a separate report concerning the indebtedness of the officer or shareholder to each correspondent bank and a separate report concerning the indebtedness of each of the related interests of the officer or shareholder to each correspondent bank. For example, if an executive officer is indebted to two correspondent banks, the officer must file two reports, one for each correspondent bank. If the executive officer has two related interests that were also both indebted to two correspondent banks, the officer would file six reports, two for the officer's own indebtedness and four for the indebtedness of the officer's related interests. If the executive officer is not indebted to a correspondent bank, but a related interest of the officer is indebted to a correspondent bank, the executive officer must file a report concerning the indebtedness of the officer's related interest to the correspondent bank.

2. Where and When Reports are to be Filed

The executive officer or principal shareholder must submit the report on indebtedness to correspondent banks to the board of directors of the reporting person's bank for each calendar year by January 31 of the next year.

3. What Must be Reported

The reporting person must include in each report on indebtedness to each correspondent bank: (a) the maximum amount of indebtedness outstanding during the calendar year, and (b) the terms and conditions of *each* extension of credit included in the maximum amount reported. The terms and conditions to be reported are: (1) the original amount and date; (2) the maturity date; (3) the payment terms; (4) the range of interest rates charged during the calendar year; (5) whether the extension of credit is secured or unsecured; (6) if secured, a description of the collateral and its value; and (7) any unusual terms or conditions.

In determining the maximum amount of indebtedness of a principal shareholder, the indebtedness of a member of the shareholder's immediate family is to be treated as indebtedness of the principal shareholder. Each maximum amount of indebtedness reported may include several separate extensions of credit. The reporting person must report separately the terms and conditions of each of these extensions of credit.

Each report on indebtedness to each correspondent bank must also include the amount of indebtedness outstanding to the correspondent bank ten business days before the date on which the report on indebtedness is filed. If the information on the amount of indebtedness outstanding to a correspondent bank ten business days before the filing of the report is not available or cannot be readily ascertained by the filing date, an estimate of the amount of such indebtedness may be filed, provided that the actual amount of such indebtedness is submitted to the bank's board of directors within the next thirty days.

4. Definitions

The following definitions are intended to provide general guidance in completing this report. For precise definitions, see the Federal Reserve Board's Regulation O (12 CFR Part 215) and Part 349 of the FDIC's Rules and Regulations (12 CFR Part 349).

- a. "Executive officer" is defined in section 215.2 of Regulation O and means generally a person who participates or who has authority to participate (other than in the capacity of a director) in major policymaking functions of the company or bank. Certain officers (*e.g.*, vice presidents) are presumed in Regulation O to be executive officers unless they are excluded by resolution of the board of directors or by the bylaws of the bank or company from participation in major policymaking functions of the bank or company and do not participate therein.
- b. "Principal Shareholder" means any person (other than an insured bank, or a foreign bank) that, directly or indirectly, owns, controls, or has the power to vote more than 10 percent of any class of voting securities of the bank. The term includes a person that controls a principal shareholder (*e.g.*, a person that controls a bank holding company).

For the purpose of determining who is a principal shareholder, shares owned or controlled by a member of the individual's immediate family are presumed to be controlled by the individual.

"Immediate family" means the spouse of an individual, the individual's minor children, and any of the individual's children (including adults) residing in the individual's home. For reporting purposes, only one individual in the immediate family must file reports if that individual's reports include the information on indebtedness of the individual's immediate family.

- c. Control of a company is defined in section 215.2 of Regulation O as ownership or control of 25 percent or more of a company's outstanding voting shares; however, the regulation presumes control in some cases where less than 25 percent ownership or control exists.
- d. "Related interest" means (1) a company that is controlled by a person or (2) a political or campaign committee that is controlled by a person or the funds or services of which will benefit a person.
- e. "Indebtedness" includes any extension of credit (as defined in section 215.22 of Regulation O), but does *not* include:
 - i. commercial paper, bonds and debentures issued in the ordinary course of business; and
 - ii. consumer credit in an aggregate amount of \$5,000 or less from each correspondent bank, provided the credit is incurred under terms that are not more favorable than those offered the general public.
- f. "Maximum amount of indebtedness" means, at the option of the reporting person, either (i) the highest outstanding indebtedness during the calendar year for which the report is made, or (ii) the highest end of the month indebtedness outstanding during the calendar year for which the report is made. The method chosen should be consistently used for all indebtedness to the same correspondent bank. The reporting person must indicate on the report whether the maximum amount was determined as of the end of the month or on a daily basis.
- g. "Correspondent bank," "company," and other terms pertinent to this report are defined in the Board's Regulation O, 12 CFR Part 215 and Part 349 of the Federal Deposit Insurance Corporation's Rules and Regulations, 12 CFR Part 349.

