Information not marked as CBI will be included in the public docket and EPA's electronic public docket without prior notice. If you have any questions about CBI or the procedures for claiming CBI, please consult the person listed under **FOR FURTHER INFORMATION CONTACT**.

E. What Should I Consider as I Prepare My Comments for EPA?

You may find the following suggestions helpful for preparing your comments:

1. Explain your views as clearly as possible.
2. Describe any assumptions that you used.
3. Provide copies of any technical information and/or data you used that support your views.
4. If you estimate potential burden or costs, explain how you arrived at the estimate that you provide.
5. Provide specific examples to illustrate your concerns.
6. Offer alternative ways to improve the notice.
7. Make sure to submit your comments by the deadline in this document.
8. To ensure proper receipt by EPA, be sure to identify the docket ID number assigned to this action in the subject line on the first page of your response. You may also provide the name, date, and **Federal Register** citation.

II. Background

Syngenta Seeds, 3054 Cornwallis Road, Research Triangle Park, North Carolina 27709–2257, has applied for an EUP for field testing of the plant-incorporated protectant *Bacillus thuringiensis* VIP3A insect control protein as expressed in cotton plants. The proposed states are Alabama, Arizona, Arkansas, California, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Texas. The total acreage for this plant-incorporated protectant EUP will be 904.5.

III. What Action is the Agency Taking?

Following the review of the Syngenta Seeds application and any comments and data received in response to this notice, EPA will decide whether to issue or deny the EUP request for this EUP program, and if issued, the conditions under which it is to be conducted. Any issuance of an EUP will be announced in the **Federal Register**.

IV. What is the Agency's Authority for Taking this Action?

The Agency's authority for taking this action is under 40 CFR part 172.

List of Subjects

Environmental protection, Experimental use permits.

Dated: October 29, 2002.

Janet L. Andersen,

Director, Biopesticides and Pollution Prevention Division, Office of Pesticide Programs.

[FR Doc. 02–28356 Filed 11–6–02; 8:45 am]

BILLING CODE 6560–50–S

FEDERAL RESERVE SYSTEM

[Docket No. R–1133]

Federal Reserve Bank Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice.

SUMMARY: The Board has approved the fee schedules for Federal Reserve priced services and electronic connections and a private-sector adjustment factor (PSAF) for 2003 of $171.7 million. 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 new fee schedules become effective January 2, 2003.

FOR FURTHER INFORMATION CONTACT: For questions regarding the fee schedules: Joseph Baressi, Financial Services Analyst, (202/452–3959); William Driscoll, Financial Services Analyst, check payments, (202/452–3117); Edwin Lucio, Financial Services Analyst, ACH payments, (202/736–5636); Gregory Cannella, Financial Services Analyst, Fedwire funds transfer, Fedwire securities, and noncash collection services, (202/530–6214); Marybeth Butkus, Senior Financial Services Analyst, special cash services, (202/452–3917); or Amy Pierce, Senior IT Analyst, electronic connections, (202/736–5675), Division of Reserve Bank Operations and Payment Systems. For questions regarding the PSAF: Brenda Richards, Senior Financial Analyst, (202/452–2753) or Gregory Evans, Manager, Financial Accounting, (202/452–3945), Division of Reserve Bank Operations and Payment Systems. For users of Telecommunications Device for the Deaf (TDD) *only,* please call 202/263–4869. Copies of the 2003 fee schedules for the check service are available from the Board, the Federal Reserve Banks, or the Reserve Banks' financial services Web site at *http://www.frbservices.org.*

SUPPLEMENTARY INFORMATION:

I. Priced Services

A. Discussion

Over the period 1992 through 2001, the Reserve Banks recovered 99.8 percent of their total costs for providing priced services, including special project costs, imputed expenses, and targeted after-tax profits or return on equity (ROE).[1]

Table 1 summarizes the priced services' actual, estimated, and budgeted cost recovery rates for 2001, 2002, and 2003 respectively. Cost recovery is estimated to be 92.2 percent in 2002 and budgeted to be 94.4 percent in 2003. The aggregate cost-recovery rates are heavily influenced by the performance of the check service, which accounts for approximately 85 percent of the total cost of priced services. The electronic services (FedACH, Fedwire funds transfer, Fedwire securities, and national settlement) account for approximately 15 percent of costs, while noncash and special cash services represent a de minimis amount.

[1] Imputed costs, such as taxes that would have been paid and return on equity that would have been provided had the services been furnished by a private business firm, are referred to as the private-sector adjustment factor (PSAF). The ten-year recovery rate is based upon the pro forma income statements for Federal Reserve priced services published in the Board's *Annual Report.* Beginning in 2000, the PSAF included additional financing costs associated with pension assets attributable to priced services. This ten-year cost recovery rate has been computed as if these costs were not included in the PSAF calculations prior to 2000. If these costs were included in the calculations, and assuming that the Reserve Banks would not have made any contemporaneous cost or revenue adjustments, the 10-year recovery rate would be 98.7 percent.

TABLE 1.—PRO FORMA COST AND REVENUE PERFORMANCE

[$ millions]

Year	1[a] Revenue	2[b] Total expense	3 Net income (ROE) [1–2]	4[c] Target ROE	5 Recovery rate after target ROE [1/(2+4)]
2001	960.4	901.9	58.5	109.2	95.0%
2002 (Estimate)	912.9	898.0	14.8	92.5	92.2%
2003 (Budget)	933.7	883.9	49.8	104.7	94.4%

[a] Includes net income on clearing balances (NICB). Clearing balances, net of imputed reserve requirements and balances used to finance priced-services assets, are assumed to be invested in three-month Treasury bills. NICB equals the income from this imputed investment less earnings credits granted to clearing balance holders at the federal funds rate.

[b] The calculation of total expense includes operating expenses and imputed expenses. Imputed expenses include taxes, FDIC insurance, Board of Governors priced services expenses, the cost of float, and interest on imputed debt, if any. Credits related to the accounting for pensions under FAS 87 are also included.

[c] Target ROE is the ROE included in the PSAF.

Table 2 presents an overview of the 2001 actual, budgeted 2002, estimated 2002, and projected 2003 cost recovery performance by category of priced service.

TABLE 2.—PRICED SERVICES COST RECOVERY

[Percent]

Priced service	2001 Actual	2002 Budget	2002 Estimate	2003 Budget
All services	95.0	96.4	92.2	94.4
Check	93.9	95.5	90.9	93.0
ACH	103.7	101.4	102.5	101.6
Fedwire funds transfer	99.5	101.1	95.9	104.1
Fedwire securities	90.2	100.4	98.7	104.9
Noncash collection	111.9	94.3	93.1	110.3
Special cash	103.3	103.4	91.1	77.5

1. *2002 Estimated Performance*—In 2002, the Reserve Banks estimate that they will recover 92.2 percent of the costs of providing priced services, compared with the budgeted recovery rate of 96.4 percent. The Reserve Banks expect to recover fully actual and imputed expenses, earning net income of $14.8 million, which is $77.7 million less than the budgeted net income, or ROE, of $92.5 million. The shortfall from the 2002 budget is largely driven by declining check volume. The Reserve Banks estimate that check revenue in 2002 will be $45.3 million below budget. Though the Reserve Banks have taken steps to reduce check operating costs, these reductions are largely offset by increases in non-operating factors.

Forward-processed check volume in 2002 was budgeted to be 2.9 percent higher than in 2001. The Reserve Banks now estimate, however, that 2002 volume will be 1.8 percent lower than in 2001. Even this estimate may be optimistic, as processed check volume through August 2002 is 3.4 percent below 2001 volume for the same period. The deterioration in the Reserve Banks' check volume appears to be consistent with nationwide trends away from check use and toward greater use of electronic payment methods. The Federal Reserve System's recent retail payments research shows that the number of checks written in the United States appears to have been declining since the mid-1990s.[2] Lower volumes in 2002 may also have been influenced by slower growth in the overall economy.

2. *2003 Projected Performance*—For 2003, the Reserve Banks project a priced services cost recovery rate of 94.4 percent, with net income of $49.8 million, as compared to target net income, or ROE, of $104.7 million. The primary factor affecting 2003 cost recovery is the continued check volume decline.

The primary risks to the Reserve Banks' ability to achieve their budget targets are (1) cost overruns in the check modernization projects, (2) significantly lower-than-projected returns on pension assets, and (3) a steeper decline in the Reserve Banks' check volume than the projected 2.8 percent annual decline.[3] To address the apparent continuing decline in check volumes, the Reserve Banks are developing a business and operational strategy that will position the service to achieve its financial and payment system objectives over the long term.

3. *2003 Pricing*—The following summarizes the Reserve Banks' changes in fee structures and levels for priced services:

Check

- The Reserve Banks are raising fees for forward-collection check products 2.5 percent, return check products 4.0 percent, and payor-bank check products 4.8 percent compared with January 2002 fees.

[2] Gerdes, Geoffrey R. and Jack K. Walton II, ''The Use of Checks and Other Noncash Payment Instruments in the United States,'' Federal Reserve Bulletin, August 2002, pp. 360–374. (This article is available on line at *www.federalreserve.gov/pubs/bulletin/default.htm*). During the late 1990s, the volume of checks processed by the Reserve Banks rose, albeit slowly, which implies that the proportion of interbank checks cleared through the Reserve Banks increased.

