

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	5 RECOVERY RATE AFTER TARGET ROE [1/(2+4)]
2002	23.8	21.5	2.3	2.2	100.1%
2003 (Estimate)	21.8	18.4	3.4	2.2	106.0%
2004 (Budget)	22.3	18.4	3.9	2.9	104.7%

1. *2002 Performance*—The Fedwire securities service recovered 100.1 percent of total costs in 2002, including imputed expenses, and targeted ROE. Total costs and service revenue for 2002 were greater than budget by \$1.1 million and \$1.0 million, respectively.

2. *2003 Estimate*—Through August 2003, the Fedwire securities service recovered 107.4 percent of total costs, including imputed expenses, and targeted ROE. For full-year 2003, the Reserve Banks estimate that the Fedwire securities service will recover 106.0 percent of total costs, compared with a budgeted recovery rate of 100.6 percent. The overrecovery is attributed primarily to higher-than-expected volume growth.

Through August 2003, total Fedwire securities transfer volume has increased 23.7 percent relative to the same period in 2002.¹¹ For the full year, the Reserve Banks estimate that total Fedwire securities volume will increase 21.9

percent from 2002, compared with a budgeted 4.3 percent increase. The significantly higher-than-expected volume growth is due primarily to the continued strength of the residential mortgage financing market. The Reserve Banks expect that volume growth experienced year-to-date will level off in the remaining months of the year.

3. *2004 Pricing*—The Reserve Banks are reducing the on-line transfer origination and receipt fees from \$0.40 to \$0.32 and reducing the claim adjustment fee from \$0.38 to \$0.30.¹² The Reserve Banks will increase the off-line surcharge from \$25 to \$28 and increasing the joint custody surcharge from \$22 to \$30. The Reserve Banks will retain all other fees at their current levels.

The Reserve Banks project that the Fedwire securities service will recover 104.7 percent of costs in 2004, including imputed expenses, and targeted ROE.

Total costs, including imputed expenses, and targeted ROE are expected to increase \$0.7 million from the 2003 estimate.

The Reserve Banks project that total securities volume in 2004 will increase 6.8 percent from the 2003 estimate. Total revenue is projected to increase slightly from the 2003 estimate, as the expected decrease in revenue from price reductions is offset by a higher NICB attributable to the changes in calculation methodology.

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

G. *Noncash Collection*—Table 12 below shows the 2002, 2003 estimate, and 2004 budgeted 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)]
2002	1.7	1.5	.2	.2	100.6%
2003 (Estimate)	2.3	1.8	.5	.2	118.9%
2004 (Budget)	1.8	1.4	.4	.2	113.3%

¹¹ Part of this increase is due to the full-year effect of the addition of Ginnie Mae securities to the Fedwire Securities Service, which was completed in March 2002.

¹² In 2002, the Reserve Banks implemented a new automated claim adjustment feature for mortgage-

backed securities. The automated claim adjustment process (ACAP) supports the settlement of claims related to failed securities transactions, interim accounting for securities with an accrual date different than the record date, and repurchase agreements. ACAP 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.