remedies as the Administrative Law Judge recommends.

133. *It is further ordered,* that pursuant to Section 616 of the Communications Act of 1934, as amended, 47 U.S.C. 536, and 47 CFR 76.1300–1302, NFL Enterprises LLC and Comcast Corporation submit to the Commission, in writing within ten days of this *Order* (*i.e.*, by October 20, 2008), their respective elections as to whether each wishes to proceed to Alternative Dispute Resolution and, in the event that Alternative Dispute Resolution is chosen, monthly update the Commission on the status of that process.

134. *It is further ordered,* that the Administrative Law Judge, within 60 days of this *Order* (*i.e.*, by December 9, 2008), will resolve all factual disputes and submit a recommended decision and remedy, if appropriate.

135. *It is further ordered,* that if the parties elect Alternative Dispute Resolution, the period for Administrative Law Judge review shall be tolled, until such time as the parties notify the Commission that they have failed to reach a settlement through Alternative Dispute Resolution.

F. MASN v. Comcast

136. Accordingly, *it is ordered,* that TCR Sports Broadcasting Holding, L.L.P., d/b/a Mid-Atlantic Sports Network's Complaint against Comcast Corporation is *Designated for Hearing* at a date and place to be specified in a subsequent order by an Administrative Law Judge for a recommended determination of the following issues:

(a) Whether the defendant has discriminated against the complainant's programming in favor of its own programming, with the effect of unreasonably restraining the complainant's ability to compete fairly in violation of Section 76.1301(c);

(b) If the Administrative Law Judge determines that the defendant has discriminated against the complainant's programming in violation of Section 76.1301(c), the appropriate price, terms and conditions on which the complainant's programming should be carried on defendant's systems and such other remedies as the Administrative Law Judge recommends.

137. *It is further ordered,* that pursuant to Section 616 of the Communications Act of 1934, as amended, 47 U.S.C. 536, and 47 CFR 76.1300–1302, TCR Sports Broadcasting Holding, L.L.P., d/b/a Mid-Atlantic Sports Network and Comcast Corporation submit to the Commission, in writing within ten days of this *Order* (*i.e.*, by October 20, 2008), their respective elections as to whether each wishes to proceed to Alternative Dispute Resolution and, in the event that Alternative Dispute Resolution is chosen, monthly update the Commission on the status of that process.

138. *It is further ordered,* that the Administrative Law Judge, within 60 days of this Order (*i.e.*, by December 9, 2008), will resolve all factual disputes and submit a recommended decision and remedy, if appropriate.

139. *It is further ordered,* that if the parties elect Alternative Dispute Resolution, the period for Administrative Law Judge review shall be tolled, until such time as the parties notify the Commission that they have failed to reach a settlement through Alternative Dispute Resolution.

G. General Ordering Clauses

140. *It is further ordered* that, pursuant to Section 4(i) of the Communications Act of 1934, as amended, 47 U.S.C. 154(i), in order to avail itself of the opportunity to be heard, each party to an above-captioned proceeding, in person or by its attorney, shall file with the Commission, by October 17, 2008, a written appearance stating that the party will appear on the date fixed for hearing and present evidence on the issues specified herein. In light of the deadline for a Recommended Decision contained in this *Order,* the deadline for written appearances set forth in 47 CFR 1.221 is waived and replaced with the deadline set forth above.

141. *It is further ordered* that, if any complainant in an above-captioned proceeding fails to file a written appearance by the deadline specified above, or has not filed prior to that deadline, a petition to accept, for good cause shown, a written appearance beyond the deadline, the Presiding Administrative Law Judge shall dismiss the relevant above-captioned proceeding with prejudice for failure to prosecute.

142. *It is further ordered* that all parties to the above-captioned proceedings will be served with a copy of this Order and the Erratum thereto by e-mail and by certified mail, return receipt requested.

143. *It is further ordered* that the Chief, Enforcement Bureau, shall be made a party to each of the above-captioned proceedings without the need to file a written appearance and will determine the Enforcement Bureau's level of participation in the proceedings.

144. *It is further ordered* that a copy of this Hearing Designation Order and the Erratum thereto or a summary thereof shall be published in the **Federal Register**.

Federal Communications Commission.

Monica Shah Desai,

Chief, Media Bureau.

[FR Doc. E8–26147 Filed 10–31–08; 8:45 am]

BILLING CODE 6712–01–P

FEDERAL RESERVE SYSTEM

[Docket No. OP–1337]

Federal Reserve Bank Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice.

SUMMARY: The Board has approved the private sector adjustment factor (PSAF) for 2009 of $62.2 million and the 2009 fee schedules for Federal Reserve priced services and electronic access. 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 maintaining the current earnings credit rate on clearing balances.

DATES: The new fee schedules and earnings credit rate become effective January 2, 2009.

FOR FURTHER INFORMATION CONTACT: For questions regarding the fee schedules: Jeffrey C. Marquardt, Deputy Director (202/452–2360); Jeffrey S.H. Yeganeh, Manager, Retail Payments (202/728–5801); Linda S. Healey, Senior Financial Services Analyst (202/452–5274), Division of Reserve Bank Operations and Payment Systems. For questions regarding the PSAF and earnings credits on clearing balances: Gregory L. Evans, Deputy Associate Director (202/452–3945); Brenda L. Richards, Manager, Financial Accounting (202/452–2753); or Rebekah Ellsworth, Financial Analyst (202/452–3480), 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 2009 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. Private Sector Adjustment Factor and Priced Services

A. *Overview*—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, taxes, and certain other expenses, as well as the return on equity (profit) that would have been earned if a private business firm provided the services. The imputed costs and imputed profit are collectively referred to as the PSAF. Similarly, investment income is imputed and netted with related direct costs associated with clearing balances to estimate net income on clearing balances (NICB). From 1998 through 2007, the Reserve Banks recovered 99.1 percent of their total expenses (including special project costs and imputed expenses) and targeted after-tax profits or return on equity (ROE) for providing priced services.[1]

Table 1 summarizes 2007, 2008 estimated, and 2009 budgeted cost-recovery rates for all priced services. Cost recovery is estimated to be 98.1 percent in 2008 and budgeted to be 93.7 percent in 2009. The check service accounts for approximately three-quarters of the total cost of priced services and thus significantly influences the aggregate cost-recovery rate. The electronic services (FedACH®, the Fedwire® Funds Service and National Settlement Service, and the Fedwire® Securities Service) account for approximately a quarter of total costs.[2]

TABLE 1—AGGREGATE PRICED SERVICES PRO FORMA COST AND REVENUE PERFORMANCE [a]

[$ Millions]

Year	+1 [b] Revenue	+2 [c] Total expense	+3 Net income (ROE)[1–2]	+4 [d] Targeted ROE	+5 [e] Recovery rate after targeted ROE [1/(2+4)]
2007	1,012.3	913.3	98.9	80.4	101.9%
2008 (estimate)	853.0	803.3	49.7	66.5	98.1%
2009 (budget)	692.4	707.9	−15.6	31.1	93.7%

[a] Calculations in this table and subsequent pro forma cost and revenue tables may be affected by rounding.

[b] Revenue includes net income on clearing balances. Clearing balances are assumed to be invested in a broad portfolio of investments, such as short-term Treasury securities, government agency securities, commercial paper, long-term corporate bonds, and money market funds. To impute income, a constant spread is determined from the historical average return on this portfolio and applied to the rate used to determine the cost of clearing balances. NICB equals the imputed income from these investments less earnings credits granted to holders of clearing balances. The cost of earnings credits is based on the discounted three-month Treasury bill rate.

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

[d] Targeted ROE is the after-tax ROE included in the PSAF.

[e] The recovery rates in this and subsequent tables do not reflect the unamortized gains or losses that must be recognized in accordance with FAS 158. Future gains or losses, and their effect on cost recovery, cannot be projected.

Table 2 portrays an overview of cost-recovery performance for the ten-year period from 1998 to 2007, 2007, 2008 budget, 2008 estimate, and 2009 budget by priced service.

TABLE 2—PRICED SERVICES COST RECOVERY

[Percent]

Priced service	1998–2007	2007	2008 Budget	2008 Estimate	2009 Budget [a]
All services	99.1	101.9	101.1	98.1	93.7
Check	97.8	100.7	100.5	97.2	91.5
FedACH	105.1	107.6	102.0	101.3	100.0
Fedwire Funds and NSS	104.1	107.3	105.4	100.8	98.3
Fedwire Securities	102.8	103.7	104.8	102.1	100.5

[a] 2009 budget figures reflect the latest data from the Reserve Banks. The Reserve Banks will transmit final budget data to the Board in November 2008, for Board consideration in December 2008.