[3] Check modernization is a multiyear initiative to standardize the processing of checks at all Reserve Banks, adopt a common platform for processing and researching check-adjustment cases, create a national system for archiving and retrieving check images, and deliver check services to depository institutions using web technology. Check modernization should improve the operational efficiency and cost-effectiveness of the Reserve Banks' check services once fully implemented. It will also improve the consistency, quality, and uniformity of the check services that Reserve Banks deliver to their customers and allow new services to be developed and deployed more quickly.

• Since 1996, the price index for check services has increased 31 percent.[4]

FedACH

• The Reserve Banks will (1) Retain current per-item origination fees for items in large files, (2) reduce per-item origination fees for items in small files from $0.004 to $0.003, and (3) reduce per-item receipt fees (for all items) from $0.0035 to $0.0025.[5]

• The ACH price index has decreased 61 percent since 1996.

Fedwire Funds Transfer and National Settlement Services[6]

• The Reserve Banks will reduce fees in all volume tiers: from $0.31 to $0.30 per transfer if less than 2,501 transfers per month, from $0.22 to $0.20 per transfer if between 2,501 and 80,000 transfers per month, and from $0.15 to $0.10 per transfer if more than 80,000 transfers per month.

• The price index for Fedwire funds transfer and national settlement services has decreased 60 percent since 1996.

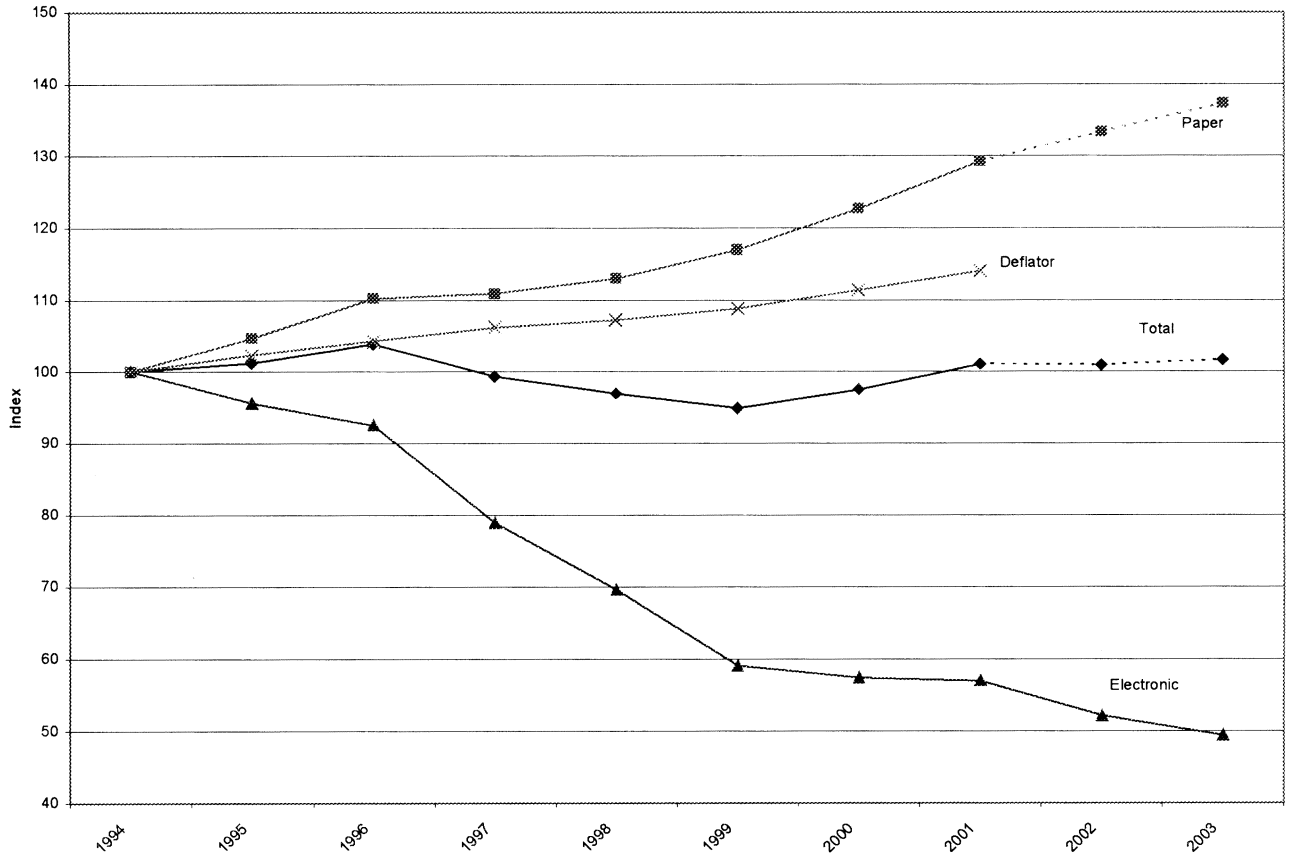
Fedwire Securities Service

• The Reserve Banks will reduce the on-line transfer origination and receipt fees from $0.66 to $0.40.

• The price index for the Fedwire securities service has decreased 34 percent since 1996.

4. *2003 Price Index*—The price index for electronic payment services (ACH, Fedwire funds transfer and national settlement, Fedwire securities, and electronic check) and electronic connections is projected to decline 5 percent in 2003. By contrast, the index for paper-based payment services (check, special cash, and noncash collection) is expected to increase about 3 percent in 2003. The overall 2003 price index for all Federal Reserve priced services is projected to increase less than 1 percent. Since 1996, the overall price index has declined by about 2 percent. Figure 1 compares the Federal Reserve's price index for priced services with the GDP price deflator.

FIGURE 1
FEDERAL RESERVE PRICE INDEX
Chained Fisher ideal index compared with GDP price deflator



B. Check

Table 3 shows the actual 2001, estimated 2002, and projected 2003 cost-recovery performance for the check service.

[4] The price index estimates are based on a chained Fisher ideal price index. This index is not adjusted for quality changes in Federal Reserve priced services. Data elements used in calculating the index include explicit fee revenue from priced services and volumes associated with those services. For 2003, the year-over-year percentage change in the index is based on a comparison of the 2003 projections with the 2002 estimates for priced services revenues and volumes. The price index is calculated based on 1994–2001 actual, 2002 estimated, and 2003 projected revenues and volumes.

[5] Files containing fewer than 2,500 items are small; files with 2,500 or more items are large.

[6] The name of the net settlement service was changed to national settlement service effective August 2002.

TABLE 3.—CHECK PRO FORMA COST AND REVENUE PERFORMANCE

[$ millions]

Year	1 Revenue	2 Total expense	3 Net income (ROE) [1–2]	4 Target ROE	5 Recovery rate after target ROE [1/(2+4)]
2001	793.2	754.4	38.9	90.2	93.9%
2002 (Estimate)	760.0	758.3	1.7	78.2	90.9%
2003 (Budget)	789.0	758.7	30.3	89.4	93.0%

1. *2001 Performance*—The check service recovered 93.9 percent of total costs in 2001, including imputed expenses and targeted ROE, which was below the targeted recovery rate of 97.6 percent. The volume of checks collected decreased 0.5 percent from 2000 levels, partly because of a decline in fine-sort volumes as banks presented more checks directly. Revenue grew from 2000 levels primarily because of price increases, but revenue was $22 million below the budgeted amount. Costs exceeded the budgeted amount by $18.5 million because of lower-than-budgeted pension credits, somewhat offset by lower-than-budgeted check modernization costs.

2. *2002 Performance*—Through August 2002, the check service has recovered 93.0 percent of total costs, including imputed expenses and targeted ROE. For the full year, the Reserve Banks expect to recover all direct and indirect costs of providing check services and a modest portion of the targeted return on equity. Specifically, the Reserve Banks estimate that the check service will recover 90.9 percent of its total costs for the full year compared with the budgeted 2002 recovery rate of 95.5 percent, amounting to a $39 million shortfall.[7] The lower-than-budgeted recovery rate is primarily due to lower-than-budgeted revenues. Service revenue is estimated to be $57 million below budget, due to lower-than-expected volume in forward-collection, return-collection, and electronic check products. Additionally, in the current low-interest-rate environment, depository institutions select lower-priced, later-availability check products. Major factors are summarized in Table 4.

TABLE 4.—CHECK 2002 BUDGET VS. 2002 ESTIMATE

[millions of dollars]

	Budget	Estimate	Variance
Operating revenue	820.0	763.3	−56.7
NICB	−14.7	−3.3	−11.4
Total revenue	805.3	760.0	−45.3
Operating costs	692.2	681.0	11.3
Check modernization	106.2	101.4	4.8
Pension credits	−66.6	−41.0	−25.7
PSAF	111.2	95.1	16.1
Total cost	843.0	836.4	6.5
Net revenue	−37.7	−76.5	−38.8
Recovery rate (percent)	95.5	90.9	.....

Reserve Banks expect lower-than-budgeted pension credits to offset estimated local cost reductions of $27 million. The estimated full-year recovery rate is lower than the rate through August as severance expenses are recognized and data processing and data communications charges increase during the fourth quarter.

