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Via Email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

November 14, 2011

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, D.C. 20551

RE: Proposed Agency Information Collection Activities; Comment Request:  
Debit Card Issuer Survey (FR 3064a)

Dear Ms. Johnson:

The Board of Governors of the Federal Reserve System (the “Board”) has requested comment on the proposed Debit Card Issuer Survey to collect volume and cost information related to issuer debit and prepaid card portfolios as required by Section 920(a) of the Electronic Funds Transfer Act. JPMorgan Chase & Co., on behalf of JPMorgan Chase Bank, N.A., a major debit card issuer, and its other subsidiaries, appreciates the opportunity to submit this response.

JPMorgan Chase & Co. (NYSE: JPM) (“Chase”) is a leading global financial services firm with assets of \$2.2 trillion and operations in more than 60 countries. The firm is a leader in investment banking, financial services for consumers, small business and commercial banking, merchant acquiring, financial transaction processing, asset management and private equity. A component of the Dow Jones Industrial Average, JPMorgan Chase & Co. serves millions of consumers in the United States and many of the world’s most prominent corporate, institutional and government clients under its J.P. Morgan and Chase brands. Information about JPMorgan Chase & Co. is available at [www.jpmorganchase.com](http://www.jpmorganchase.com).

#### **A. Executive Summary**

The Board has proposed a new biennial survey to assist in meeting its obligation to provide aggregate information concerning the costs incurred and interchange fees charged or received by debit card issuers in connection with the authorization, clearance and settlement of electronic debit transactions.

As described below, Chase has concerns regarding certain aspects of the proposed survey. In particular, Chase believes: the Board should define a post-submission reconciliation process that accurately summarizes issuers' submissions; certain requested cost data is too narrowly focused; and certain information requested in the Payments and Incentives section is not relevant and potentially confusing. In addition, Chase offers comments on several specific questions the Board poses.

## **B. Survey Structure/Instructions**

1. Post Submission Reconciliation Process. As the Board recognizes, there likely will be inconsistencies among debit card issuer survey responses as a result of different interpretations, recordkeeping methods, etc., making it difficult to fairly aggregate cost data submitted by all issuers. While Chase believes the overall survey instructions are reasonable, Chase encourages the Board to define and implement a post-submission reconciliation process to enable the Board and issuers to better understand potential inconsistencies across responses and ensure the aggregate data accurately reflects industry costs. It is in the interest of all industry participants and policy-makers for the aggregate information to be clear and accurate.
2. Expand the Collection of Cost Data. Chase recommends that the Board provide an additional survey section to capture an issuer's entire debit card issuing costs, with authorization, clearance, and settlement costs included as a subcategory. The proposed survey gathers only "allowable cost" data, which will limit the Board in the long run and misrepresent the true cost of delivering debit card services. As the Board knows, the debit card business is dynamic. It is possible that as the industry evolves, the definition of allowable costs also will change. It is in the Board's interest to have a holistic view of debit card issuer costs so that it can evaluate marketplace and industry developments and respond appropriately. In addition, the Board likely will need to provide additional information to Congress in the future. We respectfully suggest the Board and the payment system overall will be better served by having all the cost components readily available.
3. Payments and Incentives Section. The survey's structure for gathering payments and incentives data is too broad and non-specific and, in combination with the proposal to collect data only on "allowable costs", likely will result in an incomplete and/or inaccurate perspective on issuer costs. As the Board understands, incentive arrangements are unique and varied and cannot be accurately represented in a standardized survey. Since Section 920(a)(3) of the Electronic Funds Transfer Act does not require the Board to report beyond issuer cost data, Chase recommends eliminating this section all together. However, if the Board considers it important to collect this information, Chase recommends that, at a minimum, the survey instructions be modified to request only payments and incentives that relate to debit card transaction

processing. This change would then align the requested data with the rest of the survey. That said, if the Board adopts Chase's recommendation to gather all issuer cost data, then the current Payments and Incentives section would be acceptable.

Chase also recommends that the Board revise the instructions for this section to state explicitly whether the Payments and Incentives data to be included are those relating to exempt products only or also to non-exempt products.

