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***By electronic delivery***

5 June 2009

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal  
Reserve System  
20<sup>th</sup> Street & Constitution Avenue, NW  
Washington, DC 20551

**Re: Docket No. OP-1354: Federal Reserve Bank Services Private Sector Adjustment Factor**

Dear Ms. Johnson:

The American Bankers Association (ABA)<sup>1</sup> appreciates the opportunity to comment on the proposed modifications to the methodology for calculating the private-sector adjustment factor (PSAF). The current model relies on clearing balances held by Depository Institutions at Reserve banks to help determine the PSAF. It is appropriate to review the PSAF methodology because recent policy changes have reduced the amount of funds held in clearing balances and affected its calculation.

The Board of Governors of the Federal Reserve System (Board) is proposing a new method for calculating the PSAF that is used to ensure that the Federal Reserve Banks set fees for services that are consistent with private firms that offer similar services. The Monetary Control Act (MCA) of 1980 requires the Federal Reserve Banks to consider all of the direct and indirect costs, as well as taxes and return on equity (profit), that private competitors incur to avoid setting prices too low and gaining an unfair advantage. The Federal Reserve Banks compete with private-sector firms in several areas including check processing and Automated Clearing House services.

The proposal focuses on the Publicly Traded Firm Model and also discusses the advantages and disadvantages of using the Correspondent Model, the User-Owned Utility Model, and the Cost-Plus Model. One of

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<sup>1</sup> The American Bankers Association brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than \$125 million in assets – represents over 95% of the industry's \$13.6 trillion in assets and employ over two million men and women.

the difficulties in comparing the different options is that using different variables, such as the “proper” peer group statistics, can result in vastly different PSAF calculations in each of the models, and that difference can be even greater when different models are compared.

### **Recommendations**

We believe that the emphasis on the creation of the future PSAF model should be on its accuracy and its transparency. The ABA membership is comprised of both users of Federal Reserve services and competitive providers of such services. As such, we recognize the importance of setting the PSAF and recommend that more clarity regarding the different models and the variables that will be used in their calculation is needed before a final decision is made on which one is best. ABA would be pleased to foster dialogue with the banking industry. The Federal Reserve Banks provide vital services and it is essential that their pricing be based on sound and well understood economic principles. Developing a sound PSAF methodology is more important than creating a new model quickly.

### **Conclusion**

ABA looks forward to facilitating communication between the banking industry and the Board on the development of a new and economically accurate model to calculate the PSAF.

Thank you for the opportunity to comment. If you have any questions or need additional information, please contact Stephen Kenneally by email at [skenneally@aba.com](mailto:skenneally@aba.com) or by telephone at 202-663-5147.

Sincerely,



Stephen K. Kenneally  
Vice President  
Center for Regulatory Compliance