

## **Federal Reserve Board Interchange Fee Survey**

On September 13, 2010, the Board distributed three surveys (an issuer, payment card network, and merchant acquirer survey) designed to assist the Board in developing proposed new rules relating to debit card interchange fees and network routing and exclusivity required under Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”).

The issuer survey requested information about the costs associated with debit card (including prepaid cards) transactions. The payment card network (PCN) survey requested information on fees charged or received by payment card networks. The issuer, PCN and merchant acquirer surveys all requested information about fraud losses, fraud-prevention costs, and network routing and exclusivity arrangements associated with debit card transactions.

The issuer survey was distributed to those organizations believed to issue debit cards or to have affiliates that issue debit cards and that, together with affiliates, have assets of \$10 billion or more. The PCN survey was distributed to PCNs that process debit card transactions. The merchant acquirer survey was distributed to a sample of large merchant acquirers. Surveys also were distributed to other companies wishing to participate upon request.

Respondents have until October 12, 2010 to submit survey responses. Any questions or difficulties with the survey should be directed to Jennifer Davidson at 202-452-2446 or emailed to [Interchange.Survey@frb.gov](mailto:Interchange.Survey@frb.gov).



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

LOUISE L. ROSEMAN  
DIRECTOR  
DIVISION OF  
RESERVE BANK OPERATIONS  
AND PAYMENT SYSTEMS

September 13, 2010

Sent via email

[Name]  
[Merchant Acquirer]  
[Address]

Dear [name]:

We would appreciate your participation in an important survey designed to assist the Board in developing proposed new rules relating to interchange fees required under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act). This survey will help the Board obtain information about the fraud-prevention and data-security costs incurred by merchant acquirers/processors, as well as the value of fraud losses incurred by merchants and merchant acquirers/processors, and network routing and exclusivity arrangements associated with debit card transactions.

Section 1075 of the Act directs the Board to establish standards restricting the level of interchange fees for certain debit card (including prepaid card) transactions to an amount that is “reasonable and proportional” to the cost incurred by the issuer with respect to that transaction.<sup>1</sup> In addition, the Act requires the Board to issue rules that prohibit issuers and payment card networks from requiring that a particular debit card transaction be processed on only one payment card network and from limiting the ability of merchants to direct the routing of debit card transactions.

To contribute to our rulemaking process, please complete the attached encrypted survey by **October 12, 2010**.

Attached to this e-mail are an encrypted survey form; an unencrypted, sample survey form; and survey instructions. You will receive a follow-up e-mail containing the encryption key for the survey form.<sup>2</sup> Please forward both e-mails to the individual in your organization who will coordinate your survey response and send a confirmation message to [Interchange.Survey@frb.gov](mailto:Interchange.Survey@frb.gov) with the point of contact’s name, e-mail address, and phone number.

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<sup>1</sup> In developing these standards, the Board is required to distinguish between “the incremental cost incurred by an issuer for the role of the issuer in the authorization, clearing, and settlement of a particular electronic debit transaction” and “other costs incurred by an issuer which are not specific to a particular electronic debit transaction.”

<sup>2</sup> We are also sending you a paper copy of this letter and all attachments.

The survey will ask for your institution's unique identifier. Your institution's **unique identifier** is [*unique identifier*].

The Federal Reserve System regards the individual organization information provided by each respondent as confidential (5 U.S.C. § 552(b)(4)). If it should be determined subsequently that any information collected on this form must be released, the respondents will be notified. Pursuant to the Act, we may make public summary and aggregate information with respect to the costs of authorizing, clearing, and settling debit card transactions and debit card interchange fees, if the Board deems it appropriate and in the public interest to do so.

Questions regarding this survey should be directed to [Interchange.Survey@frb.gov](mailto:Interchange.Survey@frb.gov). Thank you in advance for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Louise L. Rosen". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Attachments

[c: *other individuals, if requested*]

## Merchant Acquirer/Processor Survey Instructions

These are instructions for the Merchant Acquirer/Processor Survey (“the survey”), which has been sent by the Board of Governors of the Federal Reserve System (“the Board”) to your organization.

