

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

In the matter of: :
 :
Notice of Proposed Rulemaking :
Debit Card Interchange Fees and Routing : **Docket No. R-1748**

Comments of Airlines for America

Airlines for America (“A4A”) appreciates the opportunity to comment on the notice of proposed rulemaking issued by the Board of Governors of the Federal Reserve System (“Board”) regarding proposed clarifications to Regulation II published in the Federal Register on May 13, 2021. Debit Card Interchange Fees and Routing, 86 Fed. Reg. 26,189 (proposed May 13, 2021) (“NPRM”). A4A on behalf of our members,¹ has a strong interest in these debit card interchange fee regulations and respectfully submit the following comments in response to the notice.

We endorse the comments of the Merchant Advisory Group (“MAG”) and provide additional comments to answer the Board’s questions. In summary, the Board should, at a minimum, act quickly to clarify that the requirement for each debit card transaction to be able to be processed on at least two unaffiliated payment card networks applies to card-not-present transactions and clarify that Regulation II imposes requirements on debit card issuers to ensure that at least two unaffiliated payment card networks have been enabled for debit card transactions.

¹ A4A members are: Alaska Airlines, Inc.; American Airlines, Inc.; Atlas Air, Inc.; Delta Air Lines, Inc.; Federal Express Corporation; Hawaiian Airlines; JetBlue Airways Corp.; Southwest Airlines Co.; United Airlines, Inc, and United Parcel Service Co. Air Canada is an associate member.

Card Not Present Transactions and Debit Card Issuer Obligations

The Board is proposing to change Regulation II to clarify that debit card issuers should enable, and merchants should be able to choose from, at least two unaffiliated networks for card-not-present transactions. The Board would revise commentary to Regulation II to clarify that network exclusivity is prohibited on card-not-present transactions. The proposal also states it is the responsibility of the debit card issuer to ensure that at least two unaffiliated networks have been enabled to comply with the regulation's prohibition on network exclusivity.

The Board Should Adopt the NPRM Expediently

The airline industry has a significant interest in this proposal because nearly all airline industry debit card transactions are card-not-present. As the Board recognizes, despite the changes to Regulation II ten years ago and technology advances since then and in contrast to the routing choice that currently exists for card-present transactions, merchants are not able to choose from at least two unaffiliated networks when routing card-not-present debit transactions.² In addition, the Board's survey of covered debit card issuers, consisting of issuers that accounted for approximately 50 percent of all debit card transactions and approximately 50 percent of all card-not-present debit card transactions, indicated that debit card issuers did not conduct any card-not-present transactions over single-message networks in 2019,³ which indicates rampant non-compliance with Regulation II's requirement that at least two unaffiliated payment card networks have been enabled for debit card transactions. As the MAG notes and Board data shows, increased routing competition results in falling interchange rates and lack of competition results in increased interchange rates. The MAG also notes that lack of compliance with

² 86 Fed. Reg. 26190.

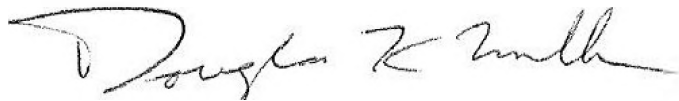
³ 86 Fed. Reg. 26191.

Regulation II continues to increase costs to merchants and consumers—by some estimates, by more than \$3 billion in 2020 alone.

Therefore, despite the Board’s regulatory changes a decade ago, merchants whose debit transactions are primarily card-not-present have unnecessarily endured much more expensive transactional fees due to noncompliance with Regulation II. The Board’s proposals are supported by data in the record, much needed and welcome. We respectfully request that the Board adopt the proposals in this NPRM as soon as possible and use resources to investigate and where appropriate initiate enforcement proceedings to ensure regulated parties comply with Regulation II.

We appreciate the Board’s continued efforts and the opportunity to comment on the NPRM.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas K. Mullen". The signature is fluid and cursive, with a large initial "D" and "M".

Douglas K. Mullen
Vice President and Deputy General Counsel

August 11, 2021