The volume of checks handled by the Reserve Banks has declined (as shown in table 5) reflecting a broader market trend in which the number of checks written each year appears to be declining, as discussed in a recent Federal Reserve check study.[8] Year-to-date forward-collection check product volume through August, excluding electronic fine sort volume, declined 3.6 percent, compared with the 0.6 percent increase for the similar period last year.[9] For the full year 2002, the Reserve Banks estimate that forward-processed volume will decline 1.8 percent, compared with a budgeted 2.9 percent growth rate. (The decline is due to lower local volumes, partly offset by higher nonlocal volumes, from both large and small banks.) The full-year rate of decline is less than the decline to date because of recent volume growth in several Districts. There is some risk, however, that the full-year rate of decline may exceed the estimate. Return-check volume has declined 3.8 percent through August 2002, and full-year volume is expected to decline 4.7 percent, as depository institutions seek alternative ways to return checks at

[7] The cost-recovery estimate does not reflect reduced depreciation expense for some check-sorting equipment of approximately $1 million, resulting from a recent System re-evaluation of the useful life of such equipment.

[8] Gerdes, Geoffrey R. and Jack K. Walton II, ''The Use of Checks and Other Noncash Payment Instruments in the United States,'' Federal Reserve Bulletin, August 2002, pp. 360–374.

[9] Electronic fine-sort is a service offered by two Reserve Banks that allows depository institutions to exchange fine-sort information electronically with paper checks to follow. Presentment occurs when the paper checks are delivered.

lower cost because of the Reserve Banks' continuing price increases for return products.

continuing price increases for return products.

TABLE 5.—PAPER CHECK PRODUCT VOLUME CHANGES

[percent]

	Budgeted 2002 change	Year-to-date change through August 2002	Estimated 2002 change
Total forward-collection [a]	3.6	−3.6	−1.7
Forward-processed	2.9	−3.4	−1.8
Fine-sort [a]	13.1	−6.5	0.0
Returns	−2.3	−3.8	−4.7

[a] These rates exclude electronic fine-sort volume. Including the electronic fine-sort product, fine-sort volume growth was budgeted to increase 8.7 percent in 2002 and is now estimated to increase 9.0 percent.

Reversing a trend over the past few years, electronic check volumes have declined. Recent data are summarized in table 6. Reserve Banks provide payor banks with electronic check data or images for about 38 percent of the checks they collect. Year-to-date 2002 image volumes have declined about 5 percent, to approximately 884 million check images, which represents about 8.4 percent of all checks collected by the Reserve Banks. The decline in image volume, compared with the target growth of 25.6 percent, is likely due to delays in implementing FedImage services.[10] The Board believes that Reserve Banks' estimates for electronic check service volume for the full year, which reflect a higher rate of growth than experienced through August, may be somewhat optimistic.

TABLE 6.—ELECTRONIC CHECK PRODUCT SHARE AND VOLUME CHANGES

	Volume change through August 2002 (percent)	Estimated 2002 change (percent)	Share of checks collected through August 2002 (percent)
Electronic check presentment	−2.4	−0.2	23.0
Truncation	−6.1	−5.6	5.3
Non-truncation	−0.2	1.5	17.6
Electronic check information	−10.4	−8.8	6.7
Images	−4.8	1.9	8.4

3. *2003 Pricing*—For the coming year, the Reserve Banks will continue to focus on check modernization initiatives to standardize check processing across all Reserve Bank offices. The Reserve Banks will incur significant transition costs associated with these initiatives, at least through 2003 (costs in 2003 are discussed below). These initiatives, however, are expected to reduce steady-state production costs and improve service over the long term.

In 2003, fees for all check products are increasing 2.8 percent on a volume-weighted basis compared with current fees, as shown in table 7.[11] Forward-collection fee increases of 2.5 percent are composed of an increase in forward-processing cash letter fees of 10 percent and per-item fee increases of 1.5 percent. The average volume-weighted fees for payor bank services will increase 4.8 percent compared with current fees. Fees for electronic check products are increasing faster than fees for paper check products because the Reserve Banks are instituting more consistent fees for these products that better reflect the value they provide to depository institution customers.

TABLE 7.—2003 FEE CHANGES

[percent]

Product	Fee change
Total check service	2.8
Forward-collection	2.5
Returns	4.0
Payor bank services	4.8
Electronic check presentment	7.1
Electronic check information	7.3
Image services	4.0

Table 8 summarizes ranges of selected check fees for 2002 and 2003, and shows 2003 price changes in bold type.

TABLE 8.—SELECTED CHECK FEES

	Current fee ranges	2003 fee ranges
Items:	(per item)	(per item)
Forward-processed:		
City	$0.005 to 0.079	$0.005 to 0.080

[10] The rollout of Reserve Bank FedImage services has taken longer than expected due to complexities associated with developing the application.

[11] This discussion evaluates volume-weighted changes in the direct fees for check products. The price index, discussed earlier, evaluates the average change in costs that would be incurred by a customer purchasing an average market basket of Federal Reserve check products.

TABLE 8.—SELECTED CHECK FEES—Continued

	Current fee ranges	2003 fee ranges
RCPC	0.003 to 0.350	0.003 to 0.340
Forward fine-sort:		
City	0.005 to 0.021	0.005 to 0.021
RCPC	0.005 to 0.036	0.005 to 0.036
Qualified returned checks:		
City	0.08 to 0.80	0.08 to 0.80
RCPC	0.10 to 1.10	0.10 to 1.10
Raw returned checks:		
City	1.50 to 5.00	1.50 to 5.00
RCPC	1.30 to 5.00	1.30 to 5.00
Consolidated shipment [a]	0.004 to 0.036	0.004 to 0.036
Cash letters:	(per cash letter)	(per cash letter)
Forward-processed [b]	2.00 to 36.00	2.00 to 37.00
Forward fine-sort	4.00 to 14.00	6.00 to 14.00
Returned checks: raw/qualified	2.25 to 14.00	2.00 to 16.00
Payor bank services:	(Fixed) (per item)	(Fixed) (per item)
MICR information	2–15 0.0030–0.0170	5–15 0.0030–0.0150
Electronic presentment	1–12 0.0005–0.0130	2–15 0.0005–0.0110
Truncation	2–7 0.0020–0.0180	2–7 0.0020–0.0180
Image capture	2–15 0.0020–0.0170	2–15 0.0020–0.0150
Image delivery	Varies [c] 0.0020–0.0080	Varies [c] 0.0020–0.0080
Image archive	N/A 0.0010–0.0060	N/A 0.0007–0.0060
Image retrieval	N/A 0.25–5.00	N/A 0.30–5.00

Note: Bold indicates change from 2002 prices.
[a] Per-item fees for consolidated shipments include a half mill surcharge due to higher fuel costs.
[b] Cash letter fees for forward-processed items transported by the Reserve Banks include a fifty-cent surcharge due to higher fuel costs.
[c] Fixed fee varies by media type.

4. *2003 Projected Cost Recovery*—For 2003, the Reserve Banks project that the check service will recover 93.0 percent of total costs, including imputed expenses, costs associated with the check modernization project, and targeted ROE. In total, the Reserve Banks expect to recover all direct and indirect costs of providing check services, but only a portion of targeted return on equity.

Total adjusted costs before taxes are projected to increase approximately $6.8 million, or 0.8 percent, from estimated 2002 expenses.[12] These costs for 2003 include $102.8 million in costs for the four check modernization projects, representing an increase of $1.5 million over the 2002 estimate. Budgeted 2003 local costs, aside from local check modernization costs and offsets, are $18.2 million lower than 2002 estimated costs, a 3.1 percent reduction, which slightly exceeds the projected percentage decline in forward-processed volume.

Total check revenue is projected to increase $29 million, or 3.8 percent, from the 2002 estimate due to increased fees for payor-bank products and return-check products. (Increases in fees for forward-collection products are projected to be more than offset by lower volumes and shifts to lower-priced products due to low interest rates.) In 2003, revenues from paper-based services, electronic services, and other operating and imputed revenues are expected to represent about 83 percent, 12 percent, and 5 percent, respectively, of the check service's budgeted $789.0 million in revenue.

In 2003, forward-processed check volume is projected to be 14.4 billion, a decrease of 2.7 percent compared with the 2002 estimate, with the decline coming mostly from large banks, perhaps partly due to their customers' shift to electronic payment instruments. Fine-sort check volume is expected to continue to decline by 41 million checks, or 3.7 percent, from the 2002 estimate. Total returns are projected to be 166 million, a decrease of 2.3 percent compared with the 2002 estimate.

The Reserve Banks expect an increase in payor-bank service volumes. The Reserve Banks project electronic presentment volume to increase 5.5 percent in 2003 and truncation volume to increase 0.9 percent. Image services volume is projected to grow 8.4 percent in 2003, compared with an estimated 2002 increase of 1.9 percent. Image volume growth is expected to be driven by the increased functionality of FedImage services (for example, electronic access to archived check images using web technology). MICR information volume is projected to increase 0.2 percent in 2003, compared with a 9 percent decline estimated for 2002.

The Board believes that the greatest risks to achieving the projected cost-recovery rate for the check service of 93.0 percent are (1) challenges in meeting System volume projections and related revenue projections, (2) challenges in reducing local costs as budgeted, (3) potential downward revisions to priced pension credits, and (4) potential check modernization cost overruns.

C. Automated Clearinghouse (ACH)

Table 9 presents the actual 2001, estimated 2002, and projected 2003 cost-recovery performance for the commercial ACH service.

[12] This estimate does not reflect reduced depreciation expense for check sorting equipment of approximately $3.5 million, resulting from a recent System re-evaluation of the useful life of such equipment.