Report on Indebtedness of Executive Officers and Principal Shareholders and their Related Interests to Correspondent Banks

For the Calendar Year Ending December 31, 19 _____

Form FFIEC 004



Approved by the Federal Financial Institutions Examination Council 11/15/79
OMB No. 7100-0034 (FRB) Expires 9/30/98
1557-0070 (OCC) Expires 9/30/98
3064-0023 (FDIC) Expires 9/30/98

Name of Executive Officer or Principal Shareholder Submitting Report

Name of Bank to which Report is Submitted

City

State

To be submitted by executive officers and principal shareholders of insured banks to the boards of directors of their banks in satisfaction of the reporting requirements of the Federal Reserve Board's Regulation O (12 CFR Part 215) and Part 349 of the Federal Deposit Insurance Corporation's Rules and Regulations (12 CFR Part 349) with respect to indebtedness to correspondent banks.

<p>Status of Reporting Person:</p> <p><input type="checkbox"/> Executive Officer</p> <p><input type="checkbox"/> Principal Shareholder</p>	<p>A. Maximum amount of indebtedness outstanding during the calendar year:</p> <p>(In thousands of dollars) \$ _____</p>	<p>D. Terms and Conditions of each extension of credit included as indebtedness in the amount reported in Box A (see Instruction 3). Use additional pages if indebtedness consists of more than three loans and/or more space is needed to report terms and conditions:</p> <p>Loan 1:</p> <p>Loan 2:</p> <p>Loan 3:</p>
<p>If the report is submitted for indebtedness of a related interest, name and address of related interest for which the report is submitted:</p>	<p>B. Method used to determine maximum amount of indebtedness outstanding (check one):</p> <p><input type="checkbox"/> i. highest outstanding indebtedness during the calendar year</p> <p><input type="checkbox"/> ii. highest end of the month indebtedness outstanding during the calendar year</p>	
<p>Name and address of the correspondent bank to which the executive officer, principal shareholder, or related interest is indebted:</p>	<p>C. Amount of indebtedness outstanding ten business days prior to the date of filing this report:</p> <p>(In thousands of dollars) \$ _____</p>	

I hereby certify that the information given above is complete, correct, and true to the best of my knowledge.

Disclosure of Estimated Burden

The burden associated with this information collection is estimated to vary from 1 to 2 hours per response, depending on individual circumstances. Burden estimates include the time for reviewing instructions, gathering and maintaining data in the required form, and completing the information collection, but exclude the time for compiling and maintaining business records in the normal course of a respondent's activities. Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be directed to the Office of Information and Regulatory Affairs, Office of Management and Budget, Washington, D.C. 20503, and to one of the following:

Signature of official responsible for report

Secretary
Board of Governors of the Federal Reserve System
Washington, D.C. 20551

Legislative and Regulatory Analysis Division
Office of the Comptroller of the Currency
Washington, D.C. 20219

Assistant Executive Secretary
Federal Deposit Insurance Corporation
Washington, D.C. 20429

Date Signed

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N. Y. 10045-0001

AREA CODE 212-720-5000

November 15, 1995

To: All State Member Banks, Bank Holding Companies, U.S. Branches and Agencies of Foreign Banks, and Edge and Agreement Corporations in the Second District

Subject: New Suspicious Activity Report (SAR)

The Federal Reserve, the other federal financial institutions supervisory agencies, the U.S. Department of the Treasury (Treasury) and the Financial Crimes Enforcement Network of Treasury (FinCEN) are working together to streamline the process by which domestic and foreign banking organizations report suspected criminal activity to the federal law enforcement agencies that investigate and prosecute criminal offenses. Planned changes include:

