

2003. As noted above, equity is based on 5 percent of total assets, as required by the FDIC for a well-capitalized institution in its definition for purposes of assessing insurance premiums. In both 2004 and 2003, the capital to risk-weighted asset ratio and the capital to total assets ratio both exceed regulatory guidelines. As a result, no FDIC assessment is imputed for either year.

### III. 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 statement, "The Federal Reserve in the Payments System."<sup>17</sup> Under this policy, the Board

assesses whether the change 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 change creates such an effect, the Board must further evaluate the change to assess whether its benefits "such as contributions to payment system efficiency, payment system integrity, or other Board objectives—can be retained while minimizing the adverse effect on competition.

The 2004 fees result in a projected ROE less than the target established using a model that is based on the consolidated results over time of the largest fifty BHCs. To the extent that

these BHCs expect a mature declining business, such as check processing, to have the same ROE as the organization as a whole, the Reserve Banks' failure to set fees to achieve the target ROE could adversely affect the ability of other service providers to compete with the Reserve Banks. Based upon discussions with the industry and other anecdotal information, the Board does not believe that BHCs have such an expectation. Moreover, given the current market environment, greater fee increases are not likely to improve the Reserve Banks' cost recovery materially and might even reduce the revenue that the Reserve Banks receive as depository institutions seek lower cost alternatives. Overall, the Board believes that the fee changes and the changes to earnings credits on clearing balances are reasonable.

<sup>17</sup> Federal Reserve Regulatory Service (FRRS) 9–1558.