

## BILLING CODE 6210-01-P

By order of the Board of Governors of the Federal Reserve System, October 25, 2012.

**Robert deV. Frierson,**

*Secretary of the Board.*

[FR Doc. 2012-26864 Filed 11-7-12; 8:45 am]

## BILLING CODE 6210-01-C

## FEDERAL RESERVE SYSTEM

[Docket No. OP-1447]

### Federal Reserve Bank Services Private Sector Adjustment Factor

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Notice.

**SUMMARY:** The Board has approved modifications to its method for calculating the private-sector adjustment factor (PSAF). The PSAF is part of the Board's calculation, as required by the Monetary Control Act of 1980 (MCA), to establish the fees that Federal Reserve Banks (Reserve Banks) charge for certain financial services provided to depository institutions. Because the Federal Reserve priced services have historically had characteristics most analogous to correspondent banks, clearing balances held by depository institutions at Reserve Banks were a primary component in computing the PSAF. The clearing balance program was largely modeled after similar programs offered by correspondent banks, wherein banks maintain balances with their correspondents. The Board was prompted to consider a new PSAF methodology because clearing balances held at Reserve Banks were declining following the Board's implementation of the payment of interest on required reserve and excess balances held at Reserve Banks. Effective July 2012, the Board eliminated the contractual clearing balance program in connection with its simplification of reserve policies. Changes in the priced services market and the elimination of clearing balances have made the correspondent bank analogy less applicable to the priced services provided by the Federal Reserve. Accordingly, the Board is adopting a publicly traded firm model to set the PSAF. Use of the new methodology is reflected in priced services fees for 2013, which is published elsewhere in today's **Federal Register**.

**DATES:** *Effective Date:* November 8, 2012. The revised method will be used to calculate the PSAF that is reflected in the 2013 priced services fees.

#### FOR FURTHER INFORMATION CONTACT:

Gregory L. Evans, Deputy Associate Director (202) 452-3945, Brenda L. Richards, Manager (202) 452-2753, or John W. Curle, Senior Financial Analyst (202) 452-3916; Division of Reserve Bank Operations and Payment Systems; for users of Telecommunications Device for the Deaf (TDD), contact (202) 263-4869.

#### SUPPLEMENTARY INFORMATION:

##### I. Background

Under the MCA, the Federal Reserve Banks must establish fees for "priced services," to recover, over the long run, all direct and indirect costs actually incurred in providing these services as well as the imputed costs that would have been incurred had the services been provided by a private-sector firm.<sup>1,2</sup> The imputed costs—sales and income taxes, debt costs, and a required return on equity (profit)—are collectively referred to as the PSAF and are an additional cost considered when setting fees and determining cost recovery.

The Board's current method for calculating the PSAF involves developing an estimated Federal Reserve priced services pro forma balance sheet using actual priced services assets and liabilities. The remaining components on the balance sheet, such as equity, are imputed as if these services were provided by a correspondent bank. Equity is imputed at a level necessary for a well-capitalized depository institution and the target return on equity capital (ROE) is estimated based on the capital asset pricing model (CAPM). Finally, the PSAF includes an estimated share of the Board of Governors' expenses incurred to oversee Reserve Bank priced services, imputed sales and income taxes, and an imputed Federal Deposit Insurance Corporation (FDIC) assessment.

The methodology underlying the PSAF is reviewed periodically to ensure that it is appropriate and relevant in light of Reserve Bank priced services activities, accounting standards, finance theory, and regulatory and business practices.<sup>3</sup> The Board considers five principles when reviewing the PSAF methodology: (1) Providing a conceptually sound basis for efficient pricing in the market for payments services, (2) using Reserve Bank financial information as applicable, (3)

maintaining consistency with private-sector practice, (4) using data in the public domain to make the PSAF replicable, and (5) avoiding any undue cost or complexity of the PSAF methodology.

Under the current correspondent bank model, clearing balances maintained by Reserve Bank customers have been a significant component of the pro forma financial statements and an important driver in calculating nearly all of the imputed costs considered in setting fees for priced services. Similar to how a correspondent bank would use its respondent balances, the clearing balances are a funding source for short- and long-term assets, including investments, and affect the level of imputed equity. Clearing balance levels, therefore, affect the overall size of the balance sheet, influence the need to impute debt funding, and contribute to total cost recovery through imputed net income on clearing balances.