- Adopting a single uniform interagency form;
- Eliminating duplicative filing requirements by melding the banking agencies' criminal referral reporting rules with the suspicious transaction reporting requirements on the current Currency Transaction Report (CTR) and Treasury's proposed suspicious transaction reporting regulation so that the filing of the single uniform interagency form fulfills all reporting obligations;
- Requiring the filing of only one form with a single repository, FinCEN, which will oversee distribution to the various federal law enforcement and banking agencies;
- Eliminating the need to provide supporting documentation with the SAR;
- Providing computer software to assist in the preparation and filing of the SAR; and
- Raising the mandatory reporting thresholds and thereby reducing the number of referrals that have to be filed.

One of the principal benefits of the new interagency suspicious activity reporting system is the use of a single uniform reporting form that would be adopted by each of the banking agencies and Treasury and sent to a single location. A new Suspicious Activity Report is being developed to replace the Criminal Referral Form. An advance copy of the SAR and the draft instructions are enclosed. The prototype of the SAR should not be used until you receive instructions to do so from this Reserve Bank.

Work also continues on the development of software that will enable your institution to file the SAR on various forms of magnetic media, such as disk or tape. Once completed, this new software will be distributed to your institution by the Federal Reserve at no charge. Should you wish to use your own in-house computer system to prepare the appropriate information for filing SARs by magnetic media, rather than using a hard copy of the new SAR or our software, you may do so by using specifications that will be available shortly. You may obtain these specifications by writing or calling Barbara Rosenberg, IRS Detroit Computing Center, 985 Michigan Avenue, Detroit, Michigan 48226, at (313) 234-1422. Those banking organizations that already file CTRs by magnetic tape will be receiving the specifications from the IRS Detroit Computing Center automatically.

We anticipate that, within the next 60 days, the Federal Reserve, along with the other banking agencies and Treasury, will be issuing final suspicious activity reporting rules, distributing a final SAR, and inaugurating the new reporting system. Until the new reporting system and SAR are finalized, your institution should continue to use the current Criminal Referral Form and to follow its instructions. These forms should be sent to:

Joseph L. Galati II
Manager
Advisory and Technical Services Function
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Also, because you can no longer report suspicious currency transactions to the Treasury on that agency's CTR form as of October 1, 1995, due to a change in that form, your organization should use the current Criminal Referral Form to report suspicious financial transactions that would have previously been reported by checking the "suspicious" box on the old CTR form.

If you have any questions concerning the new form or reporting requirements, please contact Joseph E. Buckley, Supervising Examiner at (212) 720-2393 or Raymond J. Beers, Supervising Examiner at (212) 720-5924 of the Advisory and Technical Services Function.

Sincerely,

Christine M. Cumming
Christine M. Cumming
Senior Vice President

Enclosure

Suspicious Activity Report

1

FRB: FR 2230 OMB No. 7100-0212
 FDIC: 6710/06A OMB No. 3064-0077
 OCC: 8010-9,8010-1 OMB No. 1557-0180
 OTS: 366 OMB No. 1550-0003
 NCUA: 2362 OMB No. 3133-0094
 TREASURY: XXXXXXXXXX OMB No. XXXX-XXXX
 Expires September 30, 1998

ALWAYS COMPLETE ENTIRE REPORT

1 Check appropriate box:

- a Initial Report b Corrected Report c Supplemental Report

Part I Reporting Financial Institution Information

2 Name of Financial Institution			3 Primary Federal Regulator <input type="checkbox"/> FDIC <input type="checkbox"/> Federal Reserve <input type="checkbox"/> NCUA <input type="checkbox"/> OCC <input type="checkbox"/> OTS		
4 Address of Financial Institution					
5 City	6 State	7 Zip Code			
8 Address of Branch Office(s) where activity occurred					9 Asset size of financial institution
10 City	11 State	12 Zip Code		13 If institution closed, date closed (MMDDYY)	
14 Account number(s) affected, if any		15 Have any of the institution's accounts related to this matter been closed? a <input type="checkbox"/> Yes b <input checked="" type="checkbox"/> No If yes, identify _____			

