

**Meeting Between Federal Reserve Board Staff and Representatives of Visa
November 26, 2013**

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Summary: Representatives of Visa met with Federal Reserve Board staff to discuss Visa rules as they pertain to network exclusivity and routing provisions. Representatives of Visa provided an overview of specific Visa rule provisions that enable non-PIN transactions made with Visa-enabled debit cards to be processed by other PIN networks, with appropriate customer disclosures. Visa also discussed the evolution of debit card networks, where a given network may be able to process both signature-based and PIN-based transactions, and transactions using alternate authentication methods.

Attached is a handout Visa distributed prior to the meeting.

Visa Operating Rules Do Not Prohibit or Restrict PIN Network Processing of Signature Transactions

The District Court's conclusions on exclusivity and routing were based on fundamental errors that have continued in the DC Circuit merchant briefing. These errors include that: (1) PIN networks are prohibited from accepting signature transactions by Visa and MasterCard rules; (2) signature and PIN cards are the only two authentication methods available; (3) signature and PIN don't compete; and (4) many merchants cannot accept PIN transactions.

- There is nothing in the Visa rules that prevents a PIN network from offering signature transactions today. Many networks that have historically been PIN-based have for many years offered "PINless debit" in some merchant segments over the internet and phone (i.e., no signature required), and have indicated plans to expand this practice at the physical POS and in additional non-face-to-face merchants. Nothing in the Visa rules prevents PIN networks from implementing "dual message" systems.
- Similarly, the Visa network has long offered a wide array of authentication options, and under the Visa rules, PIN has been one of the available means of authentication on Visa Debit cards. While PIN usage was historically not as prevalent on Visa Debit, in order to ensure that merchants could use that option more effectively without transactions being denied due to issuer processing readiness, in 2012, Visa required issuers participating in the Visa network to certify that they support PIN validation and cash back on Visa Debit transactions. These changes ensure that merchants will have a Visa routing alternative for PIN transactions.
- The merchants cite two separate Visa rule provisions in support of their assertion that network rules bar PIN networks from processing signature transactions on their cards – a rule related to Visa's brand restrictions and a rule on consumer disclosure of non-Visa transactions on "PIN-Debit Networks." Neither supports these claims.
- First, the merchants suggest that Visa rules do not permit other network brands to co-reside on its signature debit cards, and therefore prevent PIN networks on the card from handling signature transactions. This is incorrect.
 - The Board has already prohibited network rules or guidelines that limit the ability of brands, marks or logos of other payment card networks to appear on the card.
 - Dating back to July 2008, Visa rules have recognized that non-PIN transactions could be processed by other PIN networks on Visa Debit cards, provided that disclosure of that fact is made to cardholders by the card issuer to avoid confusion.
 - Since Reg. II, Visa allows general purpose brands including but not limited to MasterCard or Discover to co-reside on U.S. issued Visa Debit cards. Attached as Appendix A are examples of the relevant Visa rules, which are also available publicly online at http://usa.visa.com/merchants/operations/op_regulations.html.

- Second, 7-Eleven in its amicus brief asserts that any PIN debit network that processes or has the ability to process signature transactions would no longer meet the definition of “PIN-Debit Network” under the Visa rules and would be prohibited from residing on a Visa card.
 - The definition of “PIN-Debit Network” does not prohibit signature transactions, or any other authentication method for that matter; instead, the rule (attached in Appendix A) where “PIN-Debit Network” is used is merely for notification and consumer disclosure. The second sentence of the rule itself specifically contemplates that a “PIN-Debit Network” may process transactions not authenticated by a PIN (“An Issuer that enables Non-Visa Debit Transaction processing and that does not require that all such transactions be authenticated by a PIN must...Clearly communicate to its Cardholders...”). Moreover, Reg. II already prohibits any network from having the type of rule that merchants claim.
- Signature and PIN are not the only two available debit authentication methods. The two authentication method characterization greatly oversimplifies the authentication options available today, including signature, No Signature Required, PIN, PIN over the internet, PINless, the use of address verification, checking CVV or CVV2, contact chip, digital wallet, and various types of contactless authentication.
- Signature and PIN compete for transactions. Merchants steer cardholders to the routing option of their choice. At merchants that have chosen to install PIN pads, significant volume is generally steered to PIN, and merchants ultimately control the POS consumer experience and processing flows. In fact, it can be difficult for a consumer that wants to use signature to do so (hitting “cancel” etc.).
- Merchants can accept PIN if they want to. Although some merchants have chosen not to install PIN pads, there are few or no cost or technology barriers to doing so. In the vast majority of instances, it is a commercial choice because the merchant concluded that whatever debit options it chose to offer its customers met the merchant’s needs.
- Among other factual errors, the District Court also concluded that Visa and MasterCard continue to have an “Honor All Cards” rule that requires merchants to accept their debit cards, if they also take Visa or MasterCard credit cards, but the Honor All Cards rule was bifurcated in 2004 as part of the Wal-Mart settlement.