1. *2008 Estimated Performance*—The Reserve Banks estimate that they will recover 98.1 percent of the costs of providing priced services, including imputed expenses and targeted ROE, compared with a budgeted recovery rate of 101.1 percent, as shown in Table 2. While the FedACH, the Fedwire Funds and National Settlement, and the Fedwire Securities Services are expected to achieve full cost recovery in 2008, the check service is expected to recover 97.2 percent of its costs. Overall, the Reserve Banks expect to recover all actual and imputed costs of providing priced services and earn a net income of $49.7 million, compared with a targeted ROE of $66.5 million. This shortfall is largely driven by lower-than-expected NICB and increased pension costs.[3] In addition to these factors that affect all

[1] The ten-year recovery rate is based on the pro forma income statement for Federal Reserve priced services published in the Board's *Annual Report.*

Effective December 31, 2006, the Reserve Banks implemented Financial Accounting Standards No. 158: *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158), which resulted in recognizing a reduction in equity related to the priced services' benefit plans. Including this reduction in equity results in cost recovery of 96.7 percent for the ten-year period. This measure of long-run cost recovery is also published in the Board's *Annual Report.*

[2] FedACH and Fedwire are registered servicemarks of the Reserve Banks.

[3] The 2008 estimated NICB is significantly lower than budgeted. For the year, NICB was projected to be $125.8 million and is now estimated at $86.9 million. This shortfall is due primarily to the decline in short-term Treasury bill rates. The 2008 estimated pension debit is $4.4 million higher than budgeted, due to updated demographic data that generated actuarial losses.

services, the check service will incur one-time costs associated with the next phase of the Reserve Banks' check restructuring efforts, which will result in less than full cost recovery for that service.

2. *2009 Private Sector Adjustment Factor*—The 2009 PSAF for Reserve Bank priced services is $62.2 million. This amount represents a decrease of $50.9 million from the 2008 PSAF of $113.1 million. This reduction is the result of a decrease in the cost of equity due to a lower required return on equity and a lower amount of imputed equity.

3. *2009 Projected Performance*—The Reserve Banks project that the FedACH and Fedwire Securities Services will fully recover their costs in 2009. The Reserve Banks also project that the Fedwire Funds and National Settlement Services will achieve close to full cost recovery and that the check service will substantially under recover its costs. Overall, the Reserve Banks project a priced services cost-recovery rate of 93.7 percent in 2009, with a net loss of $15.6 million, compared to a targeted ROE of $31.1 million. The projected priced services' under recovery is heavily influenced by the check service's cost recovery rate, which is expected to be 91.5 percent, as revenues decline due largely to projected reductions in check deposits and an increasing proportion of checks being presented electronically. The other significant factors affecting the check service's cost recovery are projected reductions in NICB and increased pension costs.

The major risks to the Reserve Banks' ability to achieve their targeted cost recovery rates are substantial declines in clearing balances due to the implementation of interest on reserves and its effect on imputed income as well as unanticipated increases in pension costs. In addition, greater-than-expected check volume declines due to increased competition from correspondent banks and other service providers could adversely affect cost recovery. Other risks include costs associated with unanticipated problems with technological upgrades and check office restructurings.

4. *2009 Pricing*—The following summarizes the Reserve Banks' changes in fee schedules for priced services in 2009:

Check

- The Reserve Banks will increase the fees for forward paper check collection 26 percent and paper return check products 33 percent.
- The Reserve Banks will increase FedForward fees 3.8 percent for checks presented electronically and 37 percent for checks presented as substitute checks. The Reserve Banks will also raise FedReturn fees 26 percent. Because the fees to collect and return checks drawn on depository institutions that accept electronics will be lower than on those that accept paper, the rapid rise in the number of depository institutions that are accepting presentments and returns electronically is expected to result in a 10 percent reduction in the effective price to collect a check electronically and an 8 percent reduction in the effective price to return a check electronically.
- With the 2009 fee changes, the price index for the total check service will have increased 136 percent since 1999.

FedACH

- The Reserve Banks will raise the monthly fees for account servicing from $25 to $37 per routing number, for FedACH settlement from $20 to $37 per routing number, and for information extract files from $20 to $35 per routing number.
- The Reserve Banks will raise the non-electronic input/output fees for paper from $15 per file to $50 per file, and for CD/DVD from $25 to $50 per CD/DVD. The Reserve Banks will increase the fee for facsimile exception returns/notifications of change from $15 to $30 and for voice response returns/notifications of change fees from $2 to $3.
- With the 2009 fee changes, the price index for the FedACH service will have decreased 52.8 percent since 1999.

Fedwire Funds and National Settlement

- The Reserve Banks will introduce a $60 monthly participation fee for Fedwire Funds customers with activity in that month and raise the offline origination and receipt fee from $30 to $40. In addition, the Reserve Banks will increase the National Settlement Service's settlement file charge from $14 to $18 and the offline file origination fee from $25 to $40.
- With the 2009 fee changes, the price index for the Fedwire Funds and National Settlement Services will have decreased 24.8 percent since 1999.

Fedwire Securities

- The Reserve Banks will raise the basic transfer fee from $0.34 to $0.35, the monthly maintenance fee from $16 to $21, and the fees on claims adjustments from $0.30 to $0.60.
- With the 2009 fee changes, the price index for the Fedwire Securities Service will have decreased 36.2 percent since 1999.

5. *2009 Price Index*—Figure 1 compares indexes of fees for the Reserve Banks' priced services with the GDP price index. Compared with the price index for 2008, the price index for all Reserve Bank priced services is projected to increase 26.2 percent in 2009. The price index for paper check and electronic payment services in 2009 are projected to increase 40.7 percent and 2.2 percent, respectively. While the prices for Check 21 services are also increasing, the rapid increase in the number of depository institutions accepting checks electronically is resulting in reductions in the effective prices paid to collect and return checks using Check 21 services. As a result, a Check 21 price index is misleading, given these substantial shifts, and therefore is not shown in the figure 1. For the period 1999 to 2009, the price index for all priced services is expected to increase 81.3 percent. In comparison, for the period 1999 to 2008 the GDP price index increased 24.7 percent.

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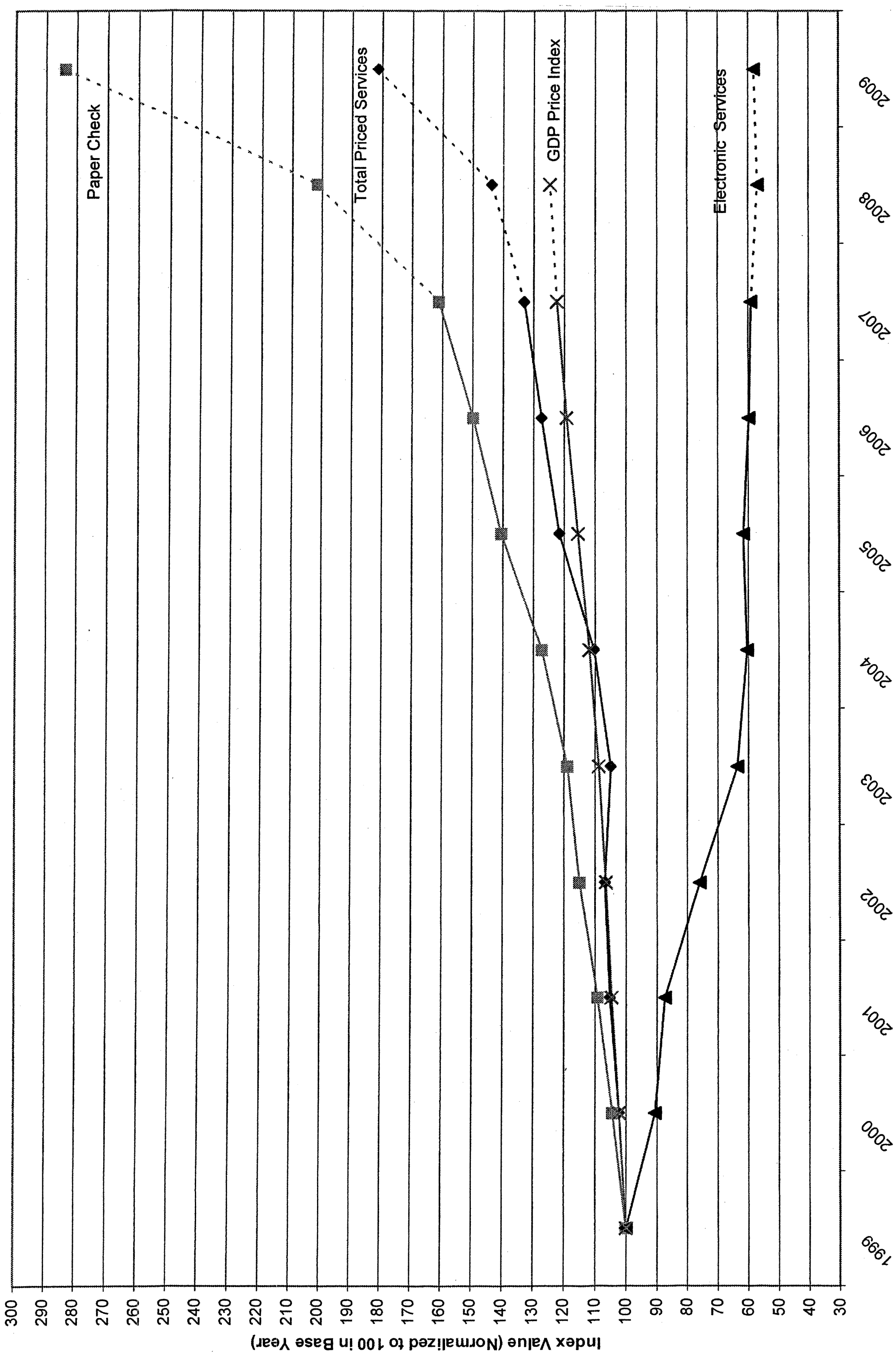
FIGURE 1

PRICED INDEXES FOR FEDERAL RESERVE PRICED SERVICES



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B. *Private Sector Adjustment Factor*—The method for calculating the financing and equity costs in the PSAF requires determining the appropriate imputed levels of debt and equity and then applying the applicable financing rates. In this process, a pro forma balance sheet using estimated assets and liabilities associated with the Reserve Banks' priced services is developed, and the remaining elements that would exist if these priced services were provided by a private business firm are imputed. The same generally accepted accounting principles that apply to commercial-entity financial statements also apply to the relevant elements in the priced-services pro forma financial statements.