Part II Suspect Information

16 Last Name or Name of Entity		17 First Name		18 Middle Initial	
19 Address				20 SSN or TIN (as applicable)	
21 City	22 State	23 Zip Code		24 Date of Birth (MMDDYY)	
25 Phone Number - Residence (include area code) ()			26 Phone Number - Work (include area code) ()		
27 Occupation					
28 Forms of identification for Suspect: a <input type="checkbox"/> Driver's License b <input type="checkbox"/> Passport c <input type="checkbox"/> Alien Registration d <input type="checkbox"/> Other _____ e Number _____ f Issuing Authority _____					
29 Relationship to Financial Institution: a <input type="checkbox"/> Accountant d <input type="checkbox"/> Attorney g <input type="checkbox"/> Customer j <input type="checkbox"/> Officer b <input type="checkbox"/> Agent e <input type="checkbox"/> Borrower h <input type="checkbox"/> Director k <input type="checkbox"/> Shareholder c <input type="checkbox"/> Appraiser f <input type="checkbox"/> Broker i <input type="checkbox"/> Employee l <input type="checkbox"/> Other _____					
30 Is suspect still affiliated with the financial institution? a <input type="checkbox"/> Yes If no, specify { c <input type="checkbox"/> Suspended e <input type="checkbox"/> Resigned b <input type="checkbox"/> No { d <input type="checkbox"/> Terminated			31 Date of Suspension, Termination, Resignation (MMDDYY)		32 Admission/Confession a <input type="checkbox"/> Yes b <input type="checkbox"/> No

Part III Suspicious Activity Information

33 Date of suspicious activity (MMDDYY)		34 Dollar amount involved in known or suspicious activity \$	
35 Summary characterization of suspicious activity:			
a <input type="checkbox"/> Bank Secrecy Act/Structuring/ Money Laundering	g <input type="checkbox"/> Counterfeit Check	m <input type="checkbox"/> False Statement	
b <input type="checkbox"/> Bribery/Gratuity	h <input type="checkbox"/> Counterfeit Credit/Debit Card	n <input type="checkbox"/> Misuse of Position or Self-Dealing	
c <input type="checkbox"/> Check Fraud	i <input type="checkbox"/> Counterfeit Instrument (other)	o <input type="checkbox"/> Mortgage Loan Fraud	
d <input type="checkbox"/> Check Kiting	j <input type="checkbox"/> Credit Card Fraud	p <input type="checkbox"/> Mysterious Disappearance	
e <input type="checkbox"/> Commercial Loan Fraud	k <input type="checkbox"/> Debit Card Fraud	q <input type="checkbox"/> Wire Transfer Fraud	
f <input type="checkbox"/> Consumer Loan Fraud	l <input type="checkbox"/> Defalcation/Embezzlement		
r <input type="checkbox"/> Other _____			
36 Amount of loss prior to recovery (if applicable) \$	37 Dollar amount of recovery (if applicable) \$	38 Has the suspicious activity had a material impact on or otherwise affected the financial soundness of the institution? a <input type="checkbox"/> Yes b <input type="checkbox"/> No	
39 Has the institution's bonding company been notified? a <input type="checkbox"/> Yes b <input type="checkbox"/> No			
40 Has any law enforcement agency already been advised by telephone, written communication, or otherwise? If so, list the agency and local address.			
41 City	42 State	43 Zip Code	

Part IV Witness Information

44 Last Name	45 First Name	46 Middle Initial
47 Address		48 SSN
49 City	50 State	51 Zip Code
53 Title		54 Phone Number (include area code) ()
		55 Interviewed a <input type="checkbox"/> Yes b <input type="checkbox"/> No
52 Date of Birth (MMDDYY)		

Part V Preparer Information

56 Last Name	57 First Name	58 Middle Initial
59 Title	60 Phone Number (include area code) ()	61 Date (MMDDYY)

Part VI Contact for Assistance (If different than preparer information in Part V)

62 Last Name	63 First Name	64 Middle Initial
65 Title	66 Phone Number (include area code) ()	67 Date (MMDDYY)
68 Agency (If applicable)		

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Explanation/description of known or suspected violation of law or suspicious financial transaction. This section of the referral is critical. The care with which it is written may make the difference in whether or not the described conduct and its possible criminal nature are clearly understood. Provide below a chronological and complete account of the possible violation of law, including what is unusual, irregular or suspicious about the transaction, using the following checklist as you prepare your account. If necessary, continue the narrative on a duplicate of this page.

