

**Meeting Between Staff of the Federal Reserve Board and Representatives of the Debit
Network Alliance
October 14, 2020**

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Summary: Staff of the Federal Reserve Board met with representatives of the Debit Network Alliance (DNA) to discuss their observations related to changes in the debit industry, including adoption and implementation of emerging payment technologies such as contactless EMV and tokenization. In addition, DNA representatives shared their views on Regulation II as it relates to routing debit transactions using offline data authentication and biometrics.

Debit Network Alliance

Debit Topics

U.S. Update

Federal Reserve Board of Governors Meeting
October 14, 2020



DEBIT NETWORK ALLIANCE

The opinions expressed by the presenters during this presentation are exclusively their own.

Agenda

- Executive Overview
- Regulation II
- Proprietary Implementations' Impact
- Acquisitions' Impacts
- Summary of Industry

About Debit Network Alliance

- Debit Network Alliance LLC (DNA) is a Delaware limited liability company owned by seven U.S. debit networks, and open to all U.S. Debit Networks, founded in December 2013. The goal of this collaborative effort is to provide interoperable adoption of technology for debit payments, while supporting security, innovation, and optimal technology choice. Further, DNA has worked to bring about perpetual access to the technology deployed to accomplish EMV® in the US, and support for all transaction types supported by the debit networks both existing and future.
- The US debit networks have a long history of working collaboratively - especially with regard to improving security - to define standards that maintain the integrity and quality of the U.S. payment industry.
- The networks of Debit Network Alliance are AFFN®, ATH®, Cuiance®, Jeanie®, NYCE®, Presto!® and SHAZAM®.
- The DNA seeks a robust competitive environment that benefits Financial Institutions, Merchants and Consumers.



Executive Overview

- The purpose of this meeting is to provide an update to changes in the debit industry and additional detail regarding the potential challenge of maintaining choice as emerging payment solutions evolve.
- In response to COVID-19, consumers have shifted their spend from in-store to eCommerce and from card-based transactions to digital transactions for both in-store and eCommerce.
- The payment industry in the U.S. is seeing an unprecedented pace of change:
 - Adoption of contactless EMV has accelerated at a rapid pace and implementation creates many challenges to debit routing.
 - Tokenization of card PANs has increased. The current implementation by the global brands has an impact on routing choice.
 - The adoption of digital payments has increased the use of biometrics while the biometric authentication credentials continue to be unavailable for debit networks to utilize.
- Transit- Offline Data Authentication (VISA) restrictions are problematic.



Key Points

- The main argument in the marketplace is that if a merchant chooses to accept a new technology it must do so at the risk of losing routing choice. It is done through the use of proprietary implementations.
- Debit networks continue to make significant investments to compete for volume, PINless, Signature, Tokenization, and participation in EMVCo and other industry groups like USPF and Federal Reserve Faster Payments.
- An open and independent governance structure is needed to resolve these issues. This structure must have the authority to require stakeholders across the industry to institute implementations that enable debit routing choice.



Potential Issue Under Regulation II

- 235.7(b) – Payment networks prohibited from inhibiting the ability of merchants to direct the routing of EDTs for processing over any payment network that may process such transactions whether by:
 - Contract
 - Requirement
 - Condition
 - Penalty
 - or Otherwise

Potential Issue Under Regulation II (Con't)

- Commentary to Regulation II gives examples of payment network actions that would violate this prohibition, including –
 - Requiring a specific payment network based on the type of access device provided by the issuer to the cardholder. (Reg II Cmt. 7(b)(2)(iii).
 - Preamble to Regulation II provides more context for this restriction
 - “For example, a payment card network would be prohibited from requiring that an electronic debit transaction that is initiated using “contactless” or radio frequency identification device (RFID) technology be processed over only a signature debit network” (76 Fed. Reg. 43453)

Potential Issue Under Regulation II

(Con't)

- We understand that networks may base some of their actions on their ability, under the Regulation II commentary, to offer payments or other incentives to merchants to *encourage* routing to that particular network. (Reg II Cmt. 7(b)(3))
- Commentary is clear though that what is allowed is **Encouragement**, not a “contract, requirement, condition, or penalty” which remains prohibited under Section 235.7(b).
- Further, the exception appears only in the commentary to Regulation II and not in the regulation itself. This means it should be construed narrowly, especially compared against the broad prohibition on inhibiting merchant choice included in the actual text of Regulation II.

Potential Issue Under Regulation II (Con't)

- Network actions often go beyond mere “encouragement” and operate effectively as “contracts, requirements, conditions, penalties, or other actions” that effectively inhibit merchant routing choice and, thereby, violate the terms of Regulation II.
- Example 1 – Offline Data Authentication (NY MTA)
- Example 2 - Biometrics



Debit Routing is Required as Part of U.S. Law

- There is not currently an independent body to build interoperable implementation standards in support of EMVCo technology.
- The global brands reject any type of implementation of EMVCo or other alternative solutions like QR Codes, tokenization, and Secure Remote Commerce by any other merchant or network.
 - This necessitates that all participants in the payment ecosystem either support multiple, redundant, technology implementations or lose routing flexibility.

Proprietary Implementations' Impact

Proprietary Implementations Limit Routing

- Proprietary implementations of EMVCo specifications limit routing choice.
- Examples include
 - 3DS
 - Secure Remote Commerce
 - Contactless
 - Tokenization
- Debit networks and merchants participate in EMVCo to help create payment industry standards.
 - These technical work groups do not include implementations so what technically is a working standard turns into a proprietary solution once implementation rules are applied.