We would appreciate your participation in this important survey designed to assist the Board in implementing new rules relating to interchange fees required under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act).<sup>1</sup> This survey will help the Board obtain information about the fraud-prevention and data-security costs incurred by merchant acquirers/processors, as well as the amount of fraud losses incurred by merchants and merchant acquirers/processors, and network routing and exclusivity arrangements associated with debit card transactions.

Section 1075 of the Act directs the Board to establish standards restricting the level of interchange fees for certain debit card and prepaid card transactions to an amount that is “reasonable and proportional” to the cost incurred by the issuer with respect to that transaction. In addition, the Act requires the Board to issue rules that prohibit issuers and payment card networks from requiring that a particular debit card transaction be processed on only one payment card network and from limiting the ability of merchants to direct the routing of debit card transactions.

**As input to the development of the Board’s proposed rules, the information requested in this survey is broad to provide the Board with a greater perspective on the debit card industry. You should not infer, from the information requested, any particular policy direction of the Board as it develops its proposed regulations implementing the interchange provisions of the Act.**

Your organization has also received an encrypted spreadsheet that contains the survey, as well as a passcode (via a separate e-mail) required to open the spreadsheet. This passcode will ensure that your response is encrypted when you return it to the Board. In order to complete the survey, you must be running Microsoft Excel version 2007 or 2010 and must provide the passcode when opening the spreadsheet. **Please complete the survey and send it as an attachment to [Interchange.Survey@frb.gov](mailto:Interchange.Survey@frb.gov) by October 12, 2010.**

The survey contains five sections and a response form, provided as separate tabs in the spreadsheet. Please carefully read the instructions including the scope and reporting period applicable for each section. Please complete all sections of the survey. **Do not leave any cells in the survey blank (other than unused comment fields). If a response to a particular cell does not exist, enter a 0. If a response to a particular cell cannot be determined, enter DK for “don’t know.”** In cases where DK is entered, please provide an explanation in the associated comment field. We will review the submitted surveys for logical consistency and to identify potential inaccuracies with respect to reported items. We may contact the

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<sup>1</sup> The Act, Pub. L. 111-203, 124 Stat. 1376, was enacted on July 21, 2010.

point-of-contact identified in your survey response if we need to confirm or revise a reported item, or need further explanation.

In the “Response form” section in the first tab of the survey worksheet, please provide the designated point-of-contact for your organization’s overall response. Please also include the Unique Identifier assigned to your institution (provided in the cover letter to the survey).

**If you have questions about or difficulties with the survey**, including questions about the passcode, survey encryption, or survey submission, Board staff can assist you. Please call Jennifer Davidson at 202-452-2446 or e-mail [Interchange.Survey@frb.gov](mailto:Interchange.Survey@frb.gov) for assistance. Provide your name, organization, and contact information along with your inquiry when you call or email. If we receive a substantial number of questions that are similar in nature, we will address these frequently asked questions (FAQs) and post the list to the Regulatory Reform section of the Board’s public website ([http://www.federalreserve.gov/newsevents/reform\\_about.htm](http://www.federalreserve.gov/newsevents/reform_about.htm)).

### **Response burden and confidentiality**

The Federal Reserve System regards the individual organization information provided by each respondent as confidential (5 U.S.C. § 552(b)(4)). The Board, however, may publish aggregate or summary information in a way which does not reveal your individual organization’s confidential information. If it should be determined subsequently that any information collected on this form must be released, the respondents will be notified.

