

Board of Governors of the Federal Reserve System
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Chris Barnard

07 December 2023

- **12 CFR Part 235**
- **Docket No. R-1818**
- **Debit Card Interchange Fees and Routing**

Dear Ann E. Misback.

Thank you for giving us the opportunity to comment on your Notice of proposed rulemaking on Debit Card Interchange Fees and Routing.

Regulation II implements a provision of the Dodd-Frank Act that requires the Board to establish standards for assessing whether the amount of any interchange fee received by a debit card issuer is reasonable and proportional to the cost incurred by the issuer with respect to the transaction. Under the current rule, for a debit card transaction that does not qualify for a statutory exemption, the interchange fee can be no more than the sum of a base component of 21 cents, an ad valorem component of 5 basis points multiplied by the value of the transaction, and a fraud-prevention adjustment of 1 cent if the issuer meets certain fraud-prevention-standards. The Board developed the current interchange fee cap in 2011 using data voluntarily reported to the Board by large debit card issuers concerning transactions performed in 2009. Since that time, data collected by the Board every other year on a mandatory basis from large debit card issuers show that certain costs incurred by these issuers have declined significantly; however, the interchange fee cap has remained the same. For this reason, the Board proposes to update all three components of the interchange fee cap based on the latest data reported to the Board by large debit card issuers. Further, the Board proposes to update the interchange fee cap every other year going forward by directly linking the interchange fee cap to data from the Board's biennial survey of large debit card issuers. Initially, under the proposal, the base component would be 14.4 cents, the ad valorem component would be 4.0 basis points (multiplied by the value of the transaction), and the fraud-prevention adjustment would be 1.3 cents for debit card transactions performed from the effective date of the final rule to June 30, 2025. The Board also proposes a set of technical revisions to Regulation II.

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

I fully support the proposed changes, and believe that they should be actioned without delay. The data collected by the Board from large debit card issuers since the original Regulation II rulemaking indicate that the costs incurred by large debit card issuers in relation to debit card transactions have changed materially over time. In particular, the costs relating to the base component have almost halved. Furthermore, the issuer fraud losses on which the Board based the ad valorem component have fallen, and the fraud-prevention costs on which the Board based the fraud-prevention adjustment have slightly risen.

The proposals are overdue and will act to stimulate the adoption of debit cards in market segments where acceptance may be lower, which would be beneficial to business and the economy. I would rather not comment on the possible future responses of covered issuers to lower interchange revenue from debit card transactions, as this is not relevant.

Yours sincerely

C.R.B.

Chris Barnard