The payment of interest on balances in Federal Reserve accounts and related monetary policy actions have affected the level of clearing balances and the similarity between correspondent banks and Federal Reserve priced services.<sup>4</sup> Following the implementation of interest on required reserve and excess balances, the Board recognized a significant decline in clearing balances and anticipated that the trend would continue.

The Board requested comment on modifications to its computation of the PSAF in April 2009<sup>5</sup> (2009 notice) and in October 2011<sup>6</sup> (2011 notice) (concurrent with the Board's request for comment on reserves simplification). Because clearing balances were a significant component of the pro forma balance sheets under the current method and because of the decline in clearing balance levels, the Board requested in its 2009 notice comment on the anticipated level of clearing balances given certain interest rate scenarios, the relevance of the clearing balance program, and whether the clearing balance program should continue.<sup>7</sup> The Board requested comment on whether a new methodology and its associated data sources and computations would be

<sup>4</sup> In 2008, Congress amended the Federal Reserve Act to authorize Reserve Banks to pay interest on balances of eligible institutions. (See section 19 of the Federal Reserve Act (12 U.S.C. 461(b).) Since then, interest has been paid on balances maintained to satisfy reserve balance requirements and excess reserves at a rate determined by the Board (currently 25 basis points for required and excess reserve balances).

<sup>5</sup> 74 FR 15481 (Apr. 6, 2009).

<sup>6</sup> 76 FR 64250 (Oct. 18, 2011).

<sup>7</sup> 74 FR at 15484.

<sup>1</sup> These priced services include check, FedACH®, Fedwire® Funds, and Fedwire® Securities services (for activity unrelated to Treasury).

<sup>2</sup> 12 U.S.C. 248a(c)(3).

<sup>3</sup> The previous review of the PSAF was completed in 2005 and changes were implemented for the 2006 PSAF. 70 FR 60341 (Oct. 17, 2005).

appropriate for the priced services. The Board also requested comment on the appropriate term for the risk-free rate that is used to calculate the target ROE.<sup>8</sup>

In the 2009 notice, the Board proposed a publicly traded firm (PTF) model for calculating the imputed costs that factor into priced services fees and cost recovery.<sup>9</sup> The imputed PSAF costs under the proposed PTF model were principally based on the U.S. publicly traded firm market and not limited to one sector of the market. Because the analogy between correspondent banks and the Reserve Banks' priced services had become less applicable with the decline in the level of clearing balances held and in Reserve Bank paper check collection volume for which correspondent banks were the primary competitors, the design of the PTF model uses the U.S. publicly traded firm market to simplify the peer group assumption. This simplifying assumption is intended to address the limited comparable private sector firm data in the public domain as well as avoid undue cost or complexity.

In the 2009 notice, the Board also considered and requested comment on two other PSAF models: the user-owned utility model, which incorporated the financial characteristics of a user-owned utility to derive its priced services balance sheet, and the cost plus model, which incorporated a markup to the priced services operating expenses for the year. In addition, the Board considered and requested comment on whether it should continue using the correspondent bank model.

In the 2011 notice, the Board requested comment on eliminating the contractual clearing balance program, the appropriate level of minimum equity for the previously proposed PTF model, and whether the level of float should be considered before replacing the correspondent bank model.<sup>10</sup> Although the level of clearing balances did not decline to the degree anticipated in 2009, the contractual clearing balance program was subsequently eliminated in 2012 as part of the Board's reserves simplification.<sup>11</sup>

In these notices, the Board proposed and requested comment on the following considerations and elements of the new PSAF methodology:

- Adopting an imputed capital structure, effective tax rate, and debt financing rates of the priced services based on the U.S. publicly traded firm

market using specific market data and time frames;

- Basing the capital structure on the most recent full-year value-weighted average capital structure (that is, total long-term debt to total long-term debt plus equity) of all U.S. publicly traded firms included in the Standard & Poor's Compustat<sup>®</sup> database;<sup>12</sup>

- Basing the long-term debt financing rate on the five-year mean of the Aaa and Baa Moody's bond yields published on the Federal Reserve Board's H.15 Statistical Release and the reasonableness of including only investment grade bonds in the calculation;<sup>13</sup>

- When short-term assets exceed short-term liabilities, imputing short-term debt financing rate on the average of the three-month AA and A2/P2 nonfinancial commercial paper rates as published on the Federal Reserve Board's Commercial Paper Release;<sup>14</sup>

- Basing the imputed effective income tax rate on the five-year mean of the value-weighted average ratios of current tax expense to total net income for all U.S. publicly traded firms in the financial database; and

- Considering the user-owned utility model, the cost-plus model, or a continuation of the correspondent bank model as alternative methodologies to the PTF model.