TABLE 9.—ACH PRO FORMA COST AND REVENUE PERFORMANCE

[$ millions]

Year	1 Revenue	2 Total expense	3 Net income (ROE) [1–2]	4 Target ROE	5 Recovery rate after target ROE [1/(2+4)]
2001	79.4	67.7	11.8	8.9	103.7%
2002 (Estimate)	70.8	62.6	8.2	6.5	102.5%
2003 (Budget)	69.9	61.2	8.7	7.5	101.6%

1. *2001 Performance*—In 2001, the ACH service recovered 103.7 percent of total expenses, including imputed costs and targeted ROE, compared with a targeted recovery rate of 101.3 percent. Commercial ACH volume was 16.2 percent higher than 2000 volume, compared with the 11.1 percent increase originally projected for 2001. The Reserve Banks changed their prices on October 1, 2001, to reflect better the cost structure of the ACH service, which is characterized by high fixed and low variable costs. The Reserve Banks decreased per-item fees for large-volume files and increased monthly fixed fees, thereby lowering overall fees to large and medium-sized customers. Also on October 1, the Reserve Banks implemented pricing agreements with other ACH operators for interoperator ACH transactions. Under the new interoperator agreements, the Reserve Banks stopped charging per-item fees to depository institutions that are customers of other ACH operators. Instead, the Reserve Banks and the other ACH operators began to charge each other fees for interoperator transactions. Thus, for ACH items originated by a Reserve Bank customer but sent to a customer of another ACH operator, the Reserve Banks now pay a fee to the other operator and no longer assess per-item fees to that ACH operator's customer.

2. *2002 Estimate*—The Reserve Banks estimate that the ACH service will recover 102.5 percent of total expenses in 2002, compared with the budgeted recovery rate of 101.3 percent. The difference from targeted recovery rate is mainly due to higher-than-projected volume. The $5.1 million year-over-year expense decrease results primarily from consolidating the twelve Districts' ACH customer support operations into two offices. On February 1, 2002, the Reserve Banks reduced fees to reflect lower operating costs following the consolidation. Despite this price reduction, total revenue is projected to be $4.3 million or 6.5 percent above the 2002 budget figure.

The Reserve Banks estimate that their 2002 commercial ACH volume will be 9.1 percent higher than experienced in 2001, which is 20.3 percent higher than budgeted. Year-to-date through August 2002, the Reserve Banks' ACH volume increased 10.8 percent from the same period in 2001. The full-year projection reflects the Reserve Banks' expectation that some large depositors will continue to shift some volume to another ACH operator, or at least split their transactions between the Federal Reserve and another operator.

3. *2003 Pricing*—The Reserve Banks project that the ACH service will recover 101.6 percent of its costs in 2003 including imputed expenses and targeted ROE. For the third time since January 2001, the Reserve Banks are reducing fees, which would decrease revenue by 1.3 percent from the 2002 estimate. The fee to originate items in files with fewer than 2,500 transactions will be reduced from $0.004 to $0.003, and the receipt fee for all items will be reduced from $0.0035 to $0.0025. These changes should reduce costs for low-to medium-volume customers. Assuming constant volume, the lower fees would reduce revenue by $5.4 million. The Reserve Banks expect a 3.7 percent increase in transaction volume, reflecting growth of at least that amount in nationwide use of ACH transactions, however, which would offset somewhat the revenue effect from the lower fees. The Board believes that the Reserve Banks' volume and revenue projections are reasonable.

D. Fedwire Funds Transfer and National Settlement

Table 10 presents the actual 2001, estimated 2002, and projected 2003 cost-recovery performance for the funds transfer and national settlement services.

TABLE 10.—FEDWIRE FUNDS AND NATIONAL SETTLEMENT SERVICE PRO FORMA COST AND REVENUE PERFORMANCE

[$ millions]

Year	1 Revenue	2 Total expense	3 Net income (ROE) [1–2]	4 Target ROE	5 Recovery rate after target ROE [1/(2+4)]
2001	63.8	56.7	7.1	7.4	99.5%
2002 (Estimate)	56.0	53.0	3.0	5.5	95.9%
2003 (Budget)	51.9	44.5	7.4	5.4	104.1%

1. *2001 Performance*—The funds transfer and national settlement service recovered 99.5 percent of total costs in 2001, including imputed expenses and targeted ROE, below the targeted recovery rate of 101.2 percent. Expenses for 2001 were $1.6 million (2.5 percent) more than original budget projections, primarily because of higher-than-anticipated Federal Reserve Information Technology costs, while service revenue was only $0.6 million (1.0 percent) more than original budget projections.

2. *2002 Performance*—Through August 2002, the funds transfer and

national settlement services recovered 100.0 percent of total costs, including imputed expenses and targeted ROE. For full-year 2002, the Reserve Banks estimate that the funds transfer and national settlement services will recover 95.9 percent of total expenses, compared with a targeted recovery rate of 101.1 percent. The underrecovery is attributed to several factors, including lower pension credits, an unbudgeted FedLine for Web project, and a FedLine for Windows write-off. Funds transfer volume through August has decreased 0.5 percent relative to the same period in 2001. For the full year, the Reserve Banks estimate a 0.5 percent volume decrease, compared with a budgeted decline of 1.1 percent.

3. *2003 Fedwire Funds Transfer Pricing*—The Reserve Banks are maintaining the current thresholds for volume-based discounts but reducing the per-transfer fees for each threshold. Specifically, the Reserve Banks are lowering the transfer fee for the first volume tier (≤2,500 transfers per month) $0.01 from $0.31 to $0.30 (3.0 percent), lowering the transfer fee for the second volume tier (2,501–80,000 transfers per month) $0.02 from $0.22 to $0.20 (9.1 percent), and lowering the transfer fee for the third volume tier (>80,000 transfers per month) $0.05 from $0.15 to $0.10 (33.3 percent). The average (volume-weighted) per-transfer price would decline from its current level of $0.2009 to $0.1679 (16.4 percent). In addition, the Reserve Banks are retaining the off-line surcharge at its current level.

Reserve Banks project that the Fedwire funds transfer service will recover 104.1 percent of total costs in 2003, including imputed expenses and targeted ROE. Total costs are expected to decline $8.6 million (14.7 percent) from the 2002 estimate because of lower data communications charges and the full-year effect of savings from the consolidation of local on-line operations support.[13] Volume for 2003 is expected to remain flat compared with the 2002 estimate. The Reserve Banks project total funds transfer revenue to decline by $4.1 million (7.4 percent) in 2003 from the 2002 estimate primarily because of the effect of the 2003 price reductions, which is partially offset by increases in electronic connection revenue and NICB. The Board believes that the Reserve Banks' projections for 2003 funds transfer volume and revenue are reasonable.

4. *2003 National Settlement Service Pricing*—Continued consolidations among check clearinghouses in 2003 that use the national settlement service are expected to decrease transaction volume. The Reserve Banks expect this decrease to be offset by volume from new customers such as securities exchanges and card networks. On balance, the Reserve Banks are retaining the current national settlement service fees for 2003. In addition, the Reserve Banks will retain the monthly $60 minimum account maintenance fee per arrangement. The Reserve Banks expect settlement entry and file volumes to remain stable in 2003 compared with the 2002 estimate.

E. Fedwire Securities Service[14]

Table 11 presents the actual 2001, estimated 2002, and projected 2003 cost-recovery performance for the Fedwire securities service.[15]

TABLE 11.—FEDWIRE SECURITIES SERVICE PRO FORMA COST AND REVENUE PERFORMANCE

[$ millions]

Year	1 Revenue	2 Total expense	3 Net income (ROE) [1–2]	4 Target ROE [1/(2+4)]	5 Recovery rate after target ROE
2001	19.7	19.5	0.2	2.3	90.2%
2002 (Estimate)	23.2	21.3	1.9	2.2	98.7%
2003 (Budget)	20.6	17.4	3.2	2.2	104.9%

1. *2001 Performance*—The Fedwire securities service recovered 90.2 percent of total costs in 2001, including imputed expenses and targeted ROE, below the target recovery rate of 95.6 percent. Total costs for 2001 were $0.9 million (4.4 percent) more than budgeted, and service revenue was approximately $0.3 million (1.4 percent) less than budgeted. The lower revenue was due to the delay in the scheduled addition of Ginnie Mae securities to the service caused by the events of September 11. Total securities transfer volume increased 18.8 percent from the 2000 level.

2. *2002 Performance*—Through August 2002, the Fedwire securities service recovered 98.7 percent of total costs, including imputed expenses and targeted ROE. For full-year 2002, the Reserve Banks estimate that the Fedwire securities service will also recover 98.7 percent of total costs, compared with a targeted recovery rate of 100.4 percent. The underrecovery is attributed to several factors, including unbudgeted costs associated with the postponed addition and testing of Ginnie Mae securities, the FedLine for the Web project, and a write-off associated with the FedLine for Windows project.

Through August 2002, total Fedwire securities transfer volume has increased 22.5 percent compared with volume during the same period in 2001. For the full year, the Reserve Banks estimate that total Fedwire securities volume will increase 25.4 percent from 2001, compared with a budgeted 21.0 percent increase. The increased volume is primarily due to the addition of Ginnie Mae securities to the Fedwire securities service earlier this year. Higher-than-anticipated mortgage refinancing activity has also contributed to the overall increase in volume.

3. *2003 Pricing*—The Reserve Banks are reducing the on-line transfer origination and receipt fee $0.26 from $0.66 to $0.40 (39.4 percent) and lowering the per-issue, per-account

[13] Specifically, the Reserve Banks consolidated on-line funds transfer operations to two sites and consolidated computer interface testing. The consolidation began in September 2001 and was completed in May 2002.

