

From: Alaska USA Federal Credit Union, William B Eckhardt
Subject: Reg I I - Debit card Interchange

Comments:

Date: Feb 22, 2011

Proposal: Regulation II - Debit Card Interchange Fees and Routing
Document ID: R-1404
Document Version: 1
Release Date: 12/16/2010
Name: William B Eckhardt
Affiliation: Alaska USA Federal Credit Union
Category of Affiliation: Other
Address:
City:
State:
Country: UNITED STATES
Zip:
PostalCode:

Comments:

Dear Ms. Johnson: Re: Docket No. R-1404 and RIN No. 7100 AD 63 Thank you for the opportunity to provide comments related to the Federal Reserve Board's proposed Regulation II to implement the interchange provisions of the Dodd-Frank Wall Street Reform and Financial Protection Act. We believe the implementation of Regulation II - Debit Card Interchange Fees and Routing as proposed will have a detrimental impact on the debit card services Alaska USA provides to over 205,000 members and 5,900 business accounts. The proposed Regulation II fails to adequately address or take into account the potential impact to issuers, networks and consumers. Accordingly, Alaska USA opposes the proposed Regulation II and urges the Board to work with Congress to delay implementation until further information can be gathered and studied to understand the short- and long-term impact of these sweeping changes. Outlined below are the immediate areas of concern with the proposed Regulation II:

Small

Issuer Exemption Congress clearly intended to exempt institutions under \$10 billion in assets from the impact of the provisions and restrictions placed on other card issuers in the Dodd-Frank Act. While the legislative intention is clear, the proposed Regulation II does not include provisions that would enforce the exemption. The two largest debit card network systems, VISA and MasterCard, are single-tier systems. The small issuer exemption would require a two-tier interchange system. Without an enforcement mechanism to mandate a two-tier system, the proposed Regulation II leaves small debit card issuers without a true exemption. On the network side, no studies were conducted to determine the cost and timing to implement an additional tier to the interchange network system. The unknown cost of a mandated two-tier system could be passed on to small issuers as a way for networks to cover the additional cost of implementation. The additional network cost for the two-tier system could have the same bottom line impact as lowering the interchange revenue to

small issuers. Should this occur, the well intended exemption will end up eliminating debit card competitors (small card issuers) and choices for consumers. The Board should consider a further review and study of the short and long-term implications of the proposed Regulation II and its impact on small issuers, networks and consumers. Network Exclusivity, Routing and Discrimination The proposed Regulation II offers two alternatives to prohibit network exclusivity arrangements. Alternative A would be the better choice since it would be less confusing to consumers and more cost effective for small issuers. However, it should be noted that the proposed routing provisions could lead merchants to steer transactions towards lower cost networks (i.e. large issuers). This would discriminate against small card issuers and their respective members. Congress carefully included language in the law that would prohibit merchants from discriminating at the point-of-sale based on institution (issuer type), network or card type. The Board should more effectively address the potential for merchant steering of transactions, provide penalties for doing so and provide a formalized complaint process to protect small issuers against discrimination practices. Fraud Prevention Cost The Dodd-Frank Act intended for interchange fees to include fraud and fraud prevention cost. It is our understanding that the specific time constraints for developing these rules did not allow enough time to adequately study and consider the impact of fraud cost on the interchange fee proposed in Regulation II. As the Board develops an additional proposal on fraud and fraud prevention cost please consider other possible options to the two suggestions currently being considered. The Board should carefully study all aspects of fraud and fraud prevention to fully understand the true cost of debit card programs. We understand the time constraints placed on the Federal Reserve to develop and implement interchange fee regulations. Based on the complexity, cost and impact on consumers, we again respectfully request that Board ask Congress to delay the implementation until adequate time and studies have been conducted on the true impact of this legislation. Sincerely, William B. Eckhardt