## II. Summary of Comments and Analysis

The Board received eight comments in response to its 2009 notice. Comments were submitted by three bankers' banks, two industry groups, one bank holding company, one association, and one individual. Overall, the comments on the proposed PSAF methodology were mixed. Some commenters disagreed with the proposed methodology and suggested alternative approaches that required using financial data that are not publicly available. Three of the four who commented on the overall proposed PSAF methodology did not support the proposed PTF model. One of these commenters supported a continuation of the correspondent bank model and one supported a cost-plus model. One commenter supported the PTF model but encouraged evaluation of the cost-plus methodology for computing the PSAF. The remaining four commenters expressed neither support nor opposition to the proposed PTF model

<sup>12</sup> The Standard & Poor's Compustat database contains information on more than 6,000 U.S. publicly traded firms, which approximate the entirety of the U.S. market.

<sup>13</sup> <http://www.federalreserve.gov/releases/h15/update/>.

<sup>14</sup> *Id.*

but provided other, more general comments. Four commenters requested an extension of the comment period for further analysis or dialogue. The Board received one response to its October 2011 request for comment related to the PSAF. This commenter stated that the Board should conduct further analysis and provide the public with additional information before adopting a new methodology.

### A. The Contractual Clearing Balance Program

The Board requested comment on the general relevance of the clearing balances in the computation of PSAF as a consequence of anticipated continued declines in clearing balance levels. Three commenters acknowledged the effect interest on required reserve and excess balances would have on the level of clearing balances maintained when the rates paid on required and excess reserve balances are greater than the earnings credit rate on clearing balances. Subsequently, the Board eliminated the clearing balance program. As a result, there is no longer a need to consider the levels of balances as they relate to the PSAF calculation.

### B. Publicly Traded Firm Model

In response to its request for comment, the Board received various comments regarding the proposed assumptions used in the PTF model related to peer group benchmarking, capital structure, effective tax rate, and debt financing.

#### (1) Peer Group Benchmarking

The cost of equity, a key component of priced services cost structure, is computed based on the CAPM, which uses the U.S. publicly traded firm market to determine the average risk premium. Three commenters stated that the U.S. publicly traded firm market was too broad of a benchmark and suggested narrowing the peer group to specific financial institutions or publicly-traded payments processors. One of these three commenters recommended a list of participants in the payment processing industry as a peer group benchmark and also suggested commissioning a peer-group study to benchmark payment processing industry costs.

Because of the concentration of the market activity of the suggested peer group in a few entities, the financial results of such a peer group would likely be volatile.<sup>15</sup> The Board found

<sup>15</sup> Although the MCA's requirement for cost recovery over the long run allows the Board to set fees to over- or under-recover costs in a given year

<sup>8</sup> *Id.* at 15488.

<sup>9</sup> *Id.* at 15489–15490.

<sup>10</sup> 76 FR at 64255–64256.

<sup>11</sup> 77 FR 21846 (Apr. 12, 2012).

that one entity accounted for approximately 43 percent of the group's total assets and the range of the individual effective tax rates of the entities was broad (from 18 to 71 percent). The Board believes that a peer group or proxy for competitors to Federal Reserve priced services should consist of enough participants with publicly available financial data to mitigate the potentially volatile effects of the financial characteristics of a few firms. Because of the challenges in identifying a viable peer group, the U.S. publicly traded firm market is an attractive alternative. The use of averages based on the U.S. publicly traded firm market minimizes the effect of extreme or anomalous financial characteristics in the PTF model.

In reviewing appropriate peer group benchmarks for computing the PSAF, the Board considered adopting a user-owned utility model, which recognizes that the Reserve Banks' major competitors in the provision of priced services are increasingly user-owned utilities rather than traditional correspondent banks. One commenter noted that the definition of user-owned utilities was not adequately described in the request for comment. Another commenter requested additional insight on the Board's conclusion that user-owned utilities have become its predominant competitors. None of the commenters specifically supported a user-owned utility model.

