ZIONS BANCORPORATION

HARRIS H. SIMMONS
Chairman &
Chief Executive Officer

February 27, 2024