The portion of Federal Reserve assets that will be used to provide priced services during the coming year is determined using information on actual assets and projected disposals and acquisitions. The priced portion of these assets is determined based on the allocation of the related depreciation expense. The priced portion of actual Federal Reserve liabilities consists of balances held by depository institutions (DIs) at Reserve Banks for clearing priced-services transactions (clearing balances), and other liabilities such as accounts payable and accrued expenses.

Long-term debt is imputed only when core clearing balances, long-term liabilities, and equity are not sufficient to fund long-term assets or if the interest rate risk sensitivity analysis, which measures the interest rate effect of the difference between interest rate sensitive assets and liabilities, indicates that a 200 basis point change in interest rates would change cost recovery by more than two percentage points.[4] Short-term debt is imputed only when short-term liabilities and clearing balances not used to finance long-term assets are insufficient to fund short-term assets. Imputed equity meets the FDIC requirements for a well-capitalized DI for insurance premium purposes and represents the market capitalization, or shareholder value, for Reserve Bank priced services.[5]

The equity financing rate is the targeted ROE rate produced by the capital asset pricing model (CAPM). In the CAPM, the required rate of return on a firm's equity is equal to the return on a risk-free asset plus a risk premium. To implement the CAPM, the risk-free rate is based on the three-month Treasury bill; the beta is assumed to equal 1.0, which approximates the risk of the market as a whole; and the monthly returns in excess of the risk-free rate over the most recent 40 years are used as the market risk premium. The resulting ROE influences the dollar level of the PSAF because this is the return a shareholder would require in order to invest in a private business firm.

For simplicity, given that federal corporate income tax rates are graduated, state income tax rates vary, and various credits and deductions can apply, an actual income tax expense is not calculated for Reserve Bank priced services. Instead, the Board targets a pretax ROE that would provide sufficient income to fulfill its income tax obligations. To the extent that actual performance results are greater or less than the targeted ROE, income taxes are adjusted using an imputed income tax rate. Because the Reserve Banks provide similar services through their correspondent banking activities, including payment and settlement services, and the amount of imputed equity meets the FDIC requirements for a well-capitalized DI, the imputed income tax rate is the median of the rates paid by the top fifty bank holding companies based on deposit balances over the past five years, adjusted to the extent that they invested in tax-free municipal bonds.

The PSAF also includes the estimated priced-services-related expenses of the Board and imputed sales taxes based on Reserve Bank estimated expenditures. An assessment for FDIC insurance is imputed based on current FDIC rates and projected clearing balances held with the Reserve Banks.

1. *Net Income on Clearing Balances*—The NICB calculation is performed each year along with the PSAF calculation and is based on the assumption that the Reserve Banks invest clearing balances net of an imputed reserve requirement and balances used to finance priced-services assets.[6] The Reserve Banks impute a constant spread, determined by the return on a portfolio of investments, over the three-month Treasury bill rate and apply this investment rate to the net level of clearing balances.[7]

The calculation also involves determining the priced-services cost of earnings credits (amounts available to offset service fees) on contracted clearing balances held, net of expired earnings credits, based on a discounted Treasury bill rate. Rates and clearing balance levels used in the NICB estimate are based on July 2008 rates and clearing balance levels. Because clearing balances are held for clearing priced-services transactions or offsetting priced-services fees, they are directly related to priced services. The net earnings or expense attributed to the investments and the cost associated with holding clearing balances, therefore, are considered net income for priced services.

A few changes to the 2009 NICB estimate have been made as a result of the Board's decision to pay interest on required reserve and excess balances held at Reserve Banks beginning on October 9, 2008. Accordingly, a return on the imputed reserve requirement based on the level of clearing balances on the pro forma balance sheet has been estimated for 2009.[8] Additionally, the priced-services cost of earnings credits has also been changed to compensate clearing balance holders on 100 percent of their contracted clearing balances. Formerly, earnings credits were only paid on 90 percent of contracted clearing balances assuming that a private sector correspondent bank would not compensate respondents for

[4] A portion of clearing balances is used as a funding source for priced-services assets. Long-term assets are partially funded from core clearing balances, which are currently $4 billion. 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.

[5] The FDIC requirements for a well-capitalized depository institution are (1) a ratio of total capital to risk-weighted assets of 10 percent or greater, (2) a ratio of Tier 1 capital to risk-weighted assets of 6 percent or greater, and (3) a leverage ratio of Tier 1 capital to total assets of 5 percent or greater. The priced services balance sheet has no components of Tier 1 or total capital other than equity; therefore, requirements 1 and 2 are essentially the same measurement.

As used in this context, the term ''shareholder'' does not refer to the actual member banks of the Federal Reserve System, but rather to the implied shareholders who would have an ownership interest if the Reserve Banks' priced services were provided by a private firm.

[6] Reserve requirements are the amount of funds that a DI must hold in reserve against specified deposit liabilities. DIs must hold reserves in the form of vault cash or deposits with Federal Reserve Banks. The dollar amount of a DI's reserve requirement is determined by applying the reserve ratios specified in the Board's Regulation D to the institution's reservable liabilities. The Reserve Banks priced services impute a reserve requirement of ten percent, which is applied to the amount of clearing balances held with the Reserve Banks.

[7] The investment portfolio is composed of investments comparable to a bank holding company's investment holdings, such as short-term Treasury securities, government agency securities, commercial paper, long-term corporate bonds, and money market funds. See table 7 for the investments imputed in 2009.

NICB is projected to be $48.8 million for 2009. This result uses an investment rate equal to a constant spread of 26 basis points over the three-month Treasury bill rate, applied to the clearing balance levels used in the 2009 pricing process. The 2008 NICB estimate is $86.9 million.

[8] The imputed interest income on the imputed reserve requirement is projected to be $15.2 million for 2009. The projected 2009 rate for imputed interest income on the reserve requirement is based on the July 2008 rate of 1.9 percent.

their required reserve balances.[9] Lastly, because all excess balances held at the Reserve Banks will receive explicit interest, the priced services will no longer impute investment income on any portion of excess balances.

2. *Analysis of the 2009 PSAF*—The decrease in the 2009 PSAF is primarily due to an overall reduction in the level of imputed equity and in the targeted ROE rate provided by the CAPM.

Estimated 2009 Federal Reserve assets, reflected in table 3, have decreased $3,408.6 million, mainly due to a decline in items in process of collection of $3,175.3 million. This reduction largely stems from the continued reduction in paper check volumes and the accelerated collection of items processed in the Check 21 environment.[10]

In past years, the level of clearing balances reflected in table 3 has consisted of contracted clearing balances and the priced-services portion of excess balances held at Reserve Banks. As noted above, all excess balances are now considered reserve-related. Consequently, the clearing balances on the priced-services pro forma balance sheet for 2009 do not reflect excess clearing balances and only consist of contracted clearing balances held. The 2009 projected clearing balances continue to be based on July 2008 balance levels held at Reserve Banks.[11] In light of the uncertainty regarding the level of clearing balances in an interest-on-reserves environment, the Board approved basing the actual PSAF costs used in cost-recovery calculations on the actual levels of clearing balances held throughout 2009. To the extent that clearing balances fall below the current level of core clearing balances, debt would be imputed.

As shown in table 4, the portion of assets financed with clearing balances has increased. Short-term liabilities exceed short-term assets by $2.5 million; therefore, no clearing balances are used to fund short-term assets. This figure represents a $6.7 million decline from the short-term assets funded in 2008, a decrease that results largely from the reduction in estimated short-term receivables. The amount of core clearing balances used to fund long-term assets has increased $16.5 million primarily because of a lower amount of imputed equity, which also is used to fund long-term assets.

As previously mentioned, clearing balances are available as a funding source for priced-services assets. Table 4 shows that $82.5 million in clearing balances is used to fund priced-services assets in 2009. The interest rate sensitivity analysis in table 5 indicates that a 200 basis point decrease in interest rates affects the ratio of rate-sensitive assets to rate-sensitive liabilities and increases cost recovery by 1.6 percentage points, while an increase of 200 basis points in interest rates decreases cost recovery by 1.7 percentage points. The established threshold for a change in 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.

