

small investments in twenty-year AAA bonds, GNMA mutual funds, and short-term corporate bond mutual funds. Because the standard deviation for portfolio B, driven by changes in the yield, equates to approximately \$22 million in NICB, variability in the NICB could range from \$70 million to \$26 million in two-thirds of the years in which the selected portfolio is held.

The Board recognizes that a portfolio could be constructed that would have less volatility than hypothetical portfolio B and that such a portfolio would be expected to have a lower yield than hypothetical portfolio B. Priced services management finds the NICB volatility that has been associated with the current three-month Treasury-bill investment strategy acceptable, however, and would not choose a portfolio with lower volatility if it generated a lower yield. On the other hand, given the multi-year cost recovery horizon, priced services management might choose a portfolio with greater volatility than hypothetical portfolio B if it generated sufficiently greater yield.

The Board requests comment on the proposed method for selecting and adjusting a hypothetical portfolio. In particular, the Board requests comment on whether private sector providers face additional market-driven volatility constraints that should be considered when allocating among imputed assets.

## 2. Imputing a Constant Spread

During the development of this proposal, the Federal Reserve met with a group of representatives from banks, corporate credit unions, and their trade associations to obtain information about institution investment practices.<sup>24</sup> These representatives commented that construction of a risk-management framework and hypothetical portfolio appears unduly complex for imputing income from hypothetical investments and suggested that a constant basis point calculation could be simpler and provide similar results. Because the cost of clearing balances is based on the federal funds rate, they suggested that the NICB calculation impute investment income based on a clearing balance investment yield expressed as a constant spread over the federal funds rate. The representatives commented that this approach would be easier to understand, administer, and monitor.

Using a constant spread over the federal funds rate to impute the income from investing clearing balances would,

by definition, not reflect the actual variability between the investment yield and the cost of funds that would occur with the hypothetical portfolio. As demonstrated by the variation in the average rate spread and volatility between portfolios A and B, both of which met the risk management constraints, constant spreads of varying amounts could be defended as appropriate. Further, finance theory suggests that a discount to the constant rate might be required to essentially buy the consistency that is produced by a constant spread method.

The Board proposes that if a constant spread is used, it be based upon a method that reviews allowable investment returns over time and holds the selected investments over time. One such method would be to use the results of one of the hypothetical portfolios above to determine the constant spread to impute over a future period.

Table 3 demonstrates NICB results when imputing a constant spread return over the ten years from 1993 through 2002 using the average spread of 35 basis points from portfolio B in Table 2. While the average NICB is about the same, the volatility is decreased significantly. The volatility experienced with the constant spread approach is limited to the volatility in the earnings on the amount of excess clearing balance investments due to the change in the federal funds rate, whereas the volatility associated with hypothetical portfolio B also includes the result of changes in the spread between the portfolio yield and the federal funds rate.

TABLE 3.—NICB  
[Millions]

Year	Portfolio B	Constant spread
1993 .....	\$55.8	\$42.3
1994 .....	11.4	46.5
1995 .....	67.7	52.4
1996 .....	29.8	50.5
1997 .....	50.1	51.0
1998 .....	48.9	50.7
1999 .....	18.7	49.3
2000 .....	61.9	53.8
2001 .....	56.2	45.4
2002 .....	82.5	37.5
Average .....	48.3	48.0
Standard deviation ....	22.2	5.1

The Board requests comment on whether a long-run average spread over federal funds would be an appropriate basis on which to impute income and, if so, how to take into account the reduced volatility provided by this method compared to the hypothetical portfolio method.

## III. Competitive Impact Analysis

All operational and legal changes considered by the Board that have a substantial effect on payments system participants are subject to the competitive impact analysis described in the March 1990 policy statement "The Federal Reserve in the Payments System."<sup>25</sup> Under this policy, the Board assesses whether the 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 power or constraints or because of a dominant market position of the Federal Reserve deriving from such legal differences. If the fees or fee 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.

This proposal is intended to expand the investment instruments assumed in the NICB calculation to resemble more closely investments pursued by bank holding companies, the services of which are considered to most closely resemble the services provided by Reserve Banks. Imputed investment decisions would be made within a framework that incorporates risk-management measures used in industry and regulatory practice. Accordingly, the Board believes this proposal will not have a direct and material adverse effect on the ability of other service providers to compete effectively with the Federal Reserve in providing similar services.

By order of the Board of Governors of the Federal Reserve System, May 23, 2003.

**Jennifer J. Johnson,**  
*Secretary of the Board.*

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## GENERAL SERVICES ADMINISTRATION

[OMB Control No. 3090-0270]

## Federal Technology Service; Access Certificates for Electronic Services (ACES)

**AGENCY:** General Services Administration (GSA).

**ACTION:** Notice of request for comments regarding an extension to an existing OMB clearance.

<sup>24</sup> The advisory group included participants from the American Bankers Association, the Independent Community Bankers Association, and the Association of Corporate Credit Unions.

<sup>25</sup> FRRS 7-145.2.