[14] Includes purchase and sale activity.

[15] The Reserve Banks provide securities transfer services for securities issued by the U.S. Treasury, federal government agencies, government-sponsored enterprises, and certain international institutions. The priced component of this service, reflected in this memorandum, consists of revenues, expenses, and volumes associated with the transfer of all non-Treasury securities. For Treasury securities, the U.S. Treasury assesses fees for the securities transfer component of the service. The Reserve Banks assess a fee for the funds settlement component of a Treasury securities transfer, this component is not treated as a priced service.

maintenance fee $0.01 from $0.41 to $0.40 (2.4 percent). The Reserve Banks are retaining the off-line surcharge and account maintenance fee at their current levels. In addition, the Reserve Banks implemented a new automated claim adjustment processing feature to support automated claim adjustments related to failed securities transactions, interim accounting for securities with an accrual date different than the record date, and repurchase agreement tracking.[16] Phased in during the past year, this new feature allows participants to add information to transfer messages that the Fedwire securities service can use to calculate cash payments owed to counterparties involved with related transfers. Only participants that use this functionality (currently fewer than 100) will be charged a fee. The Reserve Banks are establishing a $0.38 fee per automated claim adjustment entry.

With the consolidation of operational support for processing joint custody collateral, costs for this labor-intensive product can be clearly identified and explicitly recovered by a new surcharge. The Reserve Banks, therefore, are establishing a $22.00 surcharge per customer-initiated joint custody account withdrawal, effective July 2003.

After many years of declining volume, the business of executing orders for the purchase and sale of Fedwire-eligible securities by the Reserve Banks will be discontinued as of year-end 2002. Banking industry consolidation and the availability of discount brokerage services have reduced significantly the need for the Reserve Banks to continue this accommodation for customers. The purchase and sale activity represents less than 0.5 percent of the costs and revenues of the securities service line.

The Reserve Banks project that the Fedwire securities service will recover 104.9 percent of costs in 2003, including imputed expenses and targeted ROE. Total costs are expected to decline $3.9 million (16.5 percent) from the 2002 estimate, primarily due to lower data communication charges, and the full-year impact of savings from the consolidation of local on-line operations support.[17] The Board believes that the 2003 cost projections are reasonable.

The Reserve Banks project that the volume of agency securities transfers in 2003 will increase 4.3 percent from the 2002 estimate and total revenue will decrease 11.2 percent from the 2002 estimate. The volume increase is primarily due to the full-year effect of adding Ginnie Mae securities to the service.[18] The Board believes the 2003 securities volume and revenue projections are reasonable.

F. Noncash Collection Service

Table 12 lists the actual 2001, estimated 2002, and projected 2003 cost-recovery performance for the noncash collection service.

TABLE 12.—NONCASH COLLECTION PRO FORMA COST AND REVENUE PERFORMANCE

[$ millions]

Year	1 Revenue	2 Total expense	3 Net Income (ROE) [1 − 2]	4 Target ROE	5 Recovery rate after target ROE [1/(2+4)]
2001	2.0	1.6	0.4	0.2	111.9%
2002 (Estimate)	1.6	1.5	0.0	0.2	93.1%
2003 (Budget)	1.9	1.6	0.4	0.2	110.3%

1. *2001 Performance*—The noncash collection service recovered 111.9 percent of total expenses in 2001, including imputed expenses and targeted ROE, exceeding the targeted recovery rate of 102.5 percent. Volume for 2001 declined 20.7 percent from 2000 levels, compared with a budgeted decline of 20.9 percent, and revenue declined 16.8 percent from 2000 levels, compared with a budgeted decline of 17.7 percent. Total costs for 2001 decreased 19.5 percent over 2000 levels, compared with a 12.4 percent budgeted decline.

2. *2002 Performance*—Through August 2002, the noncash collection service recovered 105.5 percent of its costs. For full-year 2002, the Reserve Banks estimate that the noncash collection service will recover 93.1 percent of costs, including imputed expenses and targeted ROE, compared with the targeted recovery rate of 94.3 percent. This drop in the recovery rate for the year is primarily due to a 26.4 percent decrease in the average volume for the remaining four months of the year, compared with the first eight months of the year. The Board believes that full-year cost recovery will be higher than the Reserve Bank estimate.

3. *2003 Pricing*—As the number of outstanding physical municipal securities continues to decline, the volume of coupons and bonds presented for collection also declines. New issues of bearer municipal securities effectively ceased in 1983 when the Tax Equity and Fiscal Responsibility Act of 1982 removed tax advantages for investors. To simplify the pricing structure in a small and rapidly declining business, the Reserve Banks are eliminating the practice of charging variable cash letter and coupon envelope prices and establishing a single price regardless of deposit size. Specifically, the Reserve Banks are establishing a single fee per cash letter of $13.00 and a single fee per coupon envelope of $4.50. In addition, the Reserve Banks are implementing a $15.00 increase (75.0 percent), from $20 to $35, in the return-item fee and a $15 increase (38.0 percent), from $40 to $55, in the bond-collection fee. The Reserve Banks project that the noncash collection service will recover 110.3 percent of total costs, including imputed expenses and targeted ROE, in 2003. The Board believes that the Reserve Banks' projections are reasonable.

G. Special Cash Services

Special cash services represent a small portion (less than one tenth of one percent) of overall priced services provided by the Reserve Banks to

[16] The new feature is currently available only for mortgage-backed securities; functionally for Treasury securities and other agency debt may be incorporated later.

[17] Specifically, the Reserve Banks consolidated on-line securities operations to two sites, joint custody collateral processing to one site, and consolidated computer interface testing. The consolidation began in September 2001 and was completed in May 2002.

[18] Ginnie Mae securities were added to the Fedwire securities service in March 2002.

depository institutions. In 2002, special cash services included wrapped coin, nonstandard packaging of currency orders and deposits, and registered mail shipments of currency and coin. The two offices that offered registered mail shipments discontinued this service in 2002. The one office that currently offers wrapped coin will discontinue this service in 2003. In 2004, nonstandard packaging of currency will be the only remaining special cash service. Table 13 presents the actual 2001, estimated 2002, and projected 2003 cost-recovery performance for special cash services.

TABLE 13.—SPECIAL CASH PRO FORMA COST AND REVENUE PERFORMANCE

[$ millions]

Year	1 Revenue	2 Total expense	3 Net income (ROE) [1–2]	4 Target ROE	5 Recovery rate after target ROE [1/(2+4)]
2001	2.3	2.1	0.2	0.1	103.3%
2002 (estimate)	1.4	1.4	−0.1	0.1	91.1%
2003 (budget)	0.4	0.5	0.0	0.1	77.5%

1. *2001 Performance*—In 2001, special cash services recovered 103.3 percent of total expenses, including imputed expenses and targeted ROE, compared with a targeted recovery rate of 104.4 percent.

2. *2002 Performance*—Through August 2002, special cash services recovered 103.2 percent of total expenses, including imputed expenses and targeted ROE. For full-year 2002, the Reserve Banks estimate that recovery for special cash services will decline to 91.1 percent, compared with a targeted recovery rate of 103.8 percent. The estimated underrecovery is due primarily to the Kansas City and Helena offices discontinuing registered mail shipments of currency in 2002. Kansas City discontinued this service in August 2002 primarily because of rising insurance and postage rates. In response to these increasing costs, the office increased the surcharge for registered mail shipments, which resulted in a significant volume decline, though Kansas City will continue to incur support costs for the remainder of the year. Helena discontinued the registered mail service in October 2002 and will continue to incur support charges for the remainder of the year. In addition, coin-wrapping volume in Helena is down 23.0 percent from its 2002 budgeted volumes.

3. *2003 Pricing*—For 2003, the Reserve Banks project that special cash services will recover 77.5 percent of costs, including imputed expenses and targeted ROE. Relative to 2002 estimates, total costs are projected to decrease $0.9 million, or 60.0 percent, and revenue is expected to decrease $0.9 million, or 67.6 percent. Helena will discontinue the coin-wrapping service in 2003 and expects coin-wrapping volumes to decline significantly during the transition period, though it will continue to incur support costs through the end of 2003. The Board believes that the Reserve Banks' projections are reasonable.

II. Private-Sector Adjustment Factor

A. Background

Each year, as required by the Monetary Control Act of 1980, the Reserve Banks set fees for priced services provided to depository institutions. These fees are set to recover, over the long run, all direct and indirect costs and imputed costs, including financing costs, return on equity (profit), taxes, and certain other expenses that would have been incurred if a private business firm provided the services. These imputed costs are based on data developed in part from a model comprising consolidated financial data for the nation's fifty largest bank holding companies (BHCs).[19] The imputed costs and imputed profit are collectively referred to as the PSAF. In a comparable fashion, investment income is imputed and netted with related direct costs associated with clearing balances to estimate net income on clearing balances (NICB).

1. *Private Sector Adjustment Factor*—The method for calculating the financing and equity costs in the PSAF requires determining the appropriate levels of debt and equity to impute and then applying the applicable financing rates. This process requires developing a pro forma priced services balance sheet using actual Reserve Bank assets and liabilities associated with priced services and imputing the remaining elements that would exist if the Reserve Banks' priced services were provided by a private sector business firm.

