



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

BEN S. BERNANKE  
CHAIRMAN

March 29, 2011

The Honorable Tim Johnson  
Chairman  
Committee on Banking, Housing,  
and Urban Affairs  
United States Senate  
Washington, D.C. 20510

The Honorable Richard Shelby  
Ranking Member  
Committee on Banking, Housing,  
and Urban Affairs  
United States Senate  
Washington, D.C. 20510

Dear Chairman Johnson and Ranking Member Shelby:

I would like to provide an update of the status of the Board's implementation of the debit interchange and routing provisions of section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. As you know, that section of the Act requires the Board to establish standards for assessing whether the amount of any debit card interchange fee received or charged by an issuer with respect to an electronic debit transaction is reasonable and proportional to the cost incurred by the issuer with respect to the transaction. Section 1075 also imposes prohibitions on network exclusivity arrangements and on merchant routing restrictions. The Act requires the Board to prescribe regulations implementing the interchange fee restrictions by April 21, nine months from the date of enactment of the Act, and rules implementing the prohibitions on network exclusivity and routing restrictions before July 21, one year from the date of enactment of the Act.

The Board requested public comment on the proposed implementing rule in December. More than 11,000 commenters have provided us input on this proposed rule. Many of the comment letters are quite detailed and extensive and address both specific issues related to the proposed rule and the complexity of the U.S. debit card market in which this rule will operate. We believe the information provided in these comments is important for assessing fully the effect of the proposed rule on the U.S. payments system and its users and providers.

This extraordinary volume of comments reflects the importance of debit cards as a method for consumers and others to access deposit accounts to make payments for purchases throughout the economy. The number of debit card transactions has grown dramatically over the past decade, increasing from about 8 billion in 2000 to 38 billion in 2009. Importantly, debit cards have now surpassed checks and credit cards as the most frequently used noncash payment instrument. In 2009, debit card transactions

represented almost half of total third-party debits to deposit accounts, while payments made by check made up only about 30 percent of these debits.<sup>1</sup>

The issues raised by the comments are complex and difficult and are significant to the payments system, its providers, and its users. Implementation of the Act's provisions will affect payment networks that tie together thousands of depository institution issuers of debit cards with millions of merchants that accept those cards.

We are reviewing these comments and the issues they raise very carefully within the framework established by the Act. This input is quite helpful to us as we draft the final rule. Because of the volume of comments and the complexity of the issues raised in those comments, however, we have concluded that we will be unable to meet the Act's directive that the Board issue final interchange fee standards by April 21. We recognize that the Act's provisions limiting interchange fees become effective by their terms on July 21 even without Board regulations and we are committed to completing the rulemaking for that provision in advance of that date. We are also committed to meeting the Act's directive that we issue final rules regarding network exclusivity and routing by July 21. I want to assure you that we are devoting substantial resources to these efforts to ensure that we give the issues the careful consideration they deserve.

Sincerely,

A handwritten signature in black ink, appearing to be 'R. Johnson', written in a cursive style.

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<sup>1</sup> See the 2010 Federal Reserve Payments Study, <http://www.federalreserve.gov/newsevents/press/other/20101208a.htm>.