As shown in table 3, the amount of equity imputed for the 2009 PSAF is $458.4 million, a decrease of $170.5 million from the imputed equity for 2008. In accordance with FAS 158, this amount includes an accumulated other comprehensive loss of $322.6 million. Both the capital to total assets ratio and the capital to risk-weighted assets ratio meet or exceed the regulatory requirements for a well-capitalized DI. Equity is calculated as 5 percent of total assets, and the ratio of capital to risk-weighted assets is 10.0 percent.[12] The Reserve Banks imputed an FDIC assessment for the priced services based on the FDIC's 2009 assessment rates and the level of clearing balances held at Reserve Banks.[13] For 2009, the net FDIC assessment is imputed at $0.9 million, compared with a net FDIC assessment of $0.4 million in 2008.[14]

Table 6 shows the imputed PSAF elements, including the pretax ROE and other required PSAF costs, for 2008 and 2009. The $50.4 million decrease in ROE is caused by the combination of a lower amount of imputed equity and a decrease in the risk-free rate of return. Sales taxes decreased from $8.9 million in 2008 to $7.3 million in 2009. The effective income tax rate used in 2009 increased to 32.6 percent from 31.2 percent in 2008. The priced-services portion of the Board's expenses increased $0.6 million from $7.2 million in 2008 to $7.8 million in 2009.

3. *Revised PSAF Methodology for 2010*—In light of the implementation of the payment of interest on reserves, the Board is evaluating potential changes to the PSAF methodology, for implementation in 2010 and may request public comment on a proposed revised PSAF methodology later this year.

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[9] On October 3, 2008, section 128 of the Emergency Economic Stabilization Act of 2008 accelerated the Reserve Banks' authority to pay interest on required reserve and excess balances held by DIs. For further information regarding the Board's implementation of this authority and a description of these changes, see the interim final rule amending Regulation D (*http://www.federalreserve.gov/newsevents/press/monetary/20081006a.htm*).

See section C for more information on the earnings credit rate changes.

[10] In previous years, a historical average balance of items in process of collection was used as an estimate for the coming year's items in process of collection balance. Given the substantial declines in both paper check volumes and items in process of collection, the Reserve Banks have estimated 2009 items in process of collection using projected 2009 paper check volumes and the historical relationship between paper check volume and items in process of collection.

[11] To the extent that the interest rates on excess balances are higher than the earnings credit rate, clearing balances will likely decrease in the future as DIs shift balances from the clearing balance program to excess balances in pursuit of greater flexibility and higher returns. It is difficult to forecast the rapidity and degree of this shift because it depends on DI behavior and the disparity between the excess reserves rate and the earnings credit rate.

[12] In December 2006, bank regulators (the Board, the FDIC, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision) announced an interim ruling that excludes FAS 158-related accumulated other comprehensive income or losses from the calculation of regulatory capital. The Reserve Banks, however, elected to impute total equity at 5 percent of assets, as indicated above, until the regulators announce a final ruling.

[13] For information on the 2009 FDIC assessment rates, see *http://www.fdic.gov/news/news/press/2008/pr08094.html*.

[14] Per FDIC rules, any remaining portion of the one-time assessment credit can offset up to 90 percent of the assessment amount in subsequent years. For 2009, 90 percent of the total imputed assessment of $9.3 million was offset by the remaining assessment credit, resulting in a net assessment of $0.9 million. For 2008, the net FDIC assessment was $0.4 million.

Table 3
Comparison of Pro Forma Balance Sheets for Federal Reserve Priced Services
(millions of dollars – projected average for year)

	2009	2008	Change
Short-term assets			
Imputed reserve requirement on clearing balances	$ 797.9	$ 799.7	$ (1.8)
Receivables	53.6	64.3	(10.7)
Materials and supplies	1.9	2.0	(0.1)
Prepaid expenses	26.3	29.3	(3.0)
Items in process of collection[15]	236.4	3,411.7	(3,175.3)
Total short-term assets	1,116.1	4,307.0	(3,190.9)
Imputed investments	$ 7,099.0	$ 7,124.5	$ (25.5)
Long-term assets			
Premises[16]	$ 322.3	$ 393.9	$ (71.6)
Furniture and equipment	92.8	131.0	(38.2)
Leasehold improvements and long-term prepayments	83.0	86.7	(3.7)
Prepaid pension costs	303.3	384.2	(80.9)
Deferred tax asset	152.2	150.0	2.2
Total long-term assets	953.6	1,145.8	(192.2)
Total assets	$ 9,168.7	$ 12,577.3	$ (3,408.6)
Short-term liabilities[17]			
Clearing balances	$ 7,361.6	$ 7,683.9	$ (322.3)
Deferred credit items[15]	854.2	3,724.7	(2,870.5)
Short-term payables	84.3	91.4	(7.1)
Total short-term liabilities	8,300.1	11,500.0	(3,199.9)
Long-term liabilities[17]			
Postemployment/postretirement benefits liability	$ 410.2	$ 448.4	$ (38.2)
Total liabilities	$ 8,710.3	$ 11,948.4	$ (3,238.1)
Equity[18]	$ 458.4	$ 628.9	$ (170.5)
Total liabilities and equity	$ 9,168.7	$ 12,577.3	$ (3,408.6)

[15] Represents float that is directly estimated at the service level.

[16] Includes the allocation of Board assets to priced services of $1.1 million for 2009 and 2008.

[17] No debt is imputed because clearing balances are a funding source.

[18] Includes an accumulated other comprehensive loss of $328.4 million for 2008, which was reduced to $322.6 million for 2009 to reflect the ongoing amortization of the accumulated loss in accordance with FAS 158. Future gains or losses, and their effects on the pro forma balance sheet, cannot be projected.

Table 4
Portion of Clearing Balances Used to Fund Priced-Services Assets
(millions of dollars)

	2009		2008	
A. Short-term asset financing				
Short-term assets to be financed:				
Receivables	$ 53.6		$ 64.3	
Materials and supplies	1.9		2.0	
Prepaid expenses	26.3		29.3	
Total short-term assets to be financed	$ 81.8		$ 95.6	
Short-term funding sources:				
Short-term payables	$ 84.3		$ 91.4	
Portion of short-term assets with clearing balances[19]		$ (2.5)		$ 4.2
B. Long-term asset financing				
Long-term assets to be financed:				
Premises	$ 322.3		$ 393.9	
Furniture and equipment	92.8		131.0	
Leasehold improvements and long-term prepayments	83.0		86.7	
Prepaid pension costs	303.3		384.2	
Deferred tax asset	152.2		150.0	
Total long-term assets to be financed	$ 953.6		$ 1,145.8	
Long-term funding sources:				
Postemployment/postretirement benefits liability	$ 410.2		$ 448.4	
Imputed equity[20]	458.4		628.9	
Total long-term funding sources	$ 868.6		$ 1,077.3	
Portion of long-term assets funded with core clearing balances[19]		$ 85.0		$ 68.5
C. Total clearing balances used for funding priced-services assets		$ 82.5		$ 72.7

[19] Clearing balances shown in table 3 are available for financing priced-services assets. Using these balances reduces the amount available for investment in the NICB calculation. Long-term assets are financed with long-term liabilities, equity, and core clearing balances; a total of $4 billion in clearing balances is available for this purpose. Short-term assets are financed with short-term payables and clearing balances not used to finance long-term assets. No short- or long-term debt is imputed.

[20] See table 6 for calculation of required imputed equity amount.

Table 5
2009 Interest Rate Sensitivity Analysis[21]
(millions of dollars)

	Rate sensitive	Rate insensitive	Total
Assets			
Imputed reserve requirement on clearing balances		$ 797.9	$ 797.9
Imputed investments	$ 7,099.0		7,099.0
Receivables		53.6	53.6
Materials and supplies		1.9	1.9
Prepaid expenses		26.3	26.3
Items in process of collection[22]	(617.8)	854.2	236.4
Long-term assets		953.6	953.6
Total assets	$ 6,481.2	$ 2,687.5	$ 9,168.7
Liabilities			
Clearing balances	$ 7,361.6		$ 7,361.6
Deferred credit items		$ 854.2	854.2
Short-term payables		84.3	84.3
Long-term liabilities		410.2	410.2
Total liabilities	$ 7,361.6	$ 1,348.7	$ 8,710.3
Rate change results		**200 basis point decrease in rates**	**200 basis point increase in rates**
Asset yield ($6,481.2 x rate change)		$ (129.6)	$ 129.6
Liability cost ($7,361.6 x rate change)		(147.2)	147.2
Effect of 200 basis point change		$ 17.6	$ (17.6)
2009 budgeted revenue		$ 692.4	$ 692.4
Effect of change		17.6	(17.6)
Revenue adjusted for effect of interest rate change		$ 710.0	$ 674.8
2009 budgeted total expenses		$ 699.4	$ 699.4
2009 budgeted PSAF		39.6	39.6
Tax effect of interest rate change ($ change x 32.6%)		5.7	(5.7)
Total recovery amounts		$ 744.7	$ 733.3
Recovery rate before interest rate change		93.7%	93.7%
Recovery rate after interest rate change		95.3%	92.0%
Effect of interest rate change on cost recovery[23]		1.6%	(1.7)%

[21] The interest rate sensitivity analysis evaluates the level of interest rate risk presented by the difference between rate-sensitive assets and rate-sensitive liabilities. The analysis reviews the ratio of rate-sensitive assets to rate-sensitive liabilities and the effect on cost recovery of a change in interest rates of up to 200 basis points.