The amount of the Reserve Banks' assets that will be used to provide priced services during the coming year is determined using Reserve Bank information on actual assets and projected disposals and acquisitions. The priced portion of mixed-use assets is determined based on the allocation of the related depreciation expense. The priced portion of actual Reserve Bank liabilities consists of balances held by Reserve Banks for clearing priced services transactions (clearing balances), estimated based on historical data, and other liabilities such as accounts payable and accrued expenses.

Long-term debt is imputed only when core clearing balances and long-term liabilities are not sufficient to fund long-term assets or if the interest rate risk sensitivity analysis indicates that estimated risk will exceed a change in cost recovery of more than two percentage points.[20, 21] Short-term debt is imputed only when clearing balances not used to finance long-term assets and short-term liabilities are not sufficient to fund short-term assets. Equity is imputed to meet the FDIC definition of a well-capitalized institution, which is currently 5 percent of total assets and 10 percent of risk-weighted assets.

a. *Financing Rates*—When needed to impute short-and long-term debt, the debt rates are derived based on these elements in the BHC model. Equity financing rates are based on the average

[19] The peer group of the fifty largest bank holding companies is selected based on total deposits.

[20] A portion of clearing balances is used as a funding source for priced services assets. Long-term assets are partially funded from an initial core amount of $4 billion clearing balances. Core clearing balances are considered the portion of the balances that has remained stable over time without regard to the magnitude of actual clearing balances.

[21] The PSAF methodology includes an analysis of interest rate risk sensitivity, which compares rate-sensitive assets with rate-sensitive liabilities and measures the effect on cost recovery of a change in interest rates of up to 200 basis points.

of the return on equity (ROE) results of three economic models using data from the BHC model.[22]

For simplicity, given that federal corporate tax rates are graduated, state tax rates vary, and various credits and deductions can apply, a specific tax rate is not calculated for Reserve Bank priced services. Instead, the use of a pre-tax ROE captures imputed taxes. The resulting ROE influences the dollar level of the PSAF and Federal Reserve price levels because this is the return a shareholder would expect in order to invest in a private business firm. The use of the pre-tax return on equity assumes 100 percent recovery of expenses, including the targeted return on equity. The recommended PSAF is, therefore, based on a matching of revenues and actual and imputed costs. Should the pre-tax earnings be greater or less than the targeted ROE, the PSAF is adjusted for the tax expense or savings associated with the adjusted recovery. The imputed tax rate is the median of the rates paid by the BHCs over the past five years adjusted to the extent that BHCs have invested in municipal bonds.

b. *Other Costs*—The PSAF also includes the estimated priced services-related expenses of the Board of Governors and imputed sales taxes based on Reserve Bank expenses. An assessment for FDIC insurance, when required, is imputed based on current FDIC rates and projected clearing balances held with the Federal Reserve.

2. *Net Income on Clearing Balances*—The NICB calculation is made each year along with the PSAF calculation and is based on the assumption that Reserve Banks invest clearing balances net of imputed reserve requirements and balances used to finance priced-services assets. Based on these net clearing balance levels, Reserve Banks impute an investment in three-month Treasury bills. The calculation also involves determining the priced services cost of earnings credits (amounts available to offset future service fees) on contracted clearing balances held, net of expired earnings credits, based on the federal funds rate. The rates and clearing balance levels used in the NICB estimate are based on the actual rates and balances from the six months before the calculation date. Because clearing balances are held for clearing priced services transactions, they are directly related to priced services. Therefore, the net earnings or expense attributed to the imputed Treasury-bill investments and the cost associated with holding clearing balances are considered net income for priced services activities.

B. Discussion

The increase in the 2003 PSAF is primarily due to a significant increase in clearing balances on which investments in marketable securities are imputed and the resulting increase in total assets. Because required imputed equity is based on five percent of total assets, priced services equity and cost of equity increased.

1. *Asset Base*—The total estimated cost of Federal Reserve assets to be used in providing priced services is reflected in table 14. Total assets have increased $3,664.3 million, or 30.9 percent. Growth of $3,416.9 million in imputed investments in marketable securities and $365.3 million in imputed reserve requirements, which are based on the level of clearing balances, explains the majority of this increase. These increases are offset by a decrease of $166.5 million in items in process of collection.

While assets financed through the PSAF such as premises, receivables, and prepaid expenses have decreased, most priced service assets, including the prepaid pension costs, furniture and equipment, and Board of Governors' assets have increased. Table 15 shows that the short-term assets funded with short-term payables and clearing balances total $103.8 million. This amount represents a decrease of $9.5 million, or 8.4 percent, from the short-term assets funded in 2002. Long-term assets funded with long-term liabilities, equity, and core clearing balances are projected to total $1,537.4 million. This amount represents an increase of $58.1 million, or 3.9 percent, from the long-term assets funded in 2002. Growth of $35.9 million in prepaid pension costs explains the majority of the increase, while increases in Reserve Bank leasehold improvements and long-term prepayments and furniture and equipment assets explain an additional $23.5 million. These increases are offset by a decrease of $1.3 million in Reserve Bank premises assets.

2. *Debt and Equity Costs and Taxes*—As previously mentioned, core clearing balances from the NICB calculation are available as a funding source for priced services assets. Table 15 shows that $503.9 million in clearing balances are used to fund priced services assets in 2003. The interest rate sensitivity analysis in table 16 indicates that potential T-bill and federal funds rate decreases of 200 basis points produce a decrease in cost recovery of 0.4 percentage points. The established threshold for change to cost recovery is two percentage points; therefore, interest rate risk associated with using these balances is within acceptable levels and no long-term debt is imputed.

Table 17 shows the imputed PSAF elements, the pre-tax return on equity, and other required PSAF recoveries approved for 2003 and 2002. The significant increase in clearing balances from which marketable security investments are imputed increases total assets. An increase in total assets, and the resulting increase in imputed equity, increases expenses associated with the return on equity. Although the pre-tax return on equity rate decreased from 22.1 percent for 2002 to 19.4 percent for 2003, with increased imputed equity, the pre-tax return on equity increased $19.6 million. As indicated previously, the pre-tax return on equity is calculated using the combined results of three models. The effective tax rate used in 2003 also increased to 30.4 percent from 29.3 percent in 2002.

3. *Capital Adequacy and FDIC Assessment*—As shown in table 18, the amount of equity imputed for the 2003 PSAF is $775.6 million, an increase of $183.3 million from imputed equity of $592.3 million in 2002. As noted above, equity is based on 5 percent of total assets, as required by the FDIC for a well-capitalized institution in its definition for purposes of assessing insurance premiums. In both 2003 and 2002, the capital to risk-weighted asset ratio and the capital to total assets ratio both exceed regulatory guidelines. As a result, no FDIC assessment is imputed for either year.

III. Analysis of Competitive Effect

All operational and legal changes considered by the Board that have a substantial effect on payments system participants are subject to the competitive impact analysis described in the March 1990 policy statement ''The Federal Reserve in the Payments System.''[23] Under this policy, 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 because of differing legal powers or constraints or because of a dominant market position of the Federal Reserve deriving from such legal differences. If the fees or fee

[22] The pre-tax return on equity (ROE) is determined using the results of the comparable accounting earnings model (CAE), the discounted cash-flow model (DCF), and the capital asset pricing model (CAPM). Within the CAPM and DCF models, the ROE is weighted based on market capitalization, and within the CAE model, the ROE calculation is equally weighted. The results of the three models are averaged to impute the PSAF pre-tax ROE.

[23] Federal Reserve Regulatory Service 7–145.2.

structures create such an effect, the Board must further evaluate the changes to assess whether their benefits—such as contributions to payment system efficiency, payment system integrity, or other Board objectives—can be retained while reducing the hindrances to competition.

The 2003 fees result in a projected ROE below the target established using a model that is based, in part, on the consolidated results over time of the largest fifty bank holding companies. To the extent that these bank holding companies expect a mature, declining business, such as check processing, to have the same return on equity as the organization as a whole, the Reserve Banks' underrecovery could have an adverse competitive effect. Given the current market environment, however, greater fee increases are not likely to materially improve the Reserve Banks' cost recovery and might even reduce the revenue that the Reserve Banks receive as depository institutions seek lower-cost alternatives. Overall, the Board believes that the proposed fees are reasonable.

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Table 14
Comparison of Pro Forma Balance Sheets
for Federal Reserve Priced Services
(millions of dollars – average for year)

	2003	2002
Short-term assets		
Imputed reserve requirement on clearing balances[24]	$ 1,043.8	$ 678.5
Imputed investment in marketable securities[24]	8,889.9	5,473.0
Receivables	77.4	81.7
Materials and supplies	3.0	3.8
Prepaid expenses	23.4	27.8
Items in process of collection[25]	3,936.3	4,102.8
Total short-term assets	13,973.8	10,367.6
Long-term assets		
Premises [26]	429.8	431.1
Furniture and equipment	188.3	177.7
Leasehold improvements and long-term prepayments	83.3	70.4
Prepaid pension costs	836.0	800.1
Total long-term assets	1,537.4	1,479.3
Total assets	$15,511.2	$11,846.9
Short-term liabilities[27]		
Clearing balances and balances arising from early credit of uncollected items	$10,508.5	$7,377.5
Deferred credit items[25]	3,865.4	3,509.8
Short-term payables	77.0	103.9
Total short-term liabilities	14,450.9	10,991.2
Long-term liabilities[27]		
Postemployment/retirement benefits	284.7	263.4
Total liabilities	14,735.6	11,254.6
Equity	775.6	592.3
Total liabilities and equity	$15,511.2	$11,846.9

[24] Funded with clearing balances.
[25] Represents float costs that are directly estimated at the service level.
[26] Includes allocations of Board of Governors' assets to priced services of $1.5 million for 2003 and $1.1 million for 2002.
[27] No debt is imputed because clearing balances are used as an available funding source.

