

Please note that the comments expressed herein are solely my personal views

Board of Governors of the Federal Reserve System
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Chris Barnard

05 September 2011

- **Docket No R-1404**
- **Debit Card Interchange Fees and Routing**

Dear Jennifer Johnson,

Thank you for giving us the opportunity to comment on your Interim Final Rule: Debit Card Interchange Fees and Routing

The Board is adopting an interim final rule on adjustments to debit interchange transaction fees for fraud-prevention costs. The provisions allow an issuer to receive an adjustment of 1 cent to its interchange transaction fee if the issuer develops, implements, and updates policies and procedures reasonably designed to identify and prevent fraudulent electronic debit transactions; monitor the incidence of, reimbursements received for, and losses incurred from fraudulent electronic debit transactions; respond appropriately to suspicious electronic debit transactions so as to limit the fraud losses that may occur and prevent the occurrence of future fraudulent electronic debit transactions; and secure debit card and cardholder data. If an issuer meets these standards and wishes to receive the adjustment, it must certify its eligibility to receive the fraud prevention adjustment to the payment card networks in which the issuer participates.

I generally support the provisions. The basic concept is reasonable, but I think that you should have gone further. I agree that an issuer should be able to charge an additional fee to cost and incentivise fraud prevention, but I would suggest that you should also disincentivise the use of substandard (non-approved) technologies such as signature, over newer and more reliable (approved) technologies such as PIN. For example, an issuer could receive

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an adjustment of minus 1 cent for using signature debit. In this example there would be four basic fees (ignoring ad valorem): 22 cents for approved with fraud prevention; 21 cents for approved without fraud prevention; 21 cents for non-approved with fraud prevention; and 20 cents for non-approved without fraud prevention. This concept could be extended further as technologies, markets and fraudulent activities evolve in the future. Importantly, the concept is consistent with the statutory language, which states that the Board shall consider: "the extent to which the occurrence of fraud depends on whether authorization in an electronic debit transaction is based on signature, PIN, or other means".

Yours sincerely

Chris Barnard