[22] The amount designated as rate-sensitive represents items collected prior to providing credit according to established availability schedules.

[23] The effect of a potential change in rates is less than a two percentage point change in cost recovery; therefore, no long-term debt is imputed for 2009.

Table 6

Derivation of the 2009 and 2008 PSAF
(millions of dollars)

		2009				**2008**		
A. Imputed elements								
Short-term debt[24]			$ 0.0				$ 0.0	
Long-term debt[25]			0.0				0.0	
Equity								
Total assets from table 3	$ 9,168.7				$ 12,577.3			
Required capital ratio[26]	5%				5%			
Total equity			$ 458.4				$ 628.9	
B. Cost of capital								
1. Financing rates/costs								
Short-term debt			N/A				N/A	
Long-term debt			N/A				N/A	
Pretax return on equity			10.1%				15.4%	
2. Elements of capital costs								
Short-term debt				$ 0.0				$ 0.0
Long-term debt				0.0				0.0
Equity[27]	$ 458.4	x 10.1% =		46.2	$ 628.9	x 15.4%		96.6
				$ 46.2				$ 96.6
C. Other required PSAF costs								
Sales taxes			$ 7.3				$ 8.9	
FDIC assessment			0.9				0.4	
Board expenses			7.8				7.2	
				16.0				16.5
D. Total PSAF				$ 62.2				$ 113.1
As a percent of assets				0.7%				0.9%
As a percent of expenses[28]				9.5%				14.9%
E. Tax rates				32.6%				31.2%

[24] No short-term debt is imputed because clearing balances are a funding source for those assets that are not financed with short-term payables.

[25] No long-term debt is imputed because core clearing balances are a funding source.

[26] Based on the regulatory requirements for a well-capitalized institution for the purpose of assessing insurance premiums.

[27] The 2009 ROE is equal to a risk-free rate plus a risk premium (beta * market risk premium). The 2009 after-tax CAPM ROE is calculated as 1.67% + (1 * 5.12%) = 6.79%. Using a tax rate of 32.6%, the after-tax ROE is converted into a pretax ROE, which results in a pretax ROE of (6.79% / (1-32.6%)) = 10.1%.

[28] System 2009 budgeted priced services expenses less shipping are $655.9 million.

Table 7
Computation of 2009 Capital Adequacy for Federal Reserve Priced Services
(millions of dollars)

	Assets	Risk Weight	Weighted Assets
Imputed reserve requirement on clearing balances	$ 797.9	0.0	$ 0.0
Imputed investments:			
3-month Treasury bills[29, 30]	$ 2,890.9	0.0	$ 0.0
1-year Treasury notes[29]	57.7	0.0	0.0
Commercial paper (1-month)[29]	3,392.8	1.0	3,392.8
GNMA mutual fund[31]	757.6	0.2	151.5
Total imputed investments	7,099.0		3,544.3
Receivables	$ 53.6	0.2	$ 10.7
Materials and supplies	1.9	1.0	1.9
Prepaid expenses	26.3	1.0	26.3
Items in process of collection	236.4	0.2	47.3
Premises	322.3	1.0	322.3
Furniture and equipment	92.8	1.0	92.8
Leasehold improvements and long-term prepayments	83.0	1.0	83.0
Prepaid pension costs	303.3	1.0	303.3
Deferred tax asset	152.2	1.0	152.2
Total	$ 9,168.7		$ 4,584.1
Imputed equity for 2009	$ 458.4		
Capital to risk-weighted assets	10.0 %		
Capital to total assets	5.0 %		

[29] The imputed investments are assumed to be similar to those for which rates are available on the Federal Reserve's H.15 statistical release, which can be located at http://www.federalreserve.gov/releases/h15/data.htm.

[30] Includes estimated amounts arising from the collection of items prior to providing credit according to established availability schedules. These amounts are assumed to be invested in a short-term Treasury security.

[31] The imputed mutual fund investment is based on Vanguard's GNMA Fund Investor Shares fund, which was chosen based on the investment strategies articulated in its prospectuses. The fund returns can be located at https://personal.vanguard.com/VGApp/hnw/FundsByType.

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C. *Earnings Credits on Clearing Balances*—The Reserve Banks will maintain the current rate of 80 percent of the three-month Treasury bill rate to calculate earnings credits on clearing balances.

Clearing balances were introduced in 1981, as part of the Board's implementation of the Monetary Control Act, to facilitate access to Federal Reserve priced services by institutions that did not have sufficient reserve balances to support the settlement of their payment transactions. The earnings credit calculation uses a percentage discount on a rolling thirteen-week average of the annualized coupon equivalent yield of three-month Treasury bills in the secondary market. Earnings credits, which are calculated monthly, can be used only to offset charges for priced services and expire if not used within one year.[15]

Effective October 9, 2008, in conjunction with the implementation of interest on reserves, the Board changed the method of computation for earnings credits and the recovery of float costs. These changes discontinued practices related to reserve requirements that are no longer necessary. Adjustments were previously made to ensure that respondents viewed balances at the Federal Reserve Banks and balances at a private-sector correspondent as equivalent. Therefore, the formula used by the Reserve Banks to calculate earnings credits on contracted clearing balances was revised.[16]

D. *Check Service*—Table 8 shows the 2007, 2008 estimated, and 2009 budgeted cost recovery performance for the commercial check service.

TABLE 8—CHECK SERVICE PRO FORMA COST AND REVENUE PERFORMANCE

[$ millions]

Year	1 Revenue	2 Total expense	3 Net income (ROE) [1–2]	4 Targeted ROE	5 Recovery rate after targeted ROE [1/(2+4)]
2007	812.0	743.3	68.6	63.2	100.7%
2008 (estimate)	665.6	632.6	33.0	51.9	97.2%
2009 (budget)	493.8	516.9	−23.1	22.4	91.5%

1. *2008 Estimate*—For 2008, the Reserve Banks estimate that the check service will recover 97.2 percent of total expenses, including imputed expenses, and targeted ROE, compared with the budgeted recovery rate of 100.5 percent (see table 8). Through August 2008, the check service has recovered 101.3 percent of total costs, including imputed expenses, and targeted ROE. For the full year, the Reserve Banks expect to recover all actual and imputed expenses of providing check services and earn a net income of $33.0 million, compared with a targeted ROE of $51.9 million.

The lower-than-budgeted cost recovery is the result of lower-than-expected NICB and higher-than-projected pension costs. For the year, NICB is expected to be nearly $30 million below budget. This shortfall, however, is expected to be partially offset by a $20 million increase in product revenue, reflecting additional revenue associated with the midyear price increase on all paper deposit products. Additionally, the check service's cost recovery shortfall will be affected by one-time costs associated with the next phase of the Reserve Banks' check restructuring initiative.

The number of checks deposited electronically has grown rapidly in 2008 (see table 9). In August, the proportion of checks deposited electronically with the Reserve Banks for collection was approximately 83 percent of total check deposits. By the end of 2008, the Reserve Banks expect Fed Forward deposit penetration rates to surpass 90 percent.

The number of checks presented electronically using Check 21 products has also grown steadily in 2008 (see table 9). In August, 57 percent of the Reserve Banks' volume was presented using Check 21 products. By the end of the year, the Reserve Banks expect that nearly 70 percent of all checks will be presented using Check 21 products. For the last several years, depository institutions had been slower to accept check presentments electronically because financial incentives were generally stronger for electronic check deposit and because integrating electronic presentments into back-office processing and risk-management systems was a complex and expensive undertaking. Given the significant increase in electronic deposits and presentments, it now appears that depository institutions have made substantial progress towards establishing an end-to-end electronic check-processing environment.

TABLE 9—CHECK 21 PRODUCT PENETRATION RATES [a]

[Percent] [b]

	2007	August 2008 year-to-date	August 2008 actual	December 2008 projection
Deposit—FedForward	42	70	83	93
Presentment	25	48	57	70
FedReceipt	4	6	8	10

[15] A band is established around the contracted clearing balance to determine the maximum balance on which credits are earned as well as any deficiency charges. The clearing balance allowance is 2 percent of the contracted amount or $25,000, whichever is greater. Earnings credits are based on the period-average balance maintained up to a maximum of the contracted amount plus the clearing balance allowance. Deficiency charges apply when the average balance falls below the contracted amount less the allowance, although credits are still earned on the average maintained balance.

[16] Effective October 9, 2008, the formula used by the Reserve Banks to calculate earnings credits has changed from

*e = [b * (1-FRR) * r] + [b * (MRR) * f]

to e = [b * r]

Where e is total earnings credits, b is the average clearing balance maintained, FRR is the assumed Reserve Bank marginal reserve ratio (10 percent), r is the earnings credit rate, MRR is the marginal reserve ratio of the DI holding the balance (either 0 percent, 3 percent, or 10 percent), and f is the average federal funds rate. A DI that meets its reserve requirement entirely with vault cash is assigned a marginal reserve requirement of zero.