## **Section Instructions**

### **General Definitions**

- Signature debit – Access to funds in a cardholder’s asset account for point-of-sale or other purchase transactions through the use of a debit card, payment code, or other device, in which the access is not authorized through the use of a PIN.
- PIN debit – Access to funds in a cardholder’s asset account for point-of-sale or other purchase transactions through use of a debit card, payment code, or other device, in which the access is authorized through the use of a PIN. Does not include cards that do not support point-of-sale or other purchase transactions (e.g., cards that can only access ATM networks).
- Prepaid – Access to prepaid funds held in an account that may be used for point-of-sale or other purchase transactions through use of a prepaid card, payment code, or other device. Include information for both reloadable and non-reloadable prepaid cards and for government and non-government prepaid programs. For purposes of prepaid card programs set up with an omnibus account, an account refers to each sub-account for each cardholder and not to the omnibus account in which funds for each of the sub-accounts are kept.

- Throughout the survey, the term “United States” refers to the States, territories, or possessions of the United States, or any political subdivision of any of the foregoing.

## **Section I. Merchant Acquirer/Processor Information**

**Reporting period:** Unless instructed otherwise, report data as of year-end 2009.

**Scope:** Report data on transactions associated with U.S. merchants.

**Card program (column) definitions:** Report data in each column for accounts and cards that are associated with each type of card programs (signature debit, PIN debit, and prepaid). See above for card program definitions.

### **Card network data (row) definitions:**

- Round values to the nearest dollar. Do not include dollar signs or commas.

#### *I.A.1. Purchases and returns: Total transactions*

The total number and value of in-scope transactions that involved a transfer of value between a cardholder and a merchant. Include both purchase transactions in which value was transferred from the cardholder to the merchant in exchange for goods and services, and return transactions in which value was transferred from the merchant to the cardholder. Do not include chargebacks or any event in which value was not transferred between a cardholder and a merchant such as denials, errors, or authorizations that did not clear or were not presented for settlement. For prepaid cards, do not include funds loads to cards.

##### *I.A.1.a. Transactions that included cash back*

The number and value of transactions (from I.A.1.) in which the merchant gave part of the point-of-sale purchase value to the cardholder as cash. Include both the purchase and cash-back amounts in the value.

##### *I.A.1.b. Cash-back amount*

The total value of cash given by merchants to cardholders in cash-back transactions.

#### *I.B.1. Transaction environment: Card-present*

The number and value of transactions (from I.A.1.) in which the card was physically present at the time of purchase (in-person or automated kiosk transactions).

#### *I.B.2. Transaction environment: Card-not-present*

The number and value of transactions (from I.A.1.) in which the card was not physically present at the time of purchase (e.g., mail order, Internet, or telephone transactions).

*I.C.1. Transaction type: Purchase*

The number and value of transactions (from I.A.1.) in which value was transferred from the cardholder to the merchant in exchange for goods or services.

*I.C.2. Transaction type: Return*

The number and value of transactions (from I.A.2.) initiated by the merchant in which value was transferred from the merchant to the cardholder following a return of goods, a refund for services provided, or a correction of the cardholder's purchase amount.

*I.D.1. Merchant acceptance: Number of merchants*

The number of merchants accepting payments on your network in the United States. In the comment field, explain whether franchisees of franchise chains were reported collectively as a single merchant or whether they were reported individually.

*I.D.2. Merchant acceptance: Number of merchant locations*

The number of locations at which merchants identified in I.D.1. accept payments in the United States.

## Section II. Fraud Prevention and Data Security Costs

**Reporting period:** Report data for calendar year 2009.

**Scope:** For each card program type (signature debit, PIN debit, and prepaid), report data on your fraud prevention and data security costs for transactions in the United States.