Financial information regarding some significant user-owned utilities is not publicly available. The primary user-owned utility that provides services similar to those provided by the Reserve Banks is The Clearing House Payments Company, LLC, which operates CHIPS, the primary competitor for the Reserve Bank's Fedwire® Funds Service, and the Electronic Payments Network, the only private-sector automated clearinghouse operator.<sup>16</sup> Establishing the method to calculate the requisite imputed elements—capital structure, debt financing rates, and income taxes—using theoretical assumptions or academic studies could be challenging. In the absence of publicly available data on a significant number of user-owned utilities or substantial academic literature regarding the financial characteristics of these organizations, the Board does not consider adopting

user-owned utilities to be an appropriate peer group benchmark.

The Board also considered continuing to use the correspondent bank model, without clearing balances and with minor modifications, to impute costs. One commenter supported the continued use of the correspondent bank model and stated that private market participants are affected by factors similar to the Federal Reserve in setting fees for services. One commenter noted that a reduction in clearing balances does not necessarily indicate a failure of the PSAF and that the correspondent bank model has been reasonably effective over time. Others who commented on the proposal did not comment on the Board's continued use of this model.

A principal disadvantage of the correspondent bank model is the decreasing similarity between the characteristics of the Reserve Bank priced services without the contractual clearing balance program and traditional correspondent banks. Historically, the Board recognized that the financial characteristics of correspondent banks were not driven primarily by the payment services that compete with those offered by Reserve Banks, but considered correspondent banks as an appropriate peer group because both entities held customer balances for the purpose of facilitating payments services and they were the primary competitors to the Reserve Banks' check services. Because the contractual clearing balance program was eliminated and the check service has declined as a percentage of the Reserve Banks' priced services revenue and expenses, comparing priced services to correspondent banks for the purpose of establishing a PSAF methodology is increasingly difficult. Accordingly, the Board has determined that the peer group of correspondent banks is no longer appropriate to impute priced services costs.

Based on its review of possible benchmarks, the Board believes the use of market wide averages of U.S. publicly traded firms is an appropriate proxy that avoids the challenges associated with the potential financial data volatility associated with the small size of the peer group of payment processors or user-owned utilities, the lack of public financial data of user-owned utilities, and the decreasing similarity between the characteristics of the Reserve Banks' priced services and correspondent banks. The use of the publicly-traded firm model builds on the approach used in the current PSAF methodology that uses the U.S. publicly traded firm market to determine the average risk

premium in determining the cost of capital.

## (2) Capital Structure

In the PTF model, the capital structure will be derived from the U.S. publicly traded firm market, subject to minimum equity constraints consistent with those required by the FDIC for a well-capitalized institution. One commenter, who supported the correspondent bank model for computing the PSAF, objected to the absence of an FDIC assessment, related capital requirements, and regulatory overhead. Although the PTF methodology does not model depository institution requirements, the Board requested comment on whether it should use FDIC minimum equity requirements, but did not receive any comments on this matter. To ensure a reasonable level of equity is imputed to protect against financial, operating, and business risks, the Board will use the minimum equity constraints established by the FDIC, with equity set at a level of at least five percent of assets or ten percent of risk weighted assets. The Board, however, will not include an FDIC assessment, because the peer group is not composed primarily of depository institutions.

## (3) Effective Tax Rate

In the PTF model, the imputed effective income tax rate will be the five-year mean of the value-weighted average ratios of current tax expense to total net income for all U.S. publicly traded firms in Standard & Poor's Compustat® database. One commenter assumed an upward trend of tax rates and objected to the tax rate derivation from historical data rather than future tax rates. To maintain consistency in the PTF model, the Board will use tax rates from the U.S. publicly traded firm market. The Board considered alternatives to calculating the tax rate, including expanding the period of the mean calculation from five to ten or twenty years, filtering key parameters on tax expense or total net income, and using additional statistical measures. Because the results of the alternative approaches reflected only a small subset of the U.S. publicly traded firm market, the Board did not adopt these alternatives.