TABLE 9—CHECK 21 PRODUCT PENETRATION RATES [a]—Continued

[Percent] [b]

	2007	August 2008 year-to-date	August 2008 actual	December 2008 projection
FedReceipt Plus	21	42	50	60
Return—FedReturn	23	35	42	66

[a] FedForward is the electronic forward check collection product; FedReturn is the electronic check return product; and FedReceipt is electronic presentment with accompanying images. Under FedReceipt, the Reserve Banks electronically present only the checks that were deposited electronically or that were deposited in paper form and converted into electronic form by the Reserve Banks to improve their efficiency. Under FedReceipt Plus, the Reserve Banks electronically present, at the request of the depository institution, all checks drawn on that depository institution.

[b] Deposit and presentment statistics are calculated as a percentage of total forward collection volume. Return statistics are calculated as a percentage of total return volume.

For full-year 2008, the Reserve Banks estimate that their total forward check collection volume will decline 5 percent.[17] Paper forward-collection volume is expected to decline 63 percent for the full year, compared with a budgeted decline of 42 percent (see table 10). This greater-than-expected decline in paper check volume is primarily the result of more checks being deposited electronically. For 2008, the Reserve Banks estimate that electronic check deposit volume will increase 75 percent. The Reserve Banks also estimate that paper return volume will decline at a faster pace than anticipated, 42 percent for the full year, compared with a budgeted decline of 34 percent, due to a 33 percent increase in electronic check return volume.

TABLE 10—PAPER CHECK PRODUCT VOLUME CHANGES

[Percent]

	Budgeted 2008 change	Estimated 2008 change
Forward collection	−42	−63
Returns	−34	−42

2. *2009 Pricing*—In 2009, the Reserve Banks project that the check service will recover 91.5 percent of total expenses and targeted ROE. Revenue is projected to be $493.8 million, or about a $172 million decline from 2008. This decline is driven largely by projected reductions in check deposits and an increasing proportion of checks being presented electronically, as well as a $33 million reduction in NICB. Total expenses for the check service are projected to be $516.9 million, a decline of about $116 million from 2008. A key driver in the reduction of check costs is the continued decline in the number of Reserve Bank check-processing sites and associated staff reductions. The Reserve Banks have recently announced plans to accelerate the consolidation of check processing offices in 2009 and are assessing further reductions in their check processing infrastructure.

[17] Total forward Reserve Bank check volumes are expected to drop from roughly 10.0 billion in 2007 to 9.4 billion in 2008.

For 2009, the Reserve Banks estimate that their total forward check volume will decline 12 percent. Volume from traditional paper check deposit services will decline 86 percent and represent less than 5 percent of the Reserve Banks' check deposits by year-end 2009. This volume decline will be partially offset by a projected 10 percent increase in FedForward volume as the shift from paper to electronic check collection continues. The Reserve Banks also estimate that total return volume will decline 10 percent, as a 55 percent reduction in paper check return volume is partially offset by a 24 percent increase in FedReturn volume. The Reserve Banks also project that combined FedReceipt and FedReceipt Plus volume will increase 57 percent in 2009 (see table 11).

TABLE 11—CHECK 21 VOLUME

	2009 Budgeted volume (millions of items)	Growth from 2008 estimate (percent)
FedForward	7,970	10
FedReceipt/ FedReceipt Plus	6,382	57
FedReturn	71	24

For 2009, the Reserve Banks will increase forward paper check collection fees 26 percent and paper return service fees 33 percent. These increases are designed to encourage the continued rapid adoption of Check 21 services and to reflect the higher costs associated with processing and transporting paper checks. For Check 21 services, the Reserve Banks will increase FedForward fees 3.8 percent for checks presented electronically and 37 percent for checks presented as substitute checks. FedReturn fees would increase 26 percent (see table 12). Because the fees to collect and return checks drawn on depository institutions that accept electronics are lower than on those that accept paper, the rapid rise in the number of depository institutions that are accepting presentments and returns electronically are expected to result in a 10 percent reduction in the effective price to collect a check electronically and an 8 percent reduction in the effective price to return a check electronically.

TABLE 12—2009 FEE CHANGES

[Percent]

Product	Fee change
Paper Check:	
Forward collection	26
Returns	33
Check 21[a]:	
FedForward (electronic endpoints)	3.8
FedForward (substitute check endpoints)	37
FedReturn	26

[a] FedReceipt customers receive a $0.004 discount per check presented electronically. This discount can be used to offset fees for checks deposited electronically with the Reserve Banks.

There are a number of risks to the Reserve Banks' ability to achieve the budgeted 2009 cost recovery. These risks include greater-than-expected check volume losses to correspondent banks, aggregators, and direct exchanges, which would result in lower-than-anticipated revenue. Also, a substantial decline in clearing balances due to the implementation of interest on reserves could adversely affect cost recovery. Other risks include higher-than-anticipated pension costs and significant cost overruns associated with unanticipated problems with check restructuring or the Reserve Banks' Check 21 platform.

E. *FedACH Service*—Table 13 shows the 2007, 2008 estimate, and 2009 budgeted cost-recovery performance for the commercial FedACH service.

TABLE 13—FEDACH SERVICE PRO FORMA COST AND REVENUE PERFORMANCE

[$ millions]

Year	1 Revenue	2 Total expense	3 Net income (ROE) [1–2]	4 Targeted ROE	5 Recovery rate after targeted ROE [1/(2+4)]
2007	102.0	85.9	16.0	8.8	107.6%
2008 (estimate)	96.6	87.8	8.8	7.6	101.3%
2009 (budget)	102.4	97.9	4.5	4.5	100.0%

1. *2008 Estimate*—The Reserve Banks estimate that the FedACH service will recover 101.3 percent of total expenses and targeted ROE, compared with the budgeted recovery rate of 102.0 percent, due mostly to lower-than-anticipated NICB. The Reserve Banks expect to recover all actual and imputed expenses of providing FedACH services and earn a net income of $8.8 million. Through August, FedACH average daily commercial origination volume was 8.5 percent higher than during the same period last year. For full-year 2008, the Reserve Banks estimate that FedACH commercial originations will grow 11.2 percent, compared with a budgeted full-year growth rate of 11.7 percent.

2. *2009 Pricing*—The Reserve Banks project that the FedACH service will recover 100.0 percent of total expenses and targeted ROE in 2009. Total revenue is budgeted to increase $5.8 million from the 2008 estimate, primarily due to the increases in monthly fixed fees and non-electronic information services, as well as new revenues from the implementation of value-added services. Total expenses are budgeted to increase $10.1 million from the 2008 estimate, generally due to costs associated with development of a new FedACH technology platform and increased pension costs.

The Reserve Banks expect FedACH commercial origination volume to grow 7.5 percent in 2009. While the growth rates for recurring ACH credits and debits have been relatively steady, the growth rates for payments that have accounted for the bulk of ACH growth in recent years (for example, electronic check conversion applications, including checks converted at lockboxes and at the point of sale, and consumer web-initiated entries) may start to decline. Additionally, the continued growth of direct exchanges and the competition from EPN will continue to affect FedACH volume growth.

To address these challenges, Reserve Banks will maintain FedACH transaction prices at current levels. At the same time, the Reserve Banks will increase monthly fees for account servicing, FedACH settlement, and information extract files. Fees for voice response returns and notifications of change and fees for non-electronic input/output, which includes paper, CD/DVD, and facsimile exception returns/notifications, will also rise.

Major risks to meeting the Reserve Banks' budgeted 2009 cost recovery are lower-than-anticipated volume growth due to competition from EPN, an increase in direct ACH exchanges, lower-than-expected NICB, and higher-than-expected pension expenses. In addition, unanticipated problems with technology upgrades may result in cost overruns.

F. *Fedwire Funds and National Settlement Services*—Table 14 shows the 2007, 2008 estimate, and 2009 budgeted cost recovery performance for the Fedwire Funds and National Settlement Services.

TABLE 14—FEDWIRE FUNDS AND NATIONAL SETTLEMENT SERVICES PRO FORMA COST AND REVENUE PERFORMANCE

[$ millions]

Year	1 Revenue	2 Total expense	3 Net income (ROE) [1–2]	4 Targeted ROE	5 Recovery rate after targeted ROE [1/(2+4)]
2007	74.5	63.1	11.4	6.3	107.3%
2008 (estimate)	67.4	61.6	5.8	5.3	100.8%
2009 (budget)	71.7	69.7	1.9	3.2	98.3%

1. *2008 Estimate*—The Reserve Banks estimate that the Fedwire Funds and National Settlement Services will recover 100.8 percent of total expenses and targeted ROE, compared with a 2008 budgeted recovery rate of 105.4 percent. The lower-than-expected recovery rate is primarily attributable to lower-than-expected NICB and transaction fee revenue. Through August, online Fedwire funds transfer volume was 2.0 percent lower than the same period last year. For full-year 2008, the Reserve Banks estimate that online Fedwire funds transfer volume will decline 1.2 percent, compared to a budgeted growth rate of 2.1 percent. With respect to the National Settlement Service, the Reserve Banks estimate that the volume of settlement entries processed during 2008 will decline 4.4 percent, due to three fewer settlement arrangements submitting settlement files.