Table 15
Portion of Clearing Balances used
to Fund Priced Services Assets
(millions of dollars)

	2003		2002	
A. Short-term asset financing				
Short-term assets to be financed:				
Receivables	$ 77.4		$ 81.7	
Materials and supplies	3.0		3.8	
Prepaid expenses	23.4		27.8	
Total short-term assets to be financed	$103.8		$113.3	
Short-term funding sources:				
Short-term payables	77.0		103.9	
Portion of short-term assets funded with clearing balances[28]		$26.8		$ 9.4
B. Long-term asset financing				
Long-term assets to be financed:				
Premises	$429.8		$431.1	
Furniture and equipment	188.3		177.7	
Leasehold improvements and long-term prepayments	83.3		70.4	
Prepaid pension costs	836.0		800.1	
Total long-term assets to be financed	$1,537.4		$1,479.3	
Long-term funding sources:				
Postemployment/retirement benefits	284.7		263.4	
Imputed equity[29]	775.6		592.3	
Total long-term funding sources	1,060.3		855.7	
Portion of long-term assets funded with core clearing balances[28]		$477.1		$623.6
C. Total clearing balances used for funding priced-services assets		$503.9		$633.0

[28] Clearing balances shown on table 14 are available for financing priced-services assets. Using these balances reduces the amount available for investment in Treasury bills for the net income on clearing balances calculation. Long-term assets are financed with core clearing balances; a total of $4 billion in balances is available for this purpose. Short-term assets are financed with clearing balances not used to finance long-term assets. No short- or long-term debt is imputed.

[29] See table 17 for calculation of required imputed equity amount.

Table 16
2003 Interest Rate Sensitivity Analysis
(millions of dollars)

	Rate Sensitive	Rate Insensitive	Total
Assets			
Imputed reserve requirement on clearing balances		$1,043.8	$1,043.8
Imputed investment in marketable securities	$8,889.9		$8,889.9
Receivables		77.4	77.4
Materials and supplies		3.0	3.0
Prepaid expenses		23.4	23.4
Items in process of collection[30]	70.9	3,865.4	3,936.3
Long-term assets		1,537.4	1,537.4
Total assets	$8,960.8	$6,550.4	$15,511.2
Liabilities			
Clearing balances and balances arising from early credit of uncollected items[31]	$8,699.8	$1,808.7	$10,508.5
Deferred credit items		3,865.4	3,865.4
Short-term payables		77.0	77.0
Long-term liabilities		284.7	284.7
Total liabilities	$8,699.8	$6,035.8	$14,735.6

[30] The amount designated rate sensitive represents the amount of cash items in process of collection that are invested in three-month Treasury bills.
[31] The amount designated rate insensitive represents clearing balances on which earnings credits are not paid.

Table 16
2003 Interest Rate Sensitivity Analysis
(millions of dollars)
(Continued)

Rate change results		200 basis point decrease in both rates
Asset yield ($8,960.8 x -.02)		$(179.2)
Liability cost ($8,699.8 x -.02)		(174.0)
Effect of 200 basis point decrease		$ (5.2)
2003 budgeted revenue	933.7	
Effect of decrease	(5.2)	
Revenue adjusted for effect of interest rate decrease	$928.5	
2003 budgeted total expenses	883.9	
2003 budgeted target ROE	104.7	
Tax effect of interest rate decrease ($-5.2 x 30.4%)	(1.6)	
Total recovery amounts	$987.0	
Recovery rate before interest rate decrease	94.4%	
Recovery rate after interest rate decrease	94.0%	
Effect of interest rate decrease on cost recovery[32]	- 0.4%	

[32] Effect of a potential change in rates is less than a 2 percentage point change in cost recovery, therefore, no long-term debt is imputed for 2003.

Table 17
Derivation of the 2003 and 2002 PSAF
(millions of dollars)

		2003			2002	
A. Imputed elements						
Short-term debt[33]		$ 0.0			$ 0.0	
Long-term debt[34]		$ 0.0			$ 0.0	
Equity						
Total assets from table 14	$15,511.2			$11,846.99		
Required capital ratio[35]	5%			5%		
Total equity		$775.6			$592.3	
B. Cost of Capital						
1. Financing rates/costs						
Short-term debt		N/A			N/A	
Long-term debt		N/A			N/A	
Pre-tax return on equity[36]		19.4%			22.1%	
2. Elements of capital costs						
Short-term debt			$ 0.0			$ 0.0
Long-term debt			0.0			0.0
Equity	$775.6 x	19.4% =	150.5	$592.3 x	22.1% =	130.9
			$150.5			$130.9
C. Other required PSAF recoveries						
Sales taxes		$14.8			$14.1	
Federal Deposit Insurance assessment		0.0			0.0	
Board of Governors expenses		6.4			5.1	
			21.2			19.2
D. Total PSAF recoveries			$171.7			$150.1
As a percent of assets		1.1%				1.3%
As a percent of expenses[37]		22.4%				19.0%
E. Tax rates		30.4%				29.3%

[33] No short-term debt is imputed because clearing balances are used as a funding source for those assets that are not financed with short-term payables.
[34] No long-term debt is imputed because clearing balances are used as a funding source.
[35] Based on the Federal Deposit Insurance Corporation's definition of a well-capitalized institution for purposes of assessing insurance premiums.
[36] One component of the pre-tax 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. The final pre-tax rate of return on equity is determined averaging the result from this component (22.9%), along with results from a capital asset pricing model (13.8%), and a discounted cash flow model (21.6%).
[37] System 2003 budgeted priced services expenses less shipping are $765.2 million.

Table 18
Computation of 2003 Capital Adequacy
for Federal Reserve Priced Services
(millions of dollars)

	Assets	Risk Weight	Weighted assets
Imputed reserve requirement on clearing balances	$1,043.8	0.0	$0.0
Imputed investment in marketable securities	8,889.9	0.0	0.0
Receivables	77.4	0.2	15.5
Materials and supplies	3.0	1.0	3.0
Prepaid expenses	23.4	1.0	23.4
Items in process of collection	3,936.3	0.2	787.3
Premises	429.8	1.0	429.8
Furniture and equipment	188.3	1.0	188.3
Leases, leasehold improvements & long-term prepayments	83.3	1.0	83.3
Prepaid pension costs	836.0	1.0	836.0
Total	$15,511.2		$2,366.6

Imputed equity for 2003	$775.6
Capital to risk-weighted assets	32.8%
Capital to total assets	5.0%

Automated Clearing House Fee Schedule

	Fee
Origination (per item or record):[38]	
Items in small files	**$0.0030**
Items in large files	$0.0025
Addenda record	$0.0010
Input file-processing fee (per file):	$5.00
Receipt (per item or record):[39]	
Item	**$0.0025**
Addenda record	$0.0010
Monthly fee (per routing number):	
Account servicing fee[40]	$25.00
FedACH settlement[41]	$20.00
Information extract file	$10.00
Voice response return item/notification of change (NOC) fee:[42]	$2.00
Nonelectronic input/output fee:[43]	
Tape input/output	$25.00
Paper output	$15.00
Facsimile return/NOC[44]	$15.00
Cross-border fee:	
Cross-border item surcharge[45]	$0.039
Same-day recall of item at receiving gateway operator	$3.50
Same-day recall of item not at receiving gateway operator	$5.00
Item trace	$5.00
Microfiche	$3.00

Note: Bold indicates change from 2002 prices.

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[38] Small files contain fewer than 2,500 items and large files contain 2,500 or more items. These origination fees do not apply to items that the Reserve Banks receive from other operators.

[39] These receipt fees do not apply to items that the Reserve Banks send to other operators.

[40] The account-servicing fee applies only to routing numbers that have received or originated transactions that are processed by the Reserve Banks. Institutions that receive only U.S. government transactions or that elect to use another operator exclusively are not assessed the account-servicing fee.

[41] The fee for FedACH settlement is applied to any routing number with activity during a month. This fee does not apply to routing numbers that use the Reserve Banks for government transactions only.

[42] The fee includes the transaction fee in addition to the voice-response fee. The Reserve Banks also assess a $15 fee for every government paper return/NOC they process. This service is not considered a priced service. The fee includes the transaction fee in addition to the conversion fee.

[43] These services are offered in contingency situations only.

[44] The fee includes the transaction fee in addition to the conversion fee.

[45] The cross-border item surcharge is assessed in addition to the standard item, addenda, and file-processing fees.

Fedwire Funds Transfer and National Settlement Service Fee Schedule

	Fee
Fedwire funds transfer service:	
Basic volume-based transfer fee (originations and receipts)	
Per transfer for the first 2,500 transfers per month	**$0.30**
Per transfer for additional transfers up to 80,000 per month	**$0.20**
Per transfer for every transfer over 80,000 per month	**$0.10**
Surcharge	
Off-line transfer originated	$15.00
National Settlement Service:	
Basic	
Settlement entry fee	$0.80
Settlement file fee	$14.00
Surcharge	
Off-line surcharge	$25.00
Minimum monthly charge (account maintenance)[46]	$60.00
Special settlement arrangements[47]	
Fee per day	$100.00

Note: Bold indicates change from 2002 prices.