## (4) Debt Financing

Due to the elimination of clearing balances, a key source of financing of priced services assets in the correspondent bank model, the Board recognizes that additional debt and equity may need to be imputed in the PTF model to meet funding needs. The

to minimize price volatility in imputed costs makes the pricing process more complex. As a result, the Board has typically preferred to adopt PSAF methodologies that provide for stable rather than volatile imputed costs.

<sup>16</sup> The Board identified 15 user-owned utilities, 4 of which have some membership ownership.

Board initially proposed using the five-year mean of the Aaa and Baa Moody's bond yield for the long-term debt financing rate. To include non-investment grade debt in the PTF model, however, the Board will use the five-year mean of the annual Merrill Lynch Corporate & High Yield Index rate. Using the corporate and high yield index rating is also consistent with the Board's assumption of comparing the priced services to the U.S. publicly traded firm market. The Board will use a five-year mean when imputing a debt financing rate to maintain consistency with the effective tax rate and to reduce year-to-year volatility due to changes in the yield curve.

#### *C. Alternative Methodology—The Cost-Plus Model*

In response to previous Board proposals related to the PSAF, some commenters have suggested adopting variations on a cost-plus model. In 2005, while commenting on proposed changes to the PSAF methodology for calculating the ROE, two commenters suggested a cost-plus model as a simple, straightforward method for calculating the PSAF. The Board reconsidered this methodology in its 2009 notice. One commenter noted that the Board should consider using a cost-plus model, but expressed concern that its estimated 700 percent increase in the PSAF under a cost-plus model compared to the correspondent bank model may be too much to impose on the financial-services industry. In implementing a cost-plus PSAF model, the Board considered deriving the MCA-required imputed costs by establishing a fixed markup over operating expenses. Each time the Board has considered this model, developing a viable method for calculating the markup has been challenging.

The Board considered a cost-based model with the markup percentage derived from either historical PSAF values or the income statement operating margins of all U.S. publicly traded firms. The Board evaluated the PSAF results after applying a markup over expenses ratio based on value-weighted average data for all publicly traded U.S. firms in the Standard & Poor's Computstat® database and applying a markup over expenses ratio based on historical PSAF. Although a cost-plus model is simple, transparent, and replicable by the public, it also has limitations. A cost-plus model based on historical PSAF values is static and assumes continued use of the current correspondent bank model, which is of diminishing relevance. In addition, basing a cost-plus model on accounting-

based values captures only book, not market, values of financing and other costs, which is not consistent with current finance theory. Accordingly, the Board does not consider this a viable alternative model to the correspondent bank model.

#### *D. Other General Comments*

The Board received comments that focused on the Federal Reserve priced services involvement in payment services more generally. Four commenters suggested that the Federal Reserve work to further lower costs. Three of these four commenters believe that the Federal Reserve should continue to provide payment services. Two commenters requested that the Federal Reserve explicitly state its intent regarding continuing involvement in payment systems and the proposed PSAF methodology changes. Two commenters addressed the effect of proposed changes on market competition, pricing, and payment systems generally.

The Board received other comments that requested additional analysis or information related to the notice and requests for comment. Two commenters requested more specific information on the effect of the PSAF changes to the Federal Reserve's price schedule. One commenter recommended that the notice and request for comment include the effect of the proposed changes on community banks. One commenter requested illustrative example calculations to demonstrate how the PSAF would be affected by shrinking contractual clearing balances. The same commenter also stated that it would be informative to the public if the Board provided a side-by-side comparison of the correspondent banking model with the PTF model, displaying numerical results of the financial models under different scenarios. One commenter suggested that the PTF model leaves too much to interpretation.

Consistent with MCA requirements, the Board evaluates and considers the costs of priced services, competitive factors, and the adequacy of payment services nationwide when approving the prices of Federal Reserve Bank services.<sup>17</sup> Because the Federal Reserve seeks to recover only its actual and imputed costs, the effect of the PSAF changes on Reserve Bank prices can be approximated by estimating the impact of the PSAF change to total costs. The effect of the PSAF methodology changes on a variety of organizations, including community banks, is largely dependent on the extent to which an organization

uses payment services provided by the Federal Reserve.<sup>18</sup> With respect to comments requesting additional information and the degree of interpretation in the PTF model, the Board believes that the analyses it has conducted, and the information provided in this and previous notices, have provided the analysis and information necessary for the public to understand its proposal.

The Board received other comments on issues not related to the proposal and are not addressed in this notice.

