

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)]
2002	58.7	53.5	5.2	5.5	99.6%
2003 (Estimate)	51.3	47.0	4.3	5.4	98.0%
2004 (Budget)	59.5	50.8	8.7	6.8	103.3%

1. *2002 Performance*—The Fedwire funds and national settlement service recovered 99.6 percent of total costs in 2002, including imputed expenses, and targeted ROE, less than the budgeted recovery rate of 101.1 percent. Expenses for 2002 were \$3.6 million more than original budget projections, primarily because of unbudgeted costs associated with the FedLine for the Web project and a FedLine for Windows write-off. Service revenue was \$2.6 million greater than budget.

2. *2003 Estimate*—For 2003, the Reserve Banks estimate that the Fedwire funds and national settlement service will recover 98.0 percent of total expenses, including imputed expenses, and target ROE, compared with a budgeted recovery rate of 101.8 percent. The underrecovery is attributed primarily to significantly lower-than-expected pension credits. Funds transfer volume through August 2003 has increased 9.4 percent relative to the same period in 2002. For the full year, the Reserve Banks estimate that volume will increase 7.3 percent compared with

2002, based on the expectation that volume growth will be flat for the remainder of the year. The Reserve Banks had originally projected zero volume growth for 2003, which was based on historical growth levels combined with anticipated losses of volume to a competitor. This shifting of volume to the competitor, however, did not materialize and, in fact, the Reserve Banks gained market share in 2003. With respect to the national settlement service, the Reserve Banks estimate that 2003 volume will be less than budget due to continued consolidations among check clearinghouses.

3. *2004 Pricing*—The Reserve Banks are keeping fees for the Fedwire funds and national settlement service unchanged from 2003.

The Reserve Banks project that the Fedwire funds and national settlement service will recover 103.3 percent of total costs in 2004, including imputed expenses, and targeted ROE. Total costs, including imputed expenses, and targeted ROE are expected to increase \$5.2 million from the 2003 estimate

because of higher costs related to the FedLine for the Web project, higher data communications costs, and a higher PSAF. Funds transfer volume for 2004 is expected to increase 6.8 percent compared with the 2003 estimate. National settlement volume is expected to remain flat. The Reserve Banks project total revenue to increase by \$8.2 million over the 2003 estimate primarily because of continued strong volume growth, an increase in NICB attributable to the change in the calculation methodology, and higher electronic access revenue.

The Board believes that the cost, volume, and revenue projections are reasonable and has approved the price changes for the Reserve Banks' Fedwire funds and national settlement service be approved.

F. *Fedwire Securities Service*—Table 11 below shows the 2002, 2003 estimate, and 2004 budgeted cost recovery performance for the Fedwire securities service.<sup>10</sup>

<sup>10</sup> The Reserve Banks provide 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.