### General:

- There may be some overlap associated with fraud prevention and data security activities and respondents should avoid potential double counting of costs. For example, costs for PCI compliance should be reported as a data security cost rather than a fraud prevention cost.
- For capital expenditures, report costs depreciated or amortized during 2009. Report the amount of such expenditures and the depreciation/amortization approach (e.g., straight-line over five years) in the associated comment field for a response.
- Costs related to or allocable to ATM transaction costs should not be included in costs reported for debit card or prepaid card transactions.
- Costs shared with other card programs or activities should be allocated to each card category based on the number of transactions or other appropriate activity-based measures.
  - For example, if your organization has shared costs for signature and PIN debit operations, allocate those costs to signature debit based on the proportion of signature debit transactions to total debit transactions.
  - If your organization has shared costs for debit card operations and other card program operations, first allocate those costs to debit card operations based on the proportion of debit transactions to total relevant card transactions. Then allocate the costs for debit card operations to signature and PIN debit operations as described above.
  - If you allocate shared costs, provide a description of such costs in the associated comment field for a response. Include the activities for which costs are jointly shared, the total amount of such costs, and the allocation method if it is not based on the number of transactions.
- **Do not allocate corporate overhead costs to card program categories (columns). Do not allocate other overhead costs to card programs except insofar as that overhead is directly related to activity in a card program.**
- **Do not double count costs across card program categories (columns).**
- **Do not double count costs across activity categories (rows).**
- Round values to the nearest dollar. Do not include dollar signs or commas.

### *Section II.A. Fraud prevention costs*

#### *II.A.1. Type of fraud prevention activity*

Fraud prevention activities include activities related to monitoring transactions to detect and prevent fraud, as well as costs related to responding to potential fraud to prevent further losses.

The types of fraud prevention activities listed in the table are illustrative and not meant to be exhaustive. If necessary, respondents should add fraud prevention activities undertaken by their organizations.

*II.A.2. and 3. and 4. Fully-allocated costs*

For each card category, provide the fully-allocated costs associated with each fraud prevention activity undertaken by your organization. These costs include costs attributable to a single card category and joint costs shared with other card categories. Joint costs should be allocated to each card category based on the number of transactions. However, do not allocate corporate overhead costs to card categories. Do not allocate other overhead costs to card categories except insofar as that overhead is directly related to activity in a card category. Do not double count costs across card categories or across fraud prevention activities.

*II.A.5. Cost allocation methodology*

As noted above, joint costs should be allocated to each card category based on the number of transactions. If a different allocation methodology is used, explain the methodology and provide the proportion of total costs that are joint versus direct.

***Section II.B. Data security costs***

*II.B.1. Type of data security activity*

Data security activities include activities related to securing the data processing and communications infrastructure of your organization.

The types of data security activities listed in the table are illustrative and not meant to be exhaustive. If necessary, respondents should add data security activities undertaken by their organizations.

*II.B.2. and 3. and 4. Fully-allocated costs*

For each card category, provide the fully-allocated costs associated with each data security activity undertaken by your organization. These costs include costs attributable to a single card category and joint costs shared with other card categories. Joint costs should be allocated to each card category based on the number of transactions. However, do not allocate corporate overhead costs to card categories. Do not allocate other overhead costs to card categories except insofar as that overhead is directly related to activity in a card category. Do not double count costs across card categories or across data security activities.

*II.B.5. Cost allocation methodology*

As noted above, joint costs should be allocated to each card category based on the number of transactions. If a different allocation methodology is used, explain the methodology and provide the proportion of total costs that are joint versus direct.

### Section III. Fraud Losses

**Reporting period:** Report data for calendar year 2009.

**Scope:** For each card category (signature debit, PIN debit, and prepaid), report data for fraud losses associated with U.S. transactions processed by your organization.

- Round values to the nearest dollar. Do not include dollar signs or commas.
- Percentages reported in columns (5), (6), and (7) should sum to 100 percent.
- **Each fraudulent transaction should be reported only once to avoid double counting.**
- **Do not double count fraud losses across card categories (columns). For example if a dual function PIN and signature debit card is lost and stolen and used to make a fraudulent signature debit transaction, the incidence should be counted and valued only once under the signature debit fraud losses.**
- **Do not double count fraud losses across fraud types (rows).**

*III.1. Gross number of fraudulent transactions:*

Provide the gross number of transactions charged back as fraudulent.

*III.2. Net number of fraudulent transactions after representments:*

Provide the net number of transactions charged back as fraudulent after representments.

*III.3. Gross value of fraudulent transactions:*

Provide the gross value of transactions charged back as fraudulent.