2. *2009 Pricing*—The Reserve Banks expect the Fedwire Funds and National Settlement Services to recover 98.3 percent of total expenses and targeted ROE in 2009. The Reserve Banks project total revenue to increase $4.3 million compared with the 2008 estimate. The increase in revenue is due to the implementation of a monthly participation fee for the Fedwire Funds Service. Total expenses are budgeted to increase $8.1 million from the 2008 estimate due to higher pension costs, as well as increases in operating costs. Online volume for the Fedwire Funds Service for 2009 is budgeted to decline by 1.0 percent, consistent with 2008 volume trends. Online volume for the

National Settlement Service for 2009 is budgeted to be unchanged.

The Reserve Banks will implement a $60 per month participation fee, which will only be applied to Fedwire funds participants' routing numbers that have activity during the billing month. The monthly fee is intended to better align the revenue stream with the costs of providing the service, which are predominately fixed. The Reserve Banks will also increase the surcharge for offline Fedwire funds transfers. With respect to the National Settlement Service, the Reserve Banks will increase the basic settlement file fee, as well as the surcharge for an offline file origination.

G. *Fedwire Securities Service*—Table 15 shows the 2007, 2008 estimate, and 2009 budgeted cost recovery performance for the Fedwire Securities Service.[18]

TABLE 15—FEDWIRE SECURITIES SERVICE PRO FORMA COST AND REVENUE PERFORMANCE

[$ millions]

Year	1 Revenue	2 Total expense	3 Net income (ROE) [1–2]	4 Targeted ROE	5 Recovery rate after targeted ROE [1/(2+4)]
2007	23.9	21.0	2.9	2.0	103.7%
2008 (estimate)	23.4	21.2	2.2	1.7	102.1%
2009 (budget)	24.5	23.4	1.2	1.1	100.5%

1. *2008 Estimate*—The Reserve Banks estimate that the Fedwire Securities Service will recover 102.1 percent of total expenses and targeted ROE, compared with a 2008 budgeted recovery rate of 104.8 percent. The lower-than-budgeted recovery is primarily attributable to lower-than-expected NICB. Through August, online securities volume was 19.8 percent higher than during the same period last year. The higher-than-budgeted volume is driven by recent market volatility. For full-year 2008, the Reserve Banks estimate that online securities volume will grow 7.9 percent, although more recent data suggest that full-year volume growth may be somewhat higher.

2. *2009 Pricing*—The Reserve Banks project that the Fedwire Securities Service will recover 100.5 percent of total expenses and targeted ROE in 2009. The Reserve Banks project total revenue to increase by $1.1 million compared with the 2008 estimate. The increase in revenue is due to fee increases. Total expenses are budgeted to increase $2.2 million from the 2008 estimate due to higher pension costs as well as increases in operating costs. Online and offline securities volumes in 2009 are projected to be unchanged from 2008 estimates.

The Reserve Banks will increase the account maintenance fee by $5.00, the basic transfer fee by $0.01, and the claims adjustment fee by $0.30. The increase to the account maintenance fee is intended to better align the revenue stream with the costs of providing the service, which are predominately fixed.

H. *Electronic Access*—The Reserve Banks allocate the costs and revenues associated with electronic access to the Reserve Banks' priced services. There are currently three types of electronic access channels through which customers can access the Reserve Banks' priced services: FedLine®, FedPhone®, and FedMail®.[19] For 2009, the Reserve Banks will increase the fees on nearly all electronic access packages, as well as the other electronic access options, to address increases in costs.

The Reserve Banks offer nine electronic access packages that are supplemented by a number of premium (or à la carte) access and accounting information options. The first package provides access to information services through FedMail Email. The next two packages are FedLine Web packages, with three or five subscribers, that offer access to basic information and check services. The next two packages are FedLine Advantage packages, with three or five subscribers, that expand upon the FedLine Web packages and offer access to FedACH and Fedwire Services. The next package is FedLine Command, which offers an unattended connection to FedACH, Fedwire Securities statement services, and most accounting information services. The last three packages are FedLine Direct packages, which allow for unattended connections with three different connection speeds to FedACH, Fedwire Funds and Securities transactional and information services, and most accounting information services.

II. 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, "The Federal Reserve in the Payments System." [20] Under this policy, the Board assesses whether the changes 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 deriving from such legal differences. If the changes create such an effect, the Board must further evaluate the changes to assess whether the associated benefits—such as contributions to payment system efficiency, payment system integrity, or other Board objectives—can be achieved while minimizing the adverse effect on competition.

The Board believes that the 2009 fees will result in a projected net income below the targeted ROE primarily due to shortfalls in the check service. Given the ongoing major structural transition in the nation's check clearing system, it is likely that other market participants are also not achieving an ROE equivalent to that targeted by the Reserve Banks. Therefore, while it is possible, it is not likely that the Reserve Banks' failure to

[18] 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.

[19] FedPhone, FedMail, and FedLine are registered service marks of the Reserve Banks. These connections may also be used to access non-priced services provided by the Reserve Banks. FedPhone is a free access option.

[20] Federal Reserve Regulatory Service (FRRS) 9–1558.

achieve the targeted ROE would adversely affect the ability of other service providers to compete with the Reserve Banks. In addition, any potential adverse effect on competing service providers would not be the result of differing legal powers or a dominant market position deriving from such legal differences.

The Reserve Banks have taken steps to maximize their 2009 cost recovery. Specifically, they increased fees for paper check and Check 21 services. The Reserve Banks believe that more significant increases to the fees for Check 21 services will slow the transition to a full electronic check processing environment nationwide and, at the same time, result in lower check net revenue due to volume losses. Given the fee increases and the check market environment, the Board believes that additional fee increases may hinder the achievement of the Reserve Banks' objective of improving the efficiency of the nation's check-collection system and may not materially improve cost recovery.

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FedACH Service 2009 Fee Schedule

Effective January 2, 2009. Bold indicates changes from 2008 prices.

Origination (per item or record):[38]	Fee
Items in small files	$0.0030
Items in large files	$0.0025
Addenda record	$0.0010
Receipt (per item or record):[39]	
Item	$0.0025
Addenda record	$0.0010
Risk Product:	
Risk origination monitoring criteria	
Tier 1 (1-20 sets)	$8.00/set of criteria/month
Tier 2 (21-150 sets)	$4.00/set of criteria/month
Tier 3 (151 and above)	$1.00/set of criteria/month
Risk origination monitoring batch	$0.0025/batch
FedEDI Plus:	
Defined report generated	$0.20
On demand report generated	$0.75
Secure delivery via e-mail	$0.20
Monthly fee (per routing number):	
Account servicing fee[40]	**$37.00**
FedACH settlement[41]	**$37.00**
Information extract file	**$35.00**
FedLine Web origination returns and notification of change (NOC) fee:[42]	$0.30
Voice response returns/NOC fee:[43]	**$3.00**
Non-electronic input/output fee:[44]	
CD or DVD input/output	**$50.00**
Paper input/output	**$50.00**
Facsimile exception returns/NOC[45]	**$30.00**

[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 the private-sector ACH operator.

[39] Receipt fees do not apply to items that the Reserve Banks send to the private-sector ACH operator.

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

[41] The FedACH settlement fee 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 and addenda fees.

[43] The fee includes the transaction fee in addition to the voice response fee.

[44] These services are offered for contingency situations only.

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

Canadian cross-border fee:	
Cross-border item surcharge[46]	$0.039
Return received from Canada[47]	$0.77
Same-day recall of item at receiving gateway operator	$4.00
Same-day recall of item not at receiving gateway operator	$7.00
Trace of item at receiving gateway	$3.50
Trace of item not at receiving gateway	$5.00
Mexico service fee:	
Cross-border item surcharge[46]	$0.67
Return received from Mexico[47]	$0.69
Item trace	$11.50
Transatlantic service fee:	
Cross-border item surcharge[46]	
Austria	$2.00
Germany	$2.00
The Netherlands	$2.00
Switzerland	$2.00
United Kingdom	$2.00
Return received[47]	
Austria	$5.00
Germany	$8.00
The Netherlands	$5.00
Switzerland	$5.00
United Kingdom	$8.00

[46] This per-item surcharge is in addition to the standard domestic origination and input file processing fees.

[47] This per-item surcharge is in addition to the standard domestic receipt fees.

FEDWIRE FUNDS AND NATIONAL SETTLEMENT SERVICES 2009 FEE SCHEDULE

EFFECTIVE JANUARY 2, 2009. BOLD INDICATES CHANGES FROM 2008 FEE SCHEDULE.

Fedwire Funds Service

	Fee
Monthly participation fee[48]	**$60.00**
Basic volume-based transfer fee (originations and receipts)	
Per transfer for the first 3,000 transfers per month	$0.26
Per transfer for additional transfers up to 90,000 per month	$0.17
Per transfer for every transfer over 90,000 per month	$0.08
Surcharge for offline transfers (originations and receipts)	**$40.00**

National Settlement Service

Basic	
Settlement entry fee	$0.80
Settlement file fee	**$18.00**
Surcharge for offline file origination	**$40.00**
Minimum monthly charge (account maintenance)[49]	$60.00
Special settlement arrangements[50]	
Fee per day	$100.00

[48] The monthly participation fee will only be applied to Fedwire funds participants' routing numbers that have activity during the billing month.

