



July 16, 2003

Ms. Louise Roseman, Director
Division of Federal Reserve Bank Operations
and Payment Systems
Board of Governors of the Federal Reserve System
20th and C Streets, N.W.
Washington, D.C. 20551

Re: **Fair Competition with the Private Sector**

Dear Louise:

We are writing to express our thoughts about the issue of fair competition between the Federal Reserve and the private-sector providers of payment services. More specifically, we believe that recent decisions by the Federal Reserve Board regarding pricing for various payment services sometimes creates doubt about the consistency of these actions with the intent of the 1980 Monetary Control Act (MCA) and the Board's overarching responsibility for continued innovation in the nation's payment systems. We believe these uncertainties could be addressed by increasing the level of transparency in the Federal Reserve Bank's pricing actions as compared to other payment system participants. Greater transparency is necessary to ensure fair competition in light of the Federal Reserve Banks' dominant position in the marketplace and its long range goal of advancing the nation's payment systems.

The Federal Reserve Banks have long held a dominant market position in providing payment processing services. This dominant position is a result of the Board's past willingness to initiate new payment services for the financial services industry. However, as the dominant market provider, we believe extraordinary care must be taken by the Board to ensure new payment services providers are encouraged to enter and remain in the marketplace. The Monetary Control Act of 1980 specifically required the Federal Reserve to price its services in such a way as to ensure that private competitors of the Federal Reserve Banks would not be undercut by unfair subsidized competition. The Monetary Control Act was passed by Congress to induce competition from private competitors with the hope of stimulating new and innovative payment services.

In addition to maintaining the safety and soundness of the nation's payment systems, we believe the Federal Reserve must look critically at its own role in providing priced services. Dominant market leaders have a unique obligation to scrutinize their own actions to ensure that certain service attributes do not create an unfair advantage. The Board, by its own policy, requires the completion of a competitive impact analysis whenever changes to priced services could have an impact on payment systems participants. The Federal Reserve must complete this analysis thoroughly and objectively to determine whether its position in the marketplace affords it undue influence in competing with the private-sector. Unfortunately, the results of the competitive impact analysis are not shared with other payment systems participants. We believe the Federal Reserve should make the results of the competitive impact analysis available for routine public inspection.

Lastly, but most importantly, we believe the Federal Reserve occupies a unique position in the nation's payment systems. As policy maker, regulator, service provider and dominant services provider in the payments market, the Federal Reserve cannot act simply as just another competitor. We believe the Federal Reserve, under the terms of the 1980 Monetary Control Act, occasionally may be required to act to the detriment of its own short-term position. By doing so on appropriate occasions, the Federal Reserve would stimulate marketplace innovation, creativity and competition in the provision of payment services within the private-sector arena while ultimately achieving its long range goal of advancing and securing the nation's payment systems.

We respectfully request that our concerns related to fair competition between the Federal Reserve and its private sector competitors be thoughtfully considered by the Federal Reserve Board, and specifically request that the results of the competitive impact analysis be included in all future announcements of the Federal Reserve's changes to priced payment services.

As always, the leadership provided by the Federal Reserve to the nation's payment systems is appreciated by the financial services industry.

Respectfully,

Richard M. Whiting

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