After considering the comments received, the Board has adopted the PTF methodology for the 2013 PSAF. The PTF methodology is transparent, consistent with current financial theory and practice, and is conceptually sound as a basis for efficient pricing in the market of payment services. It uses relevant Reserve Bank financial information as input to the model, and can be replicated by the public. In its analysis, the Board evaluated computations in the models considered for imputing the capital structure, effective tax rate, and long- and short-term debt financing rates. The Board evaluated the advantages and obstacles surrounding the use of each alternative methodology. The Board believes the new methodology is appropriate in light of the elimination of clearing balances and the evolution of payment system providers beyond commercial banking.

#### *E. Future Industry and Regulatory Changes*

The MCA requires the Federal Reserve Banks to impute costs that would have been incurred had the services been provided by a private sector firm. Accordingly, the Board considers industry and regulatory changes relevant to the private sector. The Board applies its payment system risk policies, which incorporate relevant international risk-management standards to the Federal Reserve Banks' Fedwire® Funds and Fedwire® Securities services. In considering revisions to payment system risk policies to address the new Principles for Financial Market Infrastructures (PFMI), the Board will also consider whether revisions to the PSAF are necessary.<sup>19</sup>

### **III. Summary and Effect of New PSAF Methodology**

Based on comments received and further consideration of the issues

<sup>18</sup> A side-by-side comparison of the correspondent bank model and the PTF model was provided in the 2009 notice (74 FR at 15494).

<sup>19</sup> The PFMI are available at <http://www.bis.org/publ/cpss101a.pdf>.

<sup>17</sup> 12 U.S.C. 248a (c)(3) & (d).

around the appropriate computation of the PSAF, the Board has adopted the PTF model for computing the PSAF as proposed with a minor adjustment.<sup>20</sup> The Board will develop pro forma financial statements under the PTF model using an estimate of assets and liabilities used in priced services and incorporate the following elements:

- *Peer Group Benchmarking:* The imputed capital structure, debt and ROE rates, and effective income tax rate will be based on data for the U.S. publicly traded firm market and calculated using time frames that minimize volatility from year-to-year. The model will incorporate a one-year period for elements that historically have been more stable and, to minimize volatility, a five-year average period for elements that have been more volatile historically. When averaging data, the Board will use value-weighted averages to more accurately reflect the financial characteristics of the U.S. publicly traded firm market rather than those of the simple average firm in the market. Data for computing the market-based debt-to-equity ratios and effective tax rates will be derived from Standard & Poor's Compustat® database. The database contains information on more than 6,000 U.S. publicly traded firms,

which approximates the entirety of the U.S. market.

- *Capital Structure:* The capital structure will be imputed based on the net funding (assets less liabilities), subject to minimum equity constraints. If estimated assets are in excess of estimated liabilities, the Board will impute first debt funding (either short- or long-term) and then equity funding to meet the capital structure of the U.S. publicly traded firm market or minimum equity constraints. Minimum equity will follow FDIC requirements of at least 5 percent of total assets and 10 percent of risk-weighted assets. If minimum equity constraints are not met after imputing equity based on all other financial statement components, additional equity is imputed to meet these constraints.

- *Effective Tax Rate:* As with the imputed capital structure, the effective tax rate will be based on data from the U.S. publicly traded firm market. This tax rate will be the mean of the weighted average rates of the U.S. publicly traded firm market over the past five years.

- *Debt and Equity Financing:* The imputed short- and long-term debt financing rates will be derived from the Federal Reserve Board's release of

nonfinancial commercial paper rates from the H.15 Selected Interest Rates release and the annual Merrill Lynch Corporate & High Yield Index rate, respectively.<sup>21</sup> There will be no change to the methodology for computing the ROE rate. The Board will continue calculating the required rate of ROE using the CAPM with a beta of 1.0 and a 40-year average historical market premium with a 3-month Treasury rate. The rates for debt and equity financing will be applied to the priced services' estimated imputed liabilities and imputed equity derived from the target capital structure. Additional equity imputed to meet minimum equity requirements will be invested solely in Treasury securities.

Using the 2012 PSAF for illustrative purposes, the data below illustrate the effect of implementing a PTF model approach. For comparative purposes, amounts illustrated for the correspondent bank model exclude the effect of clearing balances. The tax rate computation differences between the correspondent bank model and the PTF model are reflected in the pretax ROE. Equity under both models is imputed at five percent of assets to satisfy the FDIC minimum equity requirements for well-capitalized institutions.

