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August 10, 2021

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

**Re: RIN 7100-AG15: Regulation II - Debit Card Interchange Fees and Routing
Docket No. R-1748**

Dear Ms. Misback:

The Illinois Credit Union League ("ICUL") appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System ("Board") proposal to amend Regulation II. ICUL represents 235 credit unions in the state of Illinois and the 3.5 million consumers they serve.

The proposed rule intends to amend Regulation II to clarify that the requirement that each debit card transaction must be able to be processed on at least two unaffiliated payment card networks applies to card-not-present transactions, to clarify the requirements that Regulation II imposes on debit card issuers to ensure that at least two unaffiliated payment card networks have been enabled for debit card transactions and standardize and clarify the use of certain terminology.

We are concerned the proposal will have an adverse impact on credit unions by unnecessarily increasing the regulatory burden associated with providing credit union members debit cards. The high cost of bringing card programs into compliance will threaten already thin margins aggravated by reductions in fairly earned revenue, which will bear heavily on the availability of cost effective financial products for consumers, such as free checking and reward programs.

The proposed rule will materially change how credit unions handle debit card transactions. The rule places the burden for compliance with the Durbin Amendment on credit unions to ensure merchants can enforce certain new rights across all geographies and transactions. Yet the proposed rule does not explain how an issuer can ensure these conditions are met in a card

system where all the credit union controls is its own cards and the credit union lacks knowledge of or control over merchants' transaction choices. It is beyond any reasonable technical expectation that credit unions can issue cards that are guaranteed to support every merchant across the country who insists on an unsupported transaction configuration.

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 nearly-total control of how the credit unions' debit cards operate, the probability of fraud occurring is real.

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 states that refunds to consumers can take much 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 it is unclear how they can be mandated upon card issuers. By forcing credit unions to take these less protected transactions, the proposed rule goes beyond the constrained routing rights merchants acquired in the Durbin Amendment. Credit unions that cover the losses and reverse fraudulent transactions have the most incentive to ensure consumers are protected, yet this proposal limits the ability to choose the best debit networks to route transactions and best serve and protect consumers.

Lastly, we are concerned the proposed rule would further suppress competition among debit networks. 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 credit union 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 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.

In conclusion, the provisions of Regulation II will have significant negative effects on consumers and credit unions and should not be expanded in any way. We 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,

A handwritten signature in black ink that reads "Joni Senkpeil". The signature is written in a cursive, flowing style.

ILLINOIS CREDIT UNION LEAGUE

Joni Senkpeil
SVP Member Resources