ZIONS BANCORPORATION

CORPORATE COMPLIANCE
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February 22, 2011

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

ATTN: Regulation II, Docket No. R-1404

Dear Sir/Madam:

On behalf of Zions Bancorporation (Zions) we wish to thank the Federal Reserve for providing us with the opportunity to comment on the Notice of proposed rulemaking regarding new Regulation II, Debit Card Interchange Fees and Routing published on December 16, 2010. Zions Bancorporation is a $51 Billion bank holding company with OCC and FDIC-supervised banking offices located in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, and Washington.

We provide the following comments to the proposed rule:

Interchange Fees
Zions Bancorporation is opposed to both proposals in regard to caps on interchange fees. Regardless of providing a "safe harbor" under alternative 1 we feel both proposals will put larger financial institutions at a competitive disadvantage and in doing so harm the choices by our consumers. In calculating the permissible interchange fee, the proposal does not recognize important fundamental differences between debit cards and checks. In transactions where the card is present, merchants are guaranteed payment and the issuer suffers the loss in the event there are insufficient funds. In contrast, checks may be returned un-payable and merchants suffer the loss. The proposals do not consider the costs associated with back-office infra-structure, or fraud. Because the proposals do not permit our bank to cover the cost of providing debit card transactions, we will have to consider new maintenance and other fees on checking accounts. There is no requirement for merchants receiving the benefit of lower interchange fees to pass that savings on to consumers. We see these proposals causing negative impact to consumer customers, potentially moving a large percentage of those customers away from using debit cards as a method of payment.

Adjustment for Fraud-prevention Costs
The board has not considered the cost associated with fraud loss under its proposal. If debit cards are expected to clear at par, similar to checks, then issuers should have the same ability to "return" any payment of our choice within the first 24-hours for suspected or confirmed fraud. An authorization number should no longer absolutely guarantee the payment around fraud, only that the funds are currently available. Merchants assume the risk for the majority of check fraud as well as checks returned for account closed and non-sufficient funds (NSF). With debit card transactions, they will no longer have account closed or NSF risk, but should bear the majority of the fraud transactions if returned within the 24-hour window.

The proposal comments that issuers take 55% and merchants 45% of the overall losses. The recoveries issuers realize are normally through association chargebacks. Under the current rules, the majority of card-present transactions have a very low percentage of recoveries for issuers. When issuers recover fraud losses from a card-present transaction, it is usually limited to a merchant processing error. Some merchants choose to take on additional risk, by operating automated self-service terminals such as gas pumps, or participating with online transactions. Online merchants are in the best position to prevent fraud, but fail to exercise due diligence in confirming the transaction or verifying addresses. Additional due diligence on their end would greatly reduce their costs via chargebacks.

The majority of fraud losses suffered by banks through skimming is the result of a lack of security by merchants resulting in data compromises, reprogrammed terminals, or swapped readers or skimming devises placed on their POS equipment. Merchants that cause the loss of data, resulting in losses to the banks, should be held responsible for the losses caused. A switch to Europay, MasterCard and Visa (EMV) technology to control fraud still requires the merchant to upgrade its terminals. We could be ready to issue EMV cards in a short period of time but our advancement in technology is limited unless <u>all</u> merchants upgrade their terminals.

Technology-specific Approach
Our cutting-edge technology uses real-time monitoring with neural-network scoring and the ability to decline at the point of sale. Any further technology-specific approaches would need to come from the payment card network to include dynamic card verification value (CVV) on a magnetic stripe, magnetic fingerprinting, etc. However all of this also requires upgrades on the merchant side, especially movement to EMV-type technologies. Without POS upgrades, some technology for fraud prevention just is not possible. Technological enhancements are not available today that would substantially reduce fraud.

Non-prescriptive Approach
We don't see this approach as a viable option because we already maintain a reasonable and prudent fraud-prevention program as prescribed by industry standards.

Routing Requirements
The board has asked for comment on two alternatives regarding network exclusivity. If the proposal moves forward, the board should adopt alternative A in implementing the routing requirement. Alternative A limits the expense of managing unneeded relationships with additional networks and increases the number of PIN network routes available for merchants. Alternative B would require us to have and manage multiple PIN network relationships, creating additional costs with little benefit. Alternative B would require multiple signature networks be deployed on one card. This is impractical as currently the signature card payment systems do not support such a choice. In addition, Alternative B would require re-issuance of cards in many cases, an unnecessary expense and an inconvenience to customers.

Summary
We are generally opposed to the proposals. For the reasons stated above we are opposed to capping interchange fees at 7 or 12 cents. It will have a significant impact on our bank, our customers and our operations. We are also opposed to the adoption of Alternative B for routing debit transactions. Although we are opposed to both recommendations, alternative A is a more practical approach.

Sincerely

Norman Merritt

EVP – Corporate Compliance Director
Zions Bancorporation