*III.4. Net value of fraudulent transactions after representments:*

Provide the net value of transactions charged back as fraudulent after representments.

*III.5. Percentage of net fraud loss value after representments borne by merchants:*

Provide the percentage of the value of net fraud losses after representments that were borne by your merchants.

*III.6. Percentage of net fraud loss value after representments borne by acquirer:*

Provide the percentage of the value of net fraud losses after representments that were borne by your organization.

*III.7. Percentage of net fraud loss value after representments borne by cardholders, issuers, and networks:*

Provide the percentage of the value of net fraud losses after representments that were borne by cardholders, issuers, and networks.

#### **Section IV. Fraud Occurrence and Mitigation**

- For the questions in panels IV.A. – IV.H., place an “X” in the box associated with your organization’s response. Briefly provide any necessary elaboration in the text boxes on the form.

#### **Section V. Exclusivity Arrangements and Routing Procedures**

- For the questions in panels V.A. – V.E., place an “X” in the box associated with your organization’s response. Briefly provide any necessary elaboration in the text boxes on the form.

## Merchant Acquirer/Processor Survey

This report is authorized by law [Pub. L. 111-203, § 1075, 124 Stat. 1376 (2010)]. Your voluntary response is needed for a comprehensive, accurate and timely rulemaking.

The Federal Reserve System regards the individual organization information provided by each respondent as confidential (5 U.S.C. § 552(b)(4)). If it should be determined subsequently that any information collected on this form must be released, the respondents will be notified.

### Response form

Name of merchant acquirer/processor covered in this survey response

Unique identifier (provided in cover letter to survey)

Primary contact for this survey response

Name:

E-mail:

Phone:

Please refer to the instructions that accompanied this survey. Do not leave any cells in the survey blank. If a response to a particular cell does not exist, enter a 0. If a response to a particular cell cannot be determined, enter DK for “don’t know.” If you have other questions or difficulties, Board staff can assist you. Please call Jennifer Davidson at 202-452-2446 or email [Interchange.Survey@frb.gov](mailto:Interchange.Survey@frb.gov) for assistance. Provide your name, organization, and contact information along with your inquiry when you call or email.

**Section I. Merchant Acquirer/Processor Information**

	Signature debit (1)		PIN debit (2)		Prepaid (3)	
	Number	Value	Number	Value	Number	Value
<b>A. Purchases and returns</b>						
1. Total transactions						
a. Transactions that included cash back						
b. Cash-back amount						
<b>B. Transaction environment</b>						
1. Card-present						
2. Card-not-present						
<b>C. Transaction type</b>						
1. Purchase						
2. Return						
<b>D. Merchant acceptance</b>						
1. Number of merchants						
2. Number of merchant locations						

Please provide any explanatory comments regarding your response above, if needed.

**Section II. Fraud Prevention and Data Security Costs**

**II.A. Fraud prevention costs**

	Type of fraud prevention activity (1)	Fully allocated costs			Cost allocation methodology for joint costs if not based on the number of transactions (include percentage of fully allocated costs that are joint) (5)
		PIN debit (\$) (2)	Signature debit (\$) (3)	Prepaid (\$) (4)	
1	Merchant underwriting				
2	Development/assessment of merchants' security programs				
3	Data compromise response				
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
Total					

Please provide any explanatory comments in the space below.

**II.B. Data security costs**

	Type of data security activity	Fully allocated costs			Cost allocation methodology for joint costs if not based on the number of transactions (include percentage of fully allocated costs that are joint)
		PIN debit (\$)	Signature debit (\$)	Prepaid (\$)	
	(1)	(2)	(3)	(4)	(5)
1	Data access controls				
2	Data processing security				
3	Communications security				
4	PCI compliance				
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
Total					

Please provide any explanatory comments in the space below.