PSAF ILLUSTRATION

[\$ in millions]

	Pretax ROE (percent)	Equity	Cost of equity	PSAF
Correspondent Bank Model <sup>22</sup> .....	8.5	\$96.0	\$8.2	\$17.9
PTF Model <sup>23</sup> (estimate) .....	9.3	96.0	8.9	16.7

IV. Competitive Impact Analysis

In its March 1990 policy statement "The Federal Reserve in the Payments System," the Board stated that all operational and legal changes considered by the Board that could have a substantial effect on payment system participants are subject to a competitive-impact analysis.<sup>24</sup> Under this policy, the Board evaluates whether a proposed change would have a direct and material adverse effect on the ability of other service providers to compete effectively with the Reserve Banks in providing similar services. These effects could be caused by differences in legal authority

or constraints between Reserve Banks and private-sector competitors or by a dominant market position that the Reserve Banks might derive from such legal differences. If the proposed change creates such an effect, the Board must further evaluate the changes to determine whether its benefits—such as contributions to payment system efficiency, payment system integrity, or other Board objectives—can be retained while reducing the hindrances to competition.

The intent of the PSAF, and more broadly of setting priced services fees to fully recover the costs (including imputed costs and profits) to provide

them, is to facilitate competition between Reserve Banks and private-sector providers of payment services to foster a more efficient payment system. Identifying a meaningful private-sector peer group for the purpose of calculating the PSAF, however, has been difficult given the specific nature of the priced services provided by the Reserve Banks. The correspondent bank model historically provided a reasonable proxy for Reserve Bank priced services because correspondent banks hold balances for the purpose of facilitating payment services and they were the primary competitors to the Reserve Banks' check service, although

<sup>20</sup> The PTF model will incorporate the Merrill Lynch Corporate & High Yield Index rate instead of the Aaa and Baa Moody's bond yield as initially proposed.

<sup>21</sup> Data for the H.15 Selected Interest Rates release is supplied by The Depository Trust & Clearing Corporation, a national clearinghouse for the

settlement of securities trades and a custodian for securities. The Merrill Lynch US Corporate & High Yield Index tracks the performance of U.S. dollar denominated investment grade and below investment grade corporate debt publicly issued in the U.S. domestic market. Index constituents are capitalization-weighted based on their current amount outstanding.

<sup>22</sup> Amounts approved by the Board in its 2012 fees were \$234.7 million, \$19.9 million, and \$29.9 million for imputed equity, the cost of equity, and total PSAF, respectively. 76 FR 68440 (Nov. 4, 2011).

<sup>23</sup> Amounts for the PTF model were estimated.

<sup>24</sup> Federal Reserve Regulatory Service 9-1558.

the Board recognized that correspondent bank balance sheets and ROE are typically driven largely by services that are not similar to those provided by the Reserve Banks. Because the contractual clearing balance program has been eliminated and correspondent banks are not the primary competitors of the Reserve Banks' priced services, correspondent banks no longer serve as the best PSAF benchmark peer group. User-owned utilities are increasingly becoming the Reserve Banks' key priced services competitors; however, because no reliable comparative data are publicly available for the user-owned utilities, it also does not provide a viable model for the PSAF. Lacking a more specific viable peer group, the Board believes modeling the PSAF on a PTF model is appropriate. The Board believes that such a change in the PSAF methodology does not have a direct and material adverse effect on the ability of other service providers to compete effectively with Reserve Banks in providing similar services. Rather, the Board believes that this PSAF revision will facilitate competition between the Reserve Banks and private-sector providers.

#### V. Paperwork Reduction Act

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. ch. 3506; 5 CFR part 1320 appendix A.1), the Board has reviewed the proposal under the authority delegated to the Board by the Office of Management and Budget. The proposal contains no provisions subject to the Paperwork Reduction Act.

By order of the Board of Governors of the Federal Reserve System, October 25, 2012.

