August 05, 2021

Ann Misback
Secretary
Board of Governors of the Federal Reserve
20th Street and Constitution Ave
Washington, DC 20551

Re: Proposed Changes to Regulation II- Debit Card Interchange Fees and Routing (Docket No. R-1748,RIN 7100-AG15OP-1747)

Dear Ms. Misback:

I strongly disagree with the Federal Reserve's proposed rule to make changes to Regulation II, as it will have a negative impact on Veridian Credit Union ("Veridian") with even more significant negative impacts to other credit unions, especially those particularly vulnerable to regulatory changes which combine new compliance costs with reductions in fairly-earned revenue. This expansion of the routing requirement to all card-not-present transactions and accompanying mandate that we accept PIN-less transactions effectively creates a price cap on the revenue credit unions receive from these transactions. The proposed changes also result in potentially significant costs to comply with these new rules, while reducing operational latitude to mitigate the higher fraud costs that are associated with these newly-covered transactions. For these reasons, the Federal Reserve should withdraw the proposed rule.

Any expanded requirements will only create new significant challenges for credit unions trying to provide financial services to those that need them most. Credit unions offer debit cards as a vital service so that members can access their funds and purchase items from merchants and retailers. Revenue from debit transactions is used to offset the costs associated with providing debit cards to credit union members and operating the accounts that the debit cards are linked to. While we care deeply for merchants in our communities, this rule will largely benefit the most profitable national merchants who ship their products to customers nationwide.

The Proposal Would Increase Compliance Costs for Credit Unions

The proposed rule will result in a material change in how we handle debit card transactions.

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Fundamentally, the rule shifts the compliance responsibilities under the Durbin Amendment by placing the burden on Veridian and other credit unions to ensure merchants can enforce certain new rights across all geographies and transactions; however, the proposed rule does not explain how an issuer can ensure these conditions are met. Veridian and other credit unions operate in a card system where Veridian only controls its own cards and we have no knowledge of or control over merchants' transaction choices. Most merchants are located far from any given credit union, making the all-geographies requirement particularly challenging. Veridian has complied with the Durbin Amendment for a decade by issuing cards with two networks and the merchant had to do their part by supporting cards that came across the checkout counter. It is beyond any reasonable technical expectation that Veridian can issue a card that is guaranteed to support every merchant across the country who insists on an unsupported transaction configuration. The information to prevent such a violation would be literally unknowable since Veridian does not have a business relationship with merchants. Industry experts believe this would require elaborate technical builds and potentially still fall short.

The Federal Reserve asserts that there are solutions available today, yet it then states that these transactions are not used frequently enough for merchants' liking. There are legitimate operational reasons for these trends which, unfortunately, the proposed rule does not explore. Working through these myriad issues, on a timeline set by credit unions' third-party providers, could crowd out and deprioritize discretionary investments Veridian and other credit unions would like to make, including adopting faster payments systems.

The Proposal Would Increase Fraud Costs

The proposed rule could expose the payments ecosystem to more fraud and potentially reduce the overall level of security in the system, creating real consumer impact. Different networks and transaction types offer different protections against fraud, including the ability of issuing institutions to charge back fraud to the merchant. Credit unions manage the transactions they support with these differences in mind and work to offer members the most secure experience, minimizing fraud events. This proposal makes it even more difficult, if not impossible, for fraud-conscious financial institutions and consumers to manage how debit transactions are processed. Under the current rule (and if it were to be applied to card-not- present transactions) retailers, not consumers, choose how transactions are routed. Often, the merchant may choose the lowest-cost routing option, regardless of the value that option provides to other parties in the transaction. Over time, this may undermine fraud protection benefits like zero liability protection and text alerts on potentially fraudulent debit transactions. Consumers expect all these benefits as part of a credit union's brand promise, but when another party is given near-total control of how a credit union's debit cards operate, they may not be sustainable. At a time when the industry has worked

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so closely with the Federal Reserve to improve payments security, the proposed rule takes away key latitude and tools for financial institutions to do everything possible to protect consumers.

Additionally, if a retailer chooses a debit network and transaction type that lacks security and necessary fraud mitigation benefits and fraud occurs, they bear limited responsibility. This is particularly true of "PINless" transactions, which many consumers assume to be signature transactions but are entirely different. For instance, the world's leading online retailer states that refunds to consumers can take 2x to 3x longer via PINless transactions, leaving credit unions to pick up the slack and resolve the member service problems that can result. PINless transactions are often difficult or impossible to decline when necessary and can be harder or impossible to reverse in the event of fraud or consumer error. These novel transactions did not exist in common usage when the Durbin Amendment was passed, so I am uncertain how they can be mandated upon card issuers now despite our reasonable reservations. By forcing us to take these less protected transactions, the proposed rule goes beyond the constrained routing rights merchants acquired in the Durbin Amendment. It is credit unions like Veridian that cover the losses and reverse fraudulent transactions. We have the most incentive to ensure consumers are protected, yet this proposal limits our ability to choose the best debit networks to route transactions and best serve and protect consumers.

The Proposal Would Decrease Competition Among Debit Networks

Lastly, I am concerned the proposed rule would further suppress competition among debit networks and the required competition analyses were not completed by the Federal Reserve. The proposed rule could drive further consolidation among the debit networks, reducing choices for issuers and small businesses. There has already been significant vertical consolidation between credit union technology vendors and payment networks. As proposed, the rule would benefit a handful of large merchants, potentially increasing their competitive advantage over small businesses. The proposed rule lacks a fulsome competition analysis and does not mention that the U.S. Supreme Court found in 2017 that the card market is two-sided, where policymakers must balance the commercial interests of issuers and merchants. The proposed rule still follows the one-sided market model where network dynamics will be tilted towards merchants who will not directly bear consequences if the cardholder experience offered by credit unions is diminished. We should be encouraging an environment where debit networks compete on the quality of their network and whether they provide the best service for routing debit transactions, not by arbitrarily imposing government mandate that only accounts for one part of the picture.

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Conclusion

The provisions of Regulation II have significant negative effects on consumers and credit unions and should not be expanded in any way. Veridian would rather spend its resources offering members new options like faster payments systems that are becoming available now than the distraction of revisiting our Durbin Amendment compliance posture. To enable a truly competitive marketplace, I strongly encourage the Federal Reserve to withdraw the proposed rule to expand routing controls to card-not-present debit transactions and the requirement to have two debit networks for routing.

Thank you for the opportunity to submit comments on this matter.

Sincerely,

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