Proprietary Implementations

- Biometrics is not available to the debit networks through the U.S. Common Debit AIDs.
- Debit networks do not receive the same privileges of tokenization that global brands enjoy:
 - Mastercard prohibits routing of card-on-file tokens to unaffiliated debit networks.
 - VISA allows Card-on-file tokens routing to unaffiliated debit networks, but without access to security features such as cryptogram validation and token domain control restriction enforcement.
 - The global brand rejection of alternative tokenization solutions hinders achieving market acceptance.
- Volume or growth agreements discourage enablement of Contactless, PINless, and domestic network Signature Debit transactions.

Acquisitions' Impacts

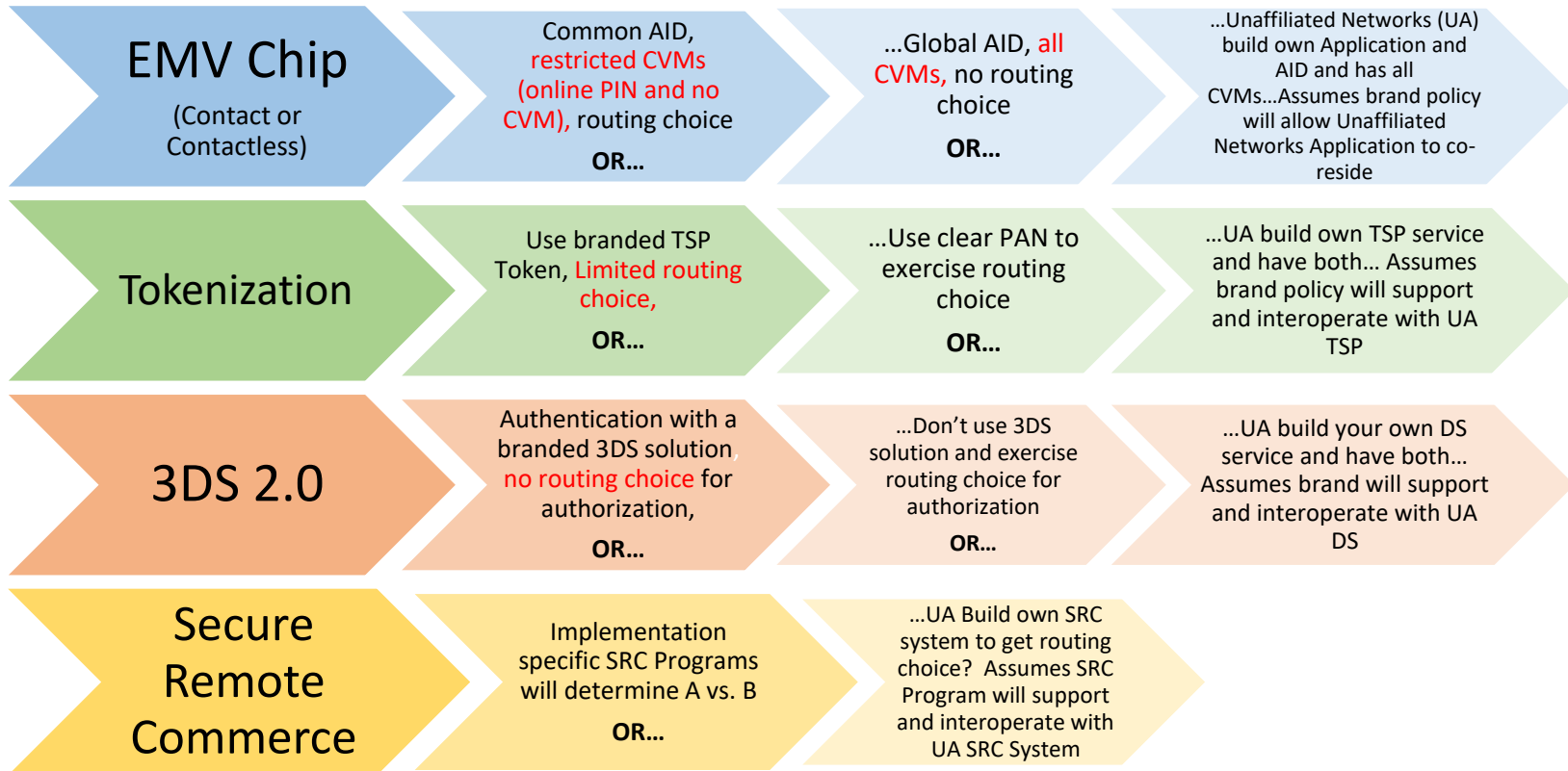
Acquisitions' Impact

- Recent acquisitions by the global networks have been made to strengthen their market influence by either concentrating assets further or preventing promising start-ups from taking market share away in the future.
- Acquisitions focused on being a dominate player in providing access to DDA accounts extend reach and influence over the what and how (routing).
- Examples of acquisitions:
 - CardinalCommerce acquisition by VISA – Secure Remote Commerce.
 - Plaid (VISA) and Finicity (Mastercard) acquisitions – Faster Payments
 - Verifi (VISA) - Authentication



Summary of Industry

Impact of Payment Technologies on Debit



A Payment System of Excellence



- Authentication solutions should not dictate routing.
- Access to device capabilities should not be restricted through implementation or rules.
- Establish standards.
 - Interoperability, scalability, ubiquity.
 - Minimum entry points to ensure secure remote commerce (Access Devices).
 - Routing choice.
- Improved implementation options.
 - Clarity on new emerging channels.
 - Adherence to minimum standards.
 - Global brands should not use market influence to inhibit alternatives supported by merchants and debit networks (Tokenization).

Thank you