- a Describe supporting documentation and retain for 10 years.
- b Explain who benefited, financially or otherwise, from the transaction, how much, and how.
- c Retain any confession, admission, or explanation of the transaction provided by the suspect and indicate to whom and when it was given.
- d Retain any confession, admission, or explanation of the transaction provided by any other person and indicate to whom and when it was given.

- e Retain any evidence of cover-up or evidence of an attempt to deceive federal or state examiners or others.
- f Indicate where the possible violation of law took place (e.g., main office, branch, other).
- g Indicate whether the possible violation of law is an isolated incident or relates to another transaction
- h Indicate whether there is any related litigation; if so, specify.
- i Recommend any further investigation that might assist law enforcement authorities.
- j Indicate whether any information has been excluded from this referral; if so, why?

For Bank Secrecy Act/Structuring/Money Laundering reports, include the following additional information:

- k Indicate whether currency and/or monetary instruments were involved. If so, provide the amount and/or description.
- l Indicate any account number that may be involved or affected.

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Suspicious Activity Report Instructions

Federal law (31 U.S.C. 5318(g)(2) and (3)) provides that financial institutions, and their directors, officers, employees and agents, that disclose possible violations of law or regulation, including in connection with the preparation of suspicious activity reports, "shall not be liable to any person under any law or regulation of the United States or any constitution, law, or regulation of any State or political subdivision thereof, for such disclosure or for any failure to notify the person involved in the transaction or any other person of such disclosure." This law prohibits financial institutions, and their directors, officers, employees, and agents, from communicating that a disclosure of possible violations of the law or regulation has been made and the contents of such disclosure, including information reported in a suspicious activity report, to any person involved in the reported transaction.

In situations involving violations requiring immediate attention, such as when a reportable violation is on-going, the financial institution shall immediately notify, by telephone, the appropriate law enforcement authority in addition to filing a timely suspicious activity report.

WHEN TO MAKE A REPORT:

1. All financial institutions operating in the United States, including insured banks, savings and loan associations, credit unions, bank holding companies, nonbank subsidiaries of bank and thrift holding companies, savings and loan service corporations, Edge and Agreement corporations, and U.S. branches and agencies of foreign banks, are required to make this report following the discovery of:
 - a. **Suspected insider abuse involving any amount.** Any known or suspected criminal violation, or pattern of criminal violations, committed against the financial institution or involving a transaction conducted through the financial institution, where the financial institution has a substantial basis for identifying one of its directors, officers, employees, agents or other institution-affiliated parties (as defined in 12 U.S.C. 1786(r), or 1813(u) and 1818(b)(3), (4) and (5)) as having committed or aided in the commission of a criminal act regardless of the amount involved in the violation.
 - b. **Transactions aggregating \$5,000 or more where a suspect can be identified.** Any known or suspected criminal violation, or pattern of criminal violations, committed against the financial institution or involving a transaction or transactions conducted through the financial institution and involving or aggregating \$5,000 or more in funds or other assets, where the financial institution believes that it was either an actual or potential victim of a criminal violation, or series of criminal violations, or that the financial institution was used to facilitate a criminal transaction, and that the financial institution has a substantial basis for identifying a possible suspect or group of suspects. If it is determined prior to filing this report that the identified suspect or group of suspects has used an "alias," then information regarding the true identity of the suspect or group of suspects, as well as alias identifiers, numbers and telephone numbers must be reported.
 - c. **Transactions aggregating \$25,000 or more regardless of potential suspects.** Any known or suspected criminal violation, or pattern of criminal violations, committed against the financial institution or involving a transaction or transactions conducted through the financial institution and involving or aggregating \$25,000 or more in funds or other assets, where the financial institution believes that it was either an actual or potential victim of a criminal violation, or series of criminal violations, or that the financial institution was used to facilitate a criminal transaction, even though there is no basis for identifying a possible suspect or group of suspects.
 - d. **Money laundering, suspicious financial transactions, or violations of the Bank Secrecy Act.** Any transaction conducted or attempted, at or through the financial institution, where the institution knows, suspects, or has reason to suspect that, regardless of the identification of a potential suspect, whether currency was involved, or the amount involved in the transaction:
 - i. The transaction involves funds derived from illegal activities or is intended or conducted in order to hide or disguise funds or assets derived from illegal activities (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any law or regulation or to avoid any transaction reporting requirement under federal law;