**Section III. Fraud Losses**

	Number of fraudulent transactions		Value of fraudulent transactions		Percentage of net fraud loss value after representations		
	Gross	Net after representations	Gross (\$)	Net after representations (\$)	Merchants (%)	Acquirer (%)	Cardholder, issuers, and network (%)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Signature debit							
PIN debit							
Prepaid							

Sample Survey  
Not Valid for Submission

**Section IV. Fraud Occurrence and Mitigation**

IV.A.) Is the level or incidence of fraud influenced by whether the authorization of an electronic debit transaction occurs in a card-present or card-not-present environment?

**YES** **NO**

If "Yes," please briefly explain in the space provided below.

Sample Survey  
Not Valid for Submission

IV.B.) Is the level or incidence of fraud in a card-present environment influenced by whether the authorization of an electronic debit transaction is based on a PIN or a signature?

**YES** **NO**

If "Yes," please briefly explain in the space provided below.

Sample Survey  
Not Valid for Submission

IV.C.) Is the level or incidence of fraud in a card-present environment influenced by whether an electronic debit transaction occurs face to-face or unattended? **YES** **NO**

If "Yes," please briefly explain in the space provided below.

IV.D.) Have existing interchange fees influenced incentives for each party involved in electronic debit transactions to reduce fraud on such transactions? **YES** **NO**

Please briefly explain why or why not in the space provided below.

IV.E.) Are there any industry-wide estimates available of fraud prevention and data security costs expended by each party involved in electronic debit transactions?

**YES** **NO**

If "Yes," please briefly explain in the space provided below.

Sample Survey  
Not Valid for Submission

IV.F.) Are there any industry-wide estimates available of fraud losses absorbed by each party involved in electronic debit transactions?

**YES** **NO**

If "Yes," please briefly explain in the space provided below.

Sample Survey  
Not Valid for Submission

IV.G.) Are there any industry-accepted or network-required fraud prevention standards with which merchants must adhere?

<b>YES</b>	<b>NO</b>
<input type="checkbox"/>	<input type="checkbox"/>

If "Yes," please briefly explain in the space provided below.

IV.H.) In the space provided below, briefly describe any available, economical means by which fraud on electronic debit transactions can currently be reduced by each party in such transactions. Also, please describe additional future means that may be available to prevent fraud.

**Section V. Exclusivity Arrangements and Routing Procedures**

V.A.) Are you or the merchants you serve currently subject to any rules, guidelines, policies, interpretations, or otherwise that direct or set priorities regarding how you or your merchants must route an electronic debit transaction when multiple payment card networks are available to process that particular transaction?  **YES**  **NO**

If "Yes," briefly describe the nature of such restrictions in the space below:

V.B.) Over the past 10 years, have you or the merchants you serve been subject to any rules, guidelines, policies, interpretations, or otherwise that directed or set priorities regarding how you or your merchants had to route an electronic debit transaction when multiple payment card networks were available to process that particular transaction?  **YES**  **NO**

If "Yes," briefly describe the nature of such restrictions in the space below and the time frames during which they were in force:

V.C.) Are you or your merchants currently subject to contracts with networks that direct you or your merchants to route a transaction over a particular network when multiple payment card networks are available to process that transaction?

<b>YES</b>	<b>NO</b>
<input type="checkbox"/>	<input type="checkbox"/>

If "Yes," briefly describe such contracts in the space provided below:

V.D.) Over the past 10 years, have you or your merchants been subject to contracts with networks that directed you or your merchants to route a transaction over a particular network when multiple payment card networks were available to process that transaction?

<b>YES</b>	<b>NO</b>
<input type="checkbox"/>	<input type="checkbox"/>

If "Yes," briefly describe the nature of such contracts in the space below and the time frames during which they were in force:

V.E.) Do you or your merchants currently receive incentives that encourage you or your merchants to route a transaction over a particular network when multiple networks are available to process that transaction?

**YES** **NO**

If "Yes," mark all incentives you or your merchants receive:

a. Lower network fees

b. More favorable terms (briefly describe in the space below)

c. Other (briefly describe in the space below)

Sample Survey  
Not Valid for Submission