[46] This minimum monthly charge will only be assessed if total settlement charges during a calendar month are less than $60. The fee will be reduced by the total amount of any per entry and per settlement charges incurred during the month.

[47] Special settlement arrangements use Fedwire funds transfers to effect settlement. Participants in arrangements and settlement agents are also charged the applicable Fedwire funds transfer fee for each transfer into and out of the settlement account.

Fedwire Securities Service Fee Schedule
(Agency Securities)

	Fee
Basic transfer fee	
Transfer or reversal originated or received	**$0.40**
Surcharge	
Off-line transfer or reversal originated or received	$25.00
Monthly maintenance fees	
Account maintenance (per account)	$15.00
Issues maintained (per issue/per account)	**$0.40**
Claims adjustment fee:	**$0.38**
Joint custody fee:[48]	**$22.00**

Note: Bold indicates change from 2002 prices.

[48] Price implementation for joint custody will begin July 1, 2003.

Noncash Collection Fee Schedule

Coupon collection:	Fee
Cash letters fee	**$13.00**
Coupon envelopes	**$4.50**
Return items	**$35.00**
Bond collection (per bond):[49]	**$55.00**

Note: Bold indicates change from 2002 prices.

[49] Plus actual shipping costs.

Special Cash Services Fee Schedule

	Fee
Wrapped coin (per box)[50]	
Helena	$4.00
Nonstandard packaging	
Seventh District offices (per currency order or deposit)[51]	$12.00
Registered mail fees	
Helena	Discontinued October 2002
Tenth District offices	Discontinued August 2002

Note: Bold indicates change from 2002 prices.

[50] There are fifty rolls of coin in each box.

[51] This service only applies to the $1 through $20 denominations.

Electronic Connection Fee Schedule

There are three types of electronic connections by which depository institutions access the Reserve Banks' priced services: FedLine for DOS, FedLine for the Web, and computer interface (mainframe to mainframe). The Reserve Banks allocate their costs and revenues associated with these electronic connections to the various priced services. In 2003, the Reserve Banks recommend retaining connection fees at current levels and adding three new fees associated with the rollout of FedLine for the Web: a one-time setup fee of $50, a monthly institution-level fee of $25, and a monthly per-subscriber fee of $10. (Bold indicates change from 2002 prices.)

Dial – receive and send, FedLine for DOS (monthly)	$75.00
FedLine® for the Web:	
Setup fee (one time)	**$50.00**
Institution-level fee (monthly)	**$25.00**
Basic subscriber fee (monthly)	**$10.00**
Frame relay network (monthly):	
Frame Relay-FedLine @ up to 19.2 kbps	$500.00
Frame Relay-Computer Interface (CI) @ 56 kbps	$1,000.00
Frame Relay-CI @ 256 kbps	$2,000.00
Frame Relay-CI T1	$2,500.00

Test and contingency options:

CONNECTION TYPE	FULL CIRCUIT BACKUP[a]	FRAME CONNECTION ONLY[b]	REDUNDANT COMPONENT SET[c]
FedLine @ up to 19.2 kbps only	$500	$420	N/A
FedLine @ up to 19.2 kbps Spare Part Set	N/A	N/A	$155
CI @ 56 kbps	$845	$765	N/A
CI @ 256 kbps	$1,750	$1,585	N/A
CI T1	$2,230	$2,010	N/A

a) Applies to production and test systems, or production and contingency systems, that are located at separate facilities, including another bank office or a third-party contingency site. This option replicates full production technology and costs; only one set of equipment components is provided. Prices shown are for full-circuit backup only located at the customer site. Multiple customers sharing a single disaster-recovery connection at a third-party provider require custom implementations.

b) Applies to production and test systems, or production and contingency systems, that are located at separate facilities. The institution uses a frame relay link connection with no ISDN dial-up backup. Only one set of equipment components is provided. Prices shown are for frame connection only located at the customer site. Multiple customers sharing a single disaster recovery connection at a third-party provider require custom implementations.

c) Includes a Cisco router, a digital service unit, and a link encryptor.

By order of the Board of Governors of the Federal Reserve System, October 31, 2002.

Jennifer J. Johnson,

Secretary of the Board.

[FR Doc. 02–28116 Filed 11–6–02; 8:45 am]

<FNP>

GENERAL SERVICES ADMINISTRATION

Governmentwide Per Diem Advisory Board

AGENCY: Office of Governmentwide Policy, GSA.

ACTION: Notice of meeting.

SUMMARY: Notice is hereby given that the Governmentwide Per Diem Advisory Board will hold an open meeting from 2:00 p.m. to 4:00 p.m. on Thursday, November 14, 2002. The meeting will be held at The Crystal City Marriott, 1999 Jefferson Davis Highway, Arlington, VA 22202. This meeting is open to the public. Members of the public who wish to file a written statement with the Board may do so in writing c/o Rob Miller, Designated Federal Officer (MTT), General Services Administration, 1800 F St., NW, Room G–219, Washington, DC 20405, or via e-mail at *robl.miller@gsa.gov*. Due to critical mission and schedule requirements, there is insufficient time to provide the full 15 calendar days' notice in the **Federal Register** prior to this meeting, pursuant to the final rule on Federal Advisory Committee management codified at 41 CFR 102–3.150.

Purpose: To review the current process and methodology that is used by GSA's Office of Governmentwide Policy to determine the per diem rates for destinations within the continental United States (CONUS). The Board will receive recommendations for improvements to the current process and methodology used to establish the federal per diem rates within CONUS, and receive best practice recommendations for developing a Governmentwide lodging program.

For security and building access: (1) ADA accessible facility; (2) Public seating may be limited.

FOR FURTHER INFORMATION CONTACT: Rob Miller, Designated Federal Officer, on (202) 501–4621, or Joddy Garner on (202) 501–4857, Per Diem Program Manager, General Services Administration. Also, inquiries may be sent to *robl.miller@gsa.gov.*

Dated: November 4, 2002.

Becky Rhodes,

Deputy Associate Administrator, Office of Transportation and Personal Property.

[FR Doc. 02–28510 Filed 11–6–02; 8:45 am]

BILLING CODE 6820–14–P

DEPARTMENT OF HEALTH AND HUMAN SERVICES

National Committee on Vital and Health Statistics: Meeting

Pursuant to the Federal Advisory Committee Act, the Department of Health and Human Services (HHS) announces the following advisory committee meeting.

Name: National Committee on Vital and Health Statistics (NCVHS).

Time and Date: November 19, 2002—9 a.m.–6 p.m. November 20, 2002—9 a.m.–4 p.m.

Place: Hubert H. Humphrey Building, 200 Independence Avenue, SW., Room 705A, Washington, DC 20201.

Status: Open.

Purpose: At this meeting the Committee will hear presentations and hold discussions on several health data policy topics. On the first day the full Committee will hear updates and status reports from the Department on several topics including the implementation of the administrative simplification provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA). There will also be a discussion of the Committee's proposed recommendations to the Department on privacy and code sets for medical records. There will be Subcommittee breakout sessions late in the afternoon of the first day and prior to the full Committee meeting on the second day. Agendas for these breakout sessions may be found on the NCVHS website (URL below). On the second day the Committee will hear presentations on data issues on minority health and population-based health. Each of the NCVHS Subcommittees will report on their breakout sessions and other activities. Finally, the agendas for future NCVHS meetings will be discussed.

Contact Person for More Information: Substantive program information as well as summaries of meetings and a roster of committee members may be obtained from Marjorie S. Greenberg, Executive Secretary, NCVHS, National Center for Health Statistics, Centers for Disease Control and Prevention, Room 1100, Presidential Building, 6525 Belcrest Road, Hyattsville, Maryland 20782, telephone (301) 458–4245. Information also is available on the NCVHS home page of the HHS Web site: *http://www.ncvhs.hhs.gov/,* where further information including an agenda will be posted when available.

Dated: October 29, 2002.

James Scanlon,

Acting Director, Office of Science and Data Policy, Office of the Assistant Secretary for Planning and Evaluation.

[FR Doc. 02–28293 Filed 11–6–02; 8:45 am]

BILLING CODE 4151–05–M

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Agency for Toxic Substances and Disease Registry

Statement of Organization, Functions, and Delegations of Authority

Part T (Agency for Toxic Substances and Diseases Registry) of the Statement of Organization, Functions, and Delegations of Authority of the Department of Health and Human Services (50 FR 25129–25130, dated June 17, 1985, as amended most recently at 62 FR 1119–1120, dated January 8, 1997) is amended to abolish the Office of Federal Programs, Office of the Assistant Administrator, Agency for Toxic Substances and Disease Registry.

Section T–B, Organization and Functions, is hereby amended as follows:

Delete the title and functional statement for the *Office of Federal Program (TBB)* in their entirety.

Dated: October 29, 2002.

Julie Louise Gerberding,

Administrator.

[FR Doc. 02–28320 Filed 11–6–02; 8:45 am]

BILLING CODE 4160–70–M

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Food and Drug Administration

[Docket No. 01P–0350]

Determination That Sodium Tetradecyl Sulfate Injection Was Not Withdrawn From Sale for Reasons of Safety or Effectiveness

AGENCY: Food and Drug Administration, HHS.

ACTION: Notice.

SUMMARY: The Food and Drug Administration (FDA) has determined that sodium tetradecyl sulfate injection (Sotradecol) was not withdrawn from sale for reasons of safety or effectiveness. This determination will allow FDA to approve abbreviated new