APPENDIX A

Visa International Operating Rule Examples¹

PIN-Debit Network Rules

PIN-Debit Network Requirements - U.S. Region (p. 594)

A U.S. Issuer that enables Non-Visa Debit Transaction processing on its Visa Check Card or Visa Debit Card must ensure that all such transactions are facilitated by a PIN-Debit Network.

An Issuer that enables Non-Visa Debit Transaction processing and that does not require that all such transactions be authenticated by a PIN must:

- Clearly communicate to its Cardholders at the time of implementation of such processing or at the time of issuance, and on an annual or more frequent basis thereafter, that it has enabled Non-Visa Debit Transaction processing and that it does not require that all such transactions be authenticated by a PIN
- Clearly communicate to its Cardholders the identity of the debit networks for which such transactions are enabled on the Visa Check Card or Visa Debit Card
- Provide Cardholders with examples of the types of Cardholder actions that may be required to initiate a Visa Transaction on such Cards
- At least 30 calendar days before implementation, notify Visa that it does not require that all Non-Visa Debit Transactions be authenticated by a PIN
- Clearly communicate to its Cardholders at the time of implementation of such processing or at the time of issuance, and on an annual or more frequent basis thereafter, that the provisions of its Cardholder agreement relating only to Visa Transactions are inapplicable to non-Visa transactions

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Non-Visa Debit Transaction - U.S. Region (p. 1037)

An act between a Visa Check Card or Visa Debit Card Cardholder and a merchant that results in the generation of a transaction on a PIN-Debit Network.

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PIN-Debit Network - U.S. Region (p. 1047)

A non-Visa debit network that typically authenticates transactions by use of a PIN that is not generally known as, marketed as, or enabled as a competitive general-purpose card program, or other prohibited payment program, either directly or through a joint acceptance agreement.

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¹ Available publicly online at http://usa.visa.com/merchants/operations/op_regulations.html.

Brand Rules

Competitive Marks - U.S. Region (p. 132)

No U.S. Member may use the Marks of the American Express Company, MasterCard Worldwide (including Maestro), Discover Financial Services, or the subsidiaries or affiliates of these entities on Visa Cards not defined as U.S. Covered Visa Debit Cards, except that:

- A Wordmark may be used to denote ATM sharing only, if it appears on the back of a Visa Card, as specified in "Cirrus Wordmark - U.S. Region"
- The PULSE Mark may appear on the back of a Visa Check Card or a Visa Debit Card, if the Issuer processes Non-Visa Debit Transactions

A U.S. Member may use the Visa Program Marks in conjunction with the Marks of these entities on items and materials other than Visa Cards provided that the overall appearance resulting from such use unmistakably conveys the idea that the Marks associated with Visa identify a product or service separate and distinct from any product or service of the American Express Company, MasterCard Worldwide (including Maestro), Discover Financial Services, or their subsidiaries or affiliates.

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Non-Visa General Purpose Payment Card Network – AP Region, LAC Region, and U.S. Region (p. 129)

In the U.S. Region or in a U.S. Territory, a Member may use the Marks of a non-Visa general purpose payment card network, on a U.S. Covered Visa Debit Card, as specified in the *Visa Product Brand Standards*.

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Prohibited Use of Trade Name or Mark – AP Region, LAC Region, and U.S. Region (p. 140)

In the U.S. Region or in a U.S. Territory, a Member may use the Marks of the American Express Company, Discover Financial Services, MasterCard Worldwide (including Maestro) or the subsidiaries or affiliates of these entities, or other entities deemed competitive by Visa, on U.S. Covered Visa Debit Cards, as specified in the *Visa Product Brand Standards*.

In the U.S. Region or in a U.S. Territory, a Member may use the Marks of the American Express Company, MasterCard Worldwide (including Maestro), Discover Financial Services, or the subsidiaries or affiliates of these entities, or other entities deemed competitive by Visa, in connection with a Member's promotion, offer or solicitation of a U.S. Covered Visa Debit Card, or the maintenance of a Cardholder relationship for a U.S. Covered Visa Debit Card, as specified in the *Visa Product Brand Standards*.

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U.S. Covered Visa Debit Card - AP Region, LAC Region, and U.S. Region (p. 1082)

A Visa Card issued in the U.S. Region or in a U.S. Territory that accesses a transaction, savings or other asset account, regardless of whether Cardholder Verification is based on signature, PIN or other means, including a general-use Visa Prepaid Card and Consumer Visa Deferred Debit Card, but solely to the extent any such Visa Card is a "debit card" as defined in Federal Reserve Board Regulation II, 12 CFR Part 235.

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