**Robert deV. Frierson,**  
*Secretary of the Board.*

[FR Doc. 2012-26918 Filed 11-7-12; 8:45 am]

**BILLING CODE 6210-01-P**

#### FEDERAL RESERVE SYSTEM

##### Formations of, Acquisitions by, and Mergers of Bank Holding Companies

The companies listed in this notice have applied to the Board for approval, pursuant to the Bank Holding Company Act of 1956 (12 U.S.C. 1841 *et seq.*) (BHC Act), Regulation Y (12 CFR part 225), and all other applicable statutes and regulations to become a bank holding company and/or to acquire the assets or the ownership of, control of, or the power to vote shares of a bank or bank holding company and all of the banks and nonbanking companies owned by the bank holding company, including the companies listed below.

The applications listed below, as well as other related filings required by the Board, are available for immediate inspection at the Federal Reserve Bank indicated. The applications will also be available for inspection at the offices of the Board of Governors. Interested persons may express their views in writing on the standards enumerated in the BHC Act (12 U.S.C. 1842(c)). If the proposal also involves the acquisition of a nonbanking company, the review also includes whether the acquisition of the nonbanking company complies with the standards in section 4 of the BHC Act (12 U.S.C. 1843). Unless otherwise noted, nonbanking activities will be conducted throughout the United States.

Unless otherwise noted, comments regarding each of these applications must be received at the Reserve Bank indicated or the offices of the Board of Governors not later than December 3, 2012.

A. Federal Reserve Bank of Kansas City (Dennis Denney, Assistant Vice President) 1 Memorial Drive, Kansas City, Missouri 64198-0001:

1. *Townsend Holding Company*, Grove, Oklahoma; to become a bank holding company by acquiring 100 percent of the voting shares of Bank of Grove, Grove, Oklahoma.

Board of Governors of the Federal Reserve System, November 5, 2012.

**Robert deV. Frierson,**  
*Secretary of the Board.*

[FR Doc. 2012-27313 Filed 11-7-12; 8:45 am]

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#### DEPARTMENT OF HEALTH AND HUMAN SERVICES

##### Meeting of the Advisory Committee on Blood and Tissue Safety and Availability

**AGENCY:** Department of Health and Human Services, Office of the Secretary, Office of the Assistant Secretary for Health.

**ACTION:** Notice.

**SUMMARY:** As stipulated by the Federal Advisory Committee Act, the U.S. Department of Health and Human Services is hereby giving notice that the Advisory Committee on Blood and Tissue Safety and Availability (ACBTSA) will hold a meeting.

The meeting will be open to the public.

**DATES:** The meeting will take place Thursday, December 6, and Friday, December 7, 2012, from 8:00 a.m. to 4:00 p.m. on both days.

**ADDRESSES:** National Institutes of Health Conference Room, 5635 Fisher Lane, Terrace Level, Rockville, MD 20852.

**FOR FURTHER INFORMATION CONTACT:** Mr. James Berger, Senior Advisor for Blood Policy and Executive Secretary ACBTSA, Division of Blood and Tissue Safety and Availability, Office of HIV/AIDS and Infectious Disease Policy, Office of the Assistant Secretary for Health, U.S. Department of Health and Human Services, 1101 Wootton Parkway, Suite 250, Rockville, MD 20852, (240) 453-8809, Fax (240) 453-8456, email [ACBSA@hhs.gov](mailto:ACBSA@hhs.gov).

**SUPPLEMENTARY INFORMATION:** The ACBTSA shall provide advice to the Secretary through the Assistant Secretary for Health. The Committee shall advise on a range of policy issues to include: innovations in blood and tissue products and their potential impact on emergency preparedness.

The public will have the opportunity to present their views to the Committee during a public comment session scheduled for December 7, 2012. Comments will be limited to five minutes per speaker and must be pertinent to the discussion. Pre-registration is required for participation in the public comment session. Any member of the public who would like to participate in this session is encouraged to contact the Executive Secretary to register for time (limited to 5 minutes); individuals must register prior to close of business on December 3, 2012. If it is not possible to provide 30 copies of the material to be distributed, then individuals are requested to provide a minimum of one (1) copy of the document(s) to be distributed prior to the close of business on December 5, 2012. It is also requested that any member of the public who wishes to provide comments to the Committee utilizing electronic data projection submit the necessary material to the Executive Secretary prior to the close of business on December 3, 2012.

Dated: November 2, 2012.

**James J. Berger,**  
*Senior Advisor for Blood Policy, Executive Secretary ACBTSA.*

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