

year. The Board believes that while neither method can exactly simulate banking industry practices, the constant annual spread method provides a reasonable proxy for the return a BHC would receive with similar investments. As a result, the pricing-year administrative burden is somewhat reduced with the constant annual spread method.

The Board has adopted the constant annual return method for imputing income on investments for the NICB calculation. Each pricing year, the constant annual spread will be determined based on an optimized investment portfolio, subject to the risk-management framework. The constant annual spread will be determined based on the actual return from the optimized investment portfolio in each of the most recent ten years. The constant spread will be calculated as the difference between the portfolio rate of return and the three-month Treasury bill rate. NICB for 2004, using the constant annual spread method with a 35 basis point spread shown in the table, is estimated to be \$52.7 million.³⁰

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."³¹ 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.

These changes are intended to expand the investments assumed in the NICB calculation to resemble more closely investments pursued by bank holding companies, the services of which are considered to resemble most closely 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 these changes will not have a direct and material adverse effect on the ability of other service providers to compete effectively, due to legal differences, with the Federal Reserve in providing similar services.

IV. Method for Imputing Investment Income on Clearing Balances

The Board has adopted the following modifications to the method for imputing investment income on clearing balances:

- Investment income for each pricing year will be imputed based on the average annual spreads between the investment yields and three-month Treasury bill rates that would have been realized on investments made in the most recently available 10-year period based on portfolios optimized as described below. The selected spread will be held for the pricing year.

- Imputed investments will be selected from those available to banks and BHCs. The imputed portfolio for each year will be optimized and subject to a risk management framework. The portfolio will be optimized based on the most recent ten-year historical data to maximize the return that could have been realized over that entire ten-year period within the risk management framework.

The risk management framework consists of the following:

- A core amount of clearing balances, currently \$4 billion less core balances use to fund long-term assets in the PSAF calculation, is available to invest in longer-term instruments.

- The earnings at risk measure will be used as a constraint to manage shorter-term interest rate risk. Assuming a 200 basis point change in both the yield on relevant assets and the cost of all relevant liabilities, the effect to priced services recovery will be limited to a change of 200 basis points.

- The EVE measure is adopted as a constraint to manage longer-term interest rate risk, subject to a limit on the effect to equity of 8 percent resulting from a 200 basis point change in the asset yield and clearing balance rates.

- Investments will be limited to maintain the FDIC's minimum risk-based capital ratio for a well-capitalized institution, which is currently 10 percent.

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

Jennifer J. Johnson,
Secretary of the Board.

[FR Doc. 03-27124 Filed 10-27-03; 8:45 am]

BILLING CODE 6210-01-P

FEDERAL RESERVE SYSTEM

[Docket No. OP-1165]

Federal Reserve Bank Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice.

SUMMARY: The Board has approved the 2004 fee schedules for Federal Reserve priced services and electronic connections and a private-sector adjustment factor (PSAF) for 2004 of \$179.7 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. The Board has also approved changing the earnings credit rate on clearing balances from the federal funds rate to 90 percent of the three-month Treasury bill rate, and changing the limit on the frequency of changes to contracted clearing balances from once per month to as often as each maintenance period.

DATES: The new fee schedules become effective January 2, 2004. The change in the earnings credit rate on clearing balances, and the change to how often depository institutions can change contracted clearing balances becomes effective January 8, 2004.

FOR FURTHER INFORMATION CONTACT: For questions regarding the fee schedules: Jack K. Walton II, Assistant Director, (202/452-2660); Gregory E. Cannella, Financial Services Analyst, (202/530-6214), Division of Reserve Bank Operations and Payment Systems. For questions regarding the PSAF and earnings credits on clearing balances: Lezell Murphy, Senior Financial Analyst, (202/452-3758); or 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 202/452-3544. Copies of the 2004 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.frbsservices.org>.

³⁰ The two-year lag in data is consistent with the PSAF method, which uses audited financial statements for the top 50 BHCs from this period, and is necessary because complete 2003 actual return data are not yet available.

³¹ FRRS 9-1558.