DALLASFED ROUNDUP

Federal Reserve Bank of Dallas October 1984

"As-Of" Adjustment Policies Revised

Effective October 11, 1984, all Federal Reserve Banks will implement uniform policies in issuing and applying adjustments to reserve and clearing accounts held for depository institutions. Such adjustments are commonly referred to as "as-of" adjustments and are made to correct the cumulative effect of errors made either by Reserve Banks or by depository institutions. In addition to achieving more uniformity among Reserve Banks, implementation of these policies is intended to minimize the effects of these adjustments on the weekly monetary aggregates. The following describes policies that will be followed by all Reserve Banks.

General Provisions

When Reserve Banks make "as-of" adjustments for depository institutions, the effect is to either increase or decrease the cumulative amount of balances held with the Federal Reserve to meet reserve or clearing balance requirements. Generally, adjustments to correct for transaction-related errors will be made only when the original transaction is $10,000 or more. This minimum is applied because the cost of making an adjustment for less than this would exceed the value of the adjustment. "As-ofs" used for service pricing, such as float recovery, will not be subject to this minimum. In cases where offsetting "as-of" adjustments are to be made to the accounts of two depository institutions, the adjustment ordinarily will be applied simultaneously. This is intended to avoid the impact that mismatched adjustments would have on total reserve availability.

Transaction Errors

In addition to correcting the underlying error by making a debit or credit accounting entry, the Reserve Bank also will issue an "as-of" adjustment to correct the cumulative effect of the error. Such adjustments will be limited to cover a maximum period of 45 calendar days from the date of the error to the date the depository institution notifies the Reserve Bank.

In cases where both depository institutions agree to accept offsetting adjustments in the same reserve maintenance period, "as-of" adjustments may be made to correct errors of record—for example, when an institution transfers funds to the wrong institution. "As-of" adjustments generally will not be made to correct errors of omission—for example, when an institution fails to transfer funds to another institution. "As-of" adjustments will not be issued to reverse the effects of earlier "as-of" adjustments or to move excess reserves from one reserve period to another.

Data Reporting Errors

If it is necessary to revise a deposit report and correction of the error changes the reserve balance requirements, the Reserve Bank will issue "as-of" adjustments. These adjustments will be applied only to future reserve maintanance periods so that the institution will have advance notice of the effect on its reserve position.

Holiday Variances

In processing interdistrict cash letters, Federal Reserve System policy provides that an "as-of" adjustment will be made to cover cash letter credits when the Reserve Bank serving the receiving depository institution is closed on a holiday that is not observed by the processing Reserve Bank. The "as-of" adjustment ordinarily will be applied to the institution's account in the current reserve maintenance period. However, when the holiday occurs on Monday, Tuesday or Wednesday of the second week of the maintenance period, the "as-of" adjustment will be applied on the following Thursday—the first day of the next period. This policy is intended to avoid the impact such adjustments would otherwise have on the Federal Reserve's ability to manage overall reserve availability near the end of a reserve maintenance period.

Office Automation

The Federal Reserve System of the future

'When we get into an environment of interstate banking . . . district boundaries are going to be pretty much irrelevant.'

As the technologies of data processing and communications converge, the Automation Program Office, headquartered at the Dallas Fed, is charged with monitoring the development of computer applications and communications networks for the Federal Reserve System. The APO was created by the System's Committee on Automation and Communication Services, which is chaired by Dallas Fed First Vice President William H. Wallace. Eight major new standard applications are expected to be implemented in all 12 Federal Reserve Banks by late 1987. The program will have taken nearly 10 years, Wallace noted, and will have cost the System close to $300 million.

Three of the eight applications have already been installed: a bulk data utility system, which transmits large data files between Reserve Banks, an administrative message system, which delivers mail electronically, and a customer information system, which is a repository for data on financial institutions.

The other standard applications are: a new electronic funds transfer system; a securities transfer and record handling system; a new automated clearinghouse system, which will include electronic deposit and delivery of payment data; a new statistical reporting system for financial industry statistics and a new integrated accounting system.

"It's still a controversial program," Wallace said. "Some of the smaller Reserve Banks feel that they have been asked to spend a lot more money on computers than they otherwise would have.

"I feel they're wrong because when we get into an environment of interstate banking, we're going to have to have an accounting system that can instantly update anybody's reserve account from any location. I think district boundaries are going to be pretty much irrelevant 20 years out."

The eight new systems will tie into the Fed's existing data communication network, whose own growth parallels the rapid advance of communications and data processing technology. When the Federal Reserve System was begun in 1913, transferring funds meant using ground transportation to move currency from one location to another. In 1918, the first funds transfer network was a telegraph system connecting the Federal Reserve Banks, the Board of Governors and the Treasury Department. Later, teletype replaced Morse code as a means for funds transfer.

From this modest beginning, the Federal Reserve's communication network developed into the primary nationwide network for large dollar transfers and interbank settlements. Its uses expanded to include securities transfers, transmission of banking statistics for monetary policy purposes and many other types of transactions.

The Federal Reserve Communications Network for the Eighties, which went into operation in June 1982, supports over 4,400 on-line terminals, linking the Federal Reserve Banks, their 25 Branches, the Board of Governors, the Treasury, numerous regional check processing centers and 800 depository financial institutions. FRCS-80 is a multi-path packet-switching network which fragments messages into small sets of data, routes them automatically and reassembles them at their destination points.

"The network itself decides how to route the message," said First Vice President Wallace. "If the lines are busy from here directly to New York, it might automatically be sent to Cleveland and then to Boston and then to New York."

The replacement for FRCS-80 is already under study, according to Wallace, and may be in use by 1990.

"The next system will be a satellite communications system," he said. "We would rent space on a satellite and all messages (data, voice and video transmissions) would be beamed to the satellite and then back down. Each Federal Reserve Bank would have a dish on its roof."