- ii. The transaction is designed to evade any regulations promulgated under the Bank Secrecy Act; or
- iii. The transaction or its details appear to have no business purpose, the transaction varies from the normal methods of financial commerce, or the transaction is not the sort in which the particular customer or class of customer would normally be expected to engage, and, in each case, the institution knows of no reasonable explanation for the transaction.

The Bank Secrecy Act requires all financial institutions to file currency transaction reports (CTRs) in accordance with the Department of the Treasury's implementing regulations (31 CFR Part 103). These regulations require a financial institution to file a CTR whenever a currency transaction exceeds \$10,000. If a currency transaction exceeds \$10,000 and is suspicious, the institution must file both a CTR (reporting the currency transaction) and a suspicious activity report (reporting the suspicious criminal aspect of the transaction). If a currency transaction equals or is below \$10,000 and is suspicious, the institution should only file a suspicious activity report.

- 2. Financial institutions are required to file this form no later than 30 calendar days after the date of initial detection of the known or suspected criminal violation or series of criminal violations, or suspicious financial transaction. If no suspect was identified on the date of detection of the incident triggering the filing of this suspicious activity report, a financial institution may delay filing a suspicious activity report for an additional 30 calendar days after the identification of the suspect. However, in no case shall reporting be delayed more than 60 calendar days after the date of the loss or the known or suspected criminal violation or series of criminal violations, or suspicious financial transaction.
- 3. This form does not need to be filed for those robberies and burglaries that are reported to local authorities, or for lost, missing, counterfeit, or stolen securities that are reported pursuant to the requirements of 17 CFR 240.17.

HOW TO MAKE A REPORT

- 1. Send each completed form to:

FinCEN, c/o DCC, PO Box 32621, Detroit, MI 48232

- 2. For items that do not apply or for which information is not available, leave blank.
- 3. Complete each form in its entirety, even when the form is a correction or supplement.
- 4. Do not include supporting documentation with the form. Identify and retain a copy of the form and all original supporting documentation for 10 years from the date of the form. All supporting documentation should be made available to the appropriate authorities upon request.
- 5. If the form is prepared by an agency examiner, send completed form, with a copy of related supporting documentation, to your supervisor. The supervisor will ensure that the completed form is filed.
- 6. If more space is needed to complete an item (for example, to report an additional suspect or witness), a copy of the page containing the item should be used to provide the information.
- 7. Financial institutions are encouraged to provide copies of suspicious activity reports to state and local authorities, where appropriate.

Paperwork Reduction Act Notice: The purpose of this form is to provide an effective and consistent means for financial institutions to notify appropriate law enforcement agencies of known or suspected criminal activities that take place at or were perpetrated against financial institutions. This report is required by law. Information collected on this form is confidential (5 U.S.C. 552(b)(7) and 552a(k)(2), and 31 U.S.C. 5318(g)). The Federal financial institutions regulatory agencies and the U.S. Departments of Justice and Treasury may use and share the information. Public reporting and recordkeeping burden for this information collection is estimated to average 40 minutes per response, and includes time to gather and maintain data in the required form, review the instructions, and complete the information collection. Send comments regarding this burden estimate, including suggestions for reducing the burden, to the Office of Management and Budget, Paperwork Reduction Project, Washington, DC 20503 and, depending on your primary Federal regulatory agency, to Secretary, Board of Governors of the Federal Reserve System, Washington, DC 20551; or Assistant Executive Secretary, Federal Deposit Insurance Corporation, Washington, DC 20429; or Legislative and Regulatory Analysis Division, Office of the Comptroller of the Currency, Washington, DC 20219; or Office of Thrift Supervision, Enforcement Office, Washington, DC 20552; or National Credit Union Administration, 1775 Duke Street, Alexandria, VA 22314; or Office of the Director, Financial Crimes Enforcement Network, Department of the Treasury, 2070 Chain Bridge Road, Vienna, VA 22182.
