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Via regs.comments@federalreserve.gov

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

RE: Debit Card Interchange Fees and Routing, Docket No. R-1748, RIN 7100-AG15

Ladies and Gentlemen:

I strongly disagree with the Federal Reserve's proposed rule to make changes to Regulation II, as it will have a significant impact on community banks. This expansion of the routing requirement to all card-not-present transactions and accompanying mandate that we accept PINless transactions effectively creates a price cap on the revenue community banks receive to participate in these transactions. It also results in extensive and recurring 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.

Any expanded requirements will only create new significant challenges for banks trying to provide the best financial products for customers in our communities. Debit revenue is particularly vital to offering affordable core deposit accounts, but the proposed rule does not acknowledge the harms that this intervention will cause to consumers in the two-sided debit card market. While we care deeply for merchants in our community, this rule will largely benefit the most profitable national merchants who ship their products to customers. Merchants matter, but community banking is also an essential part of the American economic landscape and should be equally valued in policymaking.

Banks have 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 banks issue a card that is guaranteed to support every merchant across the country who insists on an unsupported transaction configuration. 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 then goes on to explain 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.

Secondly, it's important to address how this 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. Banks manage the transactions they support with these differences in mind and work to offer customers 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. At a time when the industry has worked 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.

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 consumers assume to be signature transactions, but are entirely different. For instance, the world's leading online retailer says that refunds to consumers can take 2x to 3x longer via PINless transactions, leaving banks to pick up the slack and resolve the customer 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 issuers to take these less protected transactions, the proposed rule goes beyond the constrained routing rights merchants acquired in the Durbin Amendment.

Lastly, there is concern the proposed rule would further suppress competition among debit networks and the required competition analyses were not completed. The rule could drive further consolidation among the debit networks, reducing choices for issuers and small businesses. There has already been significant vertical consolidation between bank technology vendors and payment networks. As proposed, the rule would benefit a handful of large merchants, potentially increasing their competitive advantage over Main Street stores. 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 a two-sided one, 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 my bank 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 account for one part of the picture.

The provisions of Regulation II have significant negative effects on consumers and banks and should not be expanded in any way. 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,



B. Scott Copeland
Chief Operations Officer