[49] This minimum monthly charge will only be assessed if total settlement charges during a calendar month are less than $60.

[50] 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 2009 FEE SCHEDULE (NON-TREASURY SECURITIES)

EFFECTIVE JANUARY 2, 2009. BOLD INDICATES CHANGES FROM 2008 FEE SCHEDULE.

	Fee
Basic transfer fee	
Transfer or reversal, originated or received	**$0.35**
Surcharge	
Offline transfer or reversal, originated or received	$60.00
Monthly maintenance fees	
Account maintenance (per account)	**$21.00**
Issues maintained (per issue/per account)	$0.40
Claim adjustment fee	**$0.60**
Joint custody fee	$40.00

Electronic Access 2009 Fee Schedule

EFFECTIVE JANUARY 2, 2009. BOLD INDICATES CHANGES FROM 2008 FEE SCHEDULE.

Electronic Access Packages (monthly)

FedMail Email **$20.00**

FedLine Web W3 **$95.00**

Includes: FedMail Email
FedLine Web with three individual subscriptions
Service Charge Information
Account Management Information
FedACH Risk Monitoring Service
FedEDI Service

FedLine Web W5 **$140.00**

Includes: FedMail Email
FedLine Web with five individual subscriptions
Service Charge Information
Account Management Information
FedACH Risk Monitoring Service
FedEDI Service
Cash Management System Basic - Own report only

FedLine Advantage A3 $310.00

Includes: FedLine Web W3 package
FedLine Advantage with three individual subscriptions
Virtual Private Network maintenance

FedLine Advantage A5 **$380.00**

Includes: FedLine Web W5 package
FedLine Advantage with five individual subscriptions
Virtual Private Network maintenance for one device
Intraday search download feature within Account Management Information

FedLine Command **$680.00**

Includes: FedLine Advantage A5 package
Virtual Private Network maintenance for one device
Billing Data Format File
Intra-Day File
End of Day Reconcilement File
Statement of Account Spreadsheet File (SASF)

FedLine Direct D56, D256, DT1	**D56 $2,500.00, D256 $3,500.00, and DT1 $4,500.00**
Includes: FedLine Command package	
One dedicated unattended connection for FedLine Direct	

Premium Options (monthly)[51]

Electronic Access

FedMail Fax (monthly per routing number)	**$30.00**
Additional subscribers package (each package contains 5 additional subscribers)	**$80.00**
Maintenance of additional Virtual Private Network	**$60.00**
Additional dedicated connections[52]	
56K	**$1,500.00**
256K	**$2,200.00**
T1	**$2,700.00**
FedImage/Check 21 Large File Delivery	Various

Accounting Information Services

Cash Management System	
Basic – Respondent and/or sub account reports (per report/month)	**$10.00**
Basic – Respondent/sub account recap report (per month)	**$40.00**
Plus – Own report up to six times a day (per month)	**$55.00**
Plus – Less than 10 respondent and/or sub accounts and SASF (per month)	**$105.00**
Plus – 10 or more respondent and/or sub accounts and SASF (per month)	**$225.00**
End of Day Reconcilement File (per month)	$100.00
Statement of Account Spreadsheet File (per month)	$100.00
Intra-Day File (per month)	$100.00

[51] Premium options for FedLine Web W3 and FedLine Advantage A3 are limited to FedMail Fax.

[52] Network diversity supplemental charge of $1,200 a month may apply in addition to these fees.

BILLING CODE 6210–01–C

By order of the Board of Governor of the Federal Reserve System, October 28, 2008.

Jennifer J. Johnson,

Secretary of the Board.

[FR Doc. E8–26101 Filed 10–31–08; 8:45 am]

BILLING CODE 6210–01–P

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Centers for Medicare & Medicaid Services

[CMS–1555–N]

RIN 0938–AP20

Medicare Program; Home Health Prospective Payment System Rate Update for Calendar Year 2009

AGENCY: Centers for Medicare & Medicaid Services (CMS), HHS.

ACTION: Notice.

SUMMARY: This notice sets forth an update to the 60-day national episode rates and the national per-visit amounts under the Medicare prospective payment system for home health services, effective on January 1, 2009.

DATES: *Effective Date:* This notice is effective on January 1, 2009.

FOR FURTHER INFORMATION CONTACT: Randy Throndset, (410) 786–0131.

I. Background

A. Requirements of the Balanced Budget Act of 1997 for Establishing the Prospective Payment System for Home Health Services

The Balanced Budget Act of 1997 (BBA) (Pub. L. 105–33) enacted on August 5, 1997, significantly changed the way Medicare pays for Medicare home health services. Section 4603 of the BBA mandated the development of the home health prospective payment system (HH PPS). Until the implementation of a HH PPS on October 1, 2000, home health agencies (HHAs) received payment under a cost-based reimbursement system.

Section 4603(a) of the BBA mandated the development of a HH PPS for all Medicare-covered home health services provided under a plan of care that were paid on a reasonable cost basis by adding section 1895 of the Social Security Act (the Act), entitled ‘‘Prospective Payment For Home Health Services’’. Section 1895(b)(1) of the Act requires the Secretary to establish a HH PPS for all costs of home health services paid under Medicare.

Section 1895(b)(3)(A) of the Act requires that (1) the computation of a standard prospective payment amount include all costs for home health services covered and paid for on a reasonable cost basis and be initially based on the most recent audited cost report data available to the Secretary, and (2) the prospective payment amounts be standardized to eliminate the effects of case-mix and wage levels among HHAs.

Section 1895(b)(3)(B) of the Act addresses the annual update to the standard prospective payment amounts by the home health applicable increase percentage as specified in the statute.

Section 1895(b)(4) of the Act governs the payment computation. Sections 1895(b)(4)(A)(i) and (b)(4)(A)(ii) of the Act require the standard prospective payment amount to be adjusted for case-mix and geographic differences in wage levels.

Section 1895(b)(4)(B) of the Act requires the establishment of an appropriate case-mix change adjustment factor that adjusts for significant variation in costs among different units of services.

Similarly, section 1895(b)(4)(C) of the Act requires the establishment of wage adjustment factors that reflect the relative level of wages, and wage-related costs applicable to home health services furnished in a geographic area compared to the applicable national average level. These wage-adjustment factors may be used by the Secretary for the different geographic wage levels for purposes of section 1886(d)(3)(E) of the Act.

Section 1895(b)(5) of the Act gives the Secretary the option to make additions or adjustments to the payment amount otherwise paid in the case of outliers because of unusual variations in the type or amount of medically necessary care. Total outlier payments in a given fiscal year (FY) may not exceed 5 percent of total payments projected or estimated.

In accordance with the statute, we published a final rule (65 FR 41128) in the **Federal Register** on July 3, 2000 to implement the HH PPS legislation. The July 2000 final rule established requirements for the new HH PPS for home health services as required by section 4603 of the BBA, as subsequently amended by section 5101 of the Omnibus Consolidated and Emergency Supplemental Appropriations Act (OCESAA) for Fiscal Year 1999, (Pub. L. 105–277), enacted on October 21, 1998; and by sections 302, 305, and 306 of the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act (BBRA) of 1999, (Pub. L. 106–113), enacted on November 29, 1999. The requirements include the implementation of a HH PPS for home health services, consolidated billing requirements, and a number of other related changes. The HH PPS described in that rule replaced the retrospective reasonable cost-based system that was used by Medicare for the payment of home health services under Part A and Part B.

For a complete and full description of the HH PPS as required by the BBA, see the July 2000 HH PPS final rule (65 FR 41128 through 41214).

B. Deficit Reduction Act of 2005

On February 8, 2006, the Deficit Reduction Act of 2005 (Pub. L. 109–171) (DRA) was enacted. This legislation affected updates to HH payment rates for calendar year (CY) 2006. The DRA also required HHAs to submit home health care quality data and created a linkage between those data and payment, beginning in CY 2007.

Specifically, section 5201 of the DRA changed the CY 2006 update from the applicable home health market basket percentage increase minus 0.8 percentage points to a 0 percent update. In addition, section 5201 of the DRA amends section 421(a) of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) (Pub. L. 108–173, enacted on December 8, 2003). The amended section 421(a) of the MMA requires that for home health services furnished in a rural area (as defined in section 1886(d)(2)(D) of the Act) on or after January 1, 2006 and before January 1, 2007, that the Secretary increase the payment amount otherwise made under section 1895 of the Act for home health services by 5 percent. The statute waives budget neutrality for purposes of this increase since it specifically states that the Secretary must not reduce the standard prospective payment amount (or amounts) under section 1895 of the Act applicable to home health services furnished during a period to offset the increase in payments resulting in the application of this section of the statute.

The 0 percent update to the payment rates and the rural add-on provisions of the DRA were implemented through a CMS transmittal (Pub. 100–20, One Time Notification, Transmittal 211) issued on February 10, 2006.

In addition, section 5201 of the DRA requires HHAs to submit data for purposes of measuring health care quality, and links the quality data submission to payment. This requirement is applicable for CY 2007 and each subsequent year. If an HHA does not submit quality data, the home health market basket percentage increase will be reduced 2 percentage points. In accordance with the statute,