4. Exempt/Non-Exempt Debit Card Reporting Clarification. Chase recommends that the survey instructions clarify how to provide exempt versus non-exempt debit card data. Sections II.1 and II.2 of the survey appear to require both exempt and non-exempt debit card transaction volume data but Sections II.3 through II.13 appear to require only non-exempt debit card cost data. The survey instructions should be revised to state this explicitly.
5. Shared Cost Instructions. The instructions preceding Section II.3 indicate that all shared costs should be allocated based on transaction volume. However, transaction volume is not always the most accurate way to allocate costs. Often allocations are more accurately reflected by other key volume drivers (e.g., number of debit cards, number of customers, etc). Using the appropriate volume driver(s) will improve the quality of the aggregate data collected. Chase recommends that the instructions be modified to provide that the issuer should specify and use the allocation method(s) that, in the issuer's reasonable discretion, most accurately allocates its card program costs.
6. Rebate/Discount Clarity. Many expenses incurred by a debit card issuer can be billed to the issuer at a standard "rack rate" with a subsequent rebate/discount based on another performance factor (e.g., volume). We recommend the instructions for Section II.3 be revised to provide specific direction on how rebates/discounts are to be reflected in the survey. Since rebates/discounts are not associated with "incentives" (i.e., Section II.4), Chase assumes that costs should be reflected as net of rebates/discounts.

### C. Specific Comments Requested

1. Reporting at Chartered Entity Level. Chase believes that modifying the 2010 debit card issuer survey to require each chartered entity to complete a separate survey rather than requiring a consolidated holding company report is feasible and appropriate.
2. Authentication Method Terminology. Chase recommends using the designations "PIN" and "Signature" when referencing single-message transactions and dual-message transactions, respectively, as these terms are generally understood in the industry.

3. Issuer Combining General Use Prepaid Data. The Board proposes revising the 2010 debit card issuer survey to combine general-use prepaid card transactions with other debit card transactions. The Board bases this proposal, at least in part, on the higher authorization, clearance and settlement costs issuers reported in the 2010 survey for prepaid card transactions compared to other debit card transactions. The Board apparently attributes these higher reported costs to the possibility that issuers reported data from more cost categories than the survey requested. The Board further indicates that, in the Board's view, there are no distinctions between authorization, settlement and clearance processes and, therefore, associated costs for prepaid card transactions and other debit card transactions; hence, the Board appears to have concluded there is no need or benefit to reporting prepaid card data separately. However, Chase believes costs associated with prepaid card transactions, even if narrowly focused on authorization, settlement and clearance processes, indeed often are higher than other debit card transactions. Prepaid card portfolios have different characteristics than general debit card portfolios and transaction volumes overall tend to be smaller. In fact, many prepaid card portfolios are heavily supported by third party vendors, which increases the associated costs borne by those issuers. Chase strongly encourages the Board to continue recognizing prepaid card transaction costs as separate since there may, in fact, be legitimate authorization, clearance and settlement differences that should be documented and analyzed. At a minimum, gathering the data separately should help answer the question as to whether there are, in fact, differences.
4. Usefulness of Checklist in Fraud Prevention Section. The Board includes a checklist of fraud prevention activities in Section 5.c of the proposed survey, and has inquired whether the checklist is useful and the identified activities are appropriate, or whether other specific activities should be identified at this time. Chase believes that the checklist is useful and that the activities currently identified are appropriate. Chase further agrees that the listed activities can be updated in subsequent surveys based upon those "other" activities that issuers identify, if any.
5. Ability to Report Customer Service Costs. Chase can report the subset of customer service costs as requested in the survey. However, doing so accurately may require allocation methods not based on transaction volume. As indicated above, the survey instructions should be modified to allow the issuer to allocate expenses based on the volume driver(s) producing the most accurate allocation for that issuer.

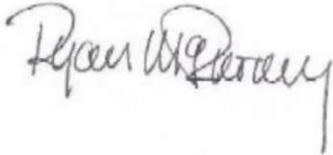
#### **D. Estimate of Respondent Burden**

In its "Supporting Statement for Interchange Transaction Fees Surveys", the Board estimates that the typical issuer will spend 80 hours completing the survey. Chase believes this estimate is significantly understated. Based on the time and effort

involved completing the 2010 cost survey, Chase believes the typical issuer may spend up to 500 hours completing the proposed new survey.

Thank you again for the opportunity to comment. If you have any questions about the foregoing please contact Michael Lipsitz at 312-732-4223.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ryan M. McInerney". The signature is written in a cursive style with a large initial "R" and "M".

Ryan M. McInerney

cc: Shagufta Ahmed, OMB Desk Officer  
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