"Two problems have held us back from going to satellite," Wallace said. "One is the delay in time because the information has to travel a much greater distance. Now there are ways of cutting out the time lag.

"The other problem has been data security. It is easier to tap information going to and from satellites than it is over leased lines. In order to get around that problem we are going to a system of data encryption. That way, it can be tapped but nobody will know what they've got."

Wallace stressed that, despite the technological advances and trend toward centralization, the Federal Reserve System will never lose its decentralized nature.

"One of the big sources of strength to the System over the long term is that we've been able to maintain that close liaison with the regions," he said.

"But the whole philosophy behind this automation program is that it is a standardized System. If all of us are handling similar functions and doing exactly the same things, the economics of the situation dictates that we do them in a standardized way."

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Electronic Fees

Basic transfer fee reduced; monthly connection fee fixed

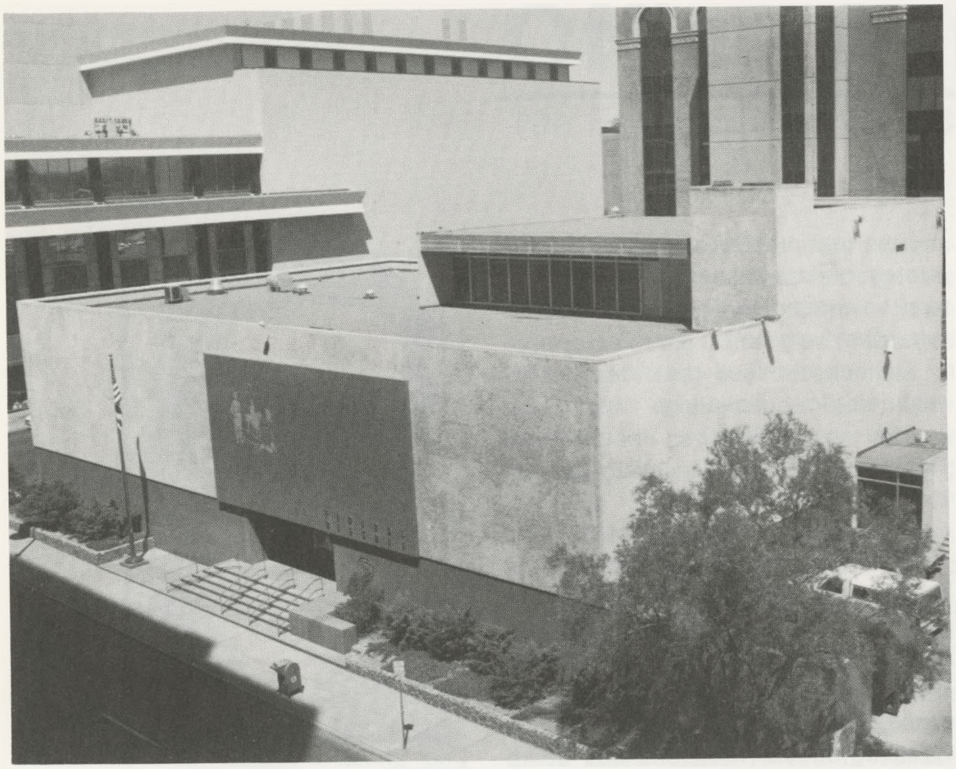
The Board of Governors has announced a reduction in the basic fee for the Federal Reserve's wire transfer of funds service and has approved the establishment of fixed monthly fees for institutions having electronic connections with the Federal Reserve for priced services.

Because of a net revenue surplus of $4.4 million reported by the Reserve Banks for the wire transfer of funds and net settlement between January and July 1984, the basic fee for sending or receiving a funds transfer was reduced to 60 cents per transfer from 65 cents.

The fixed monthly fees for institutions electronically connected to the Federal Reserve vary with the type of electronic connection. These fees will go into effect Jan. 2, 1985. The monthly fees for priced services excluding ACH connections are $300 for those with dedicated leased line connections to the Fed, $225 for those with multi-drop leased lines and $60 for institutions with dial-up lines.

The monthly fees for ACH connections are $240 for dedicated leased line connections and $48 for dial-up connections. These ACH connection fees reflect the 80 percent recovery rate for the service that is anticipated to be in effect during January 1985. Currently a daily fee of 75 cents is assessed for ACH electronic deliveries. This fee will be eliminated when the new fees go into effect.

Because the type of line used is related to the service level provided to the depository institution, the fixed monthly fees are based on type of electronic connection. Dedicated leased lines, which are used by only one institution, provide uninterruptable service and are typically the most costly type of connection. Multi-drop or shared leased lines are dedicated terminal connections where up to seven institutions use the same dedicated line to the Fed. Dial-up lines, which require an institution to dial a number at the Federal Reserve Bank to establish a connection, are shared by a large number of users.



The El Paso Branch, which serves the western part of Texas and the southern part of New Mexico, opened for business on June 17, 1918, in temporary quarters in the First National Bank Building in El Paso. The El Paso Branch moved to its present location at 301 East Main Street in the latter part of 1957.

Maximum Fee Ceiling Raised

The Director of the Division of Federal Reserve Bank Operations has reviewed and approved, under delegated authority, a proposal from the Subcommittee on Accounting Systems, Budgets and Expenditures to raise the maximum fee for drafts on accounts maintained with Reserve Banks (i.e. Fed funds checks). Effective October 1, 1984, the maximum fee will increase to $7 from $5.

CORRECTION: The average cost of money for savings and loan associations was incorrectly reported in last month's *Roundup*. The average cost of money for small thrifts is 10.937 percent of available funds, 9.738 percent for mid-size thrifts and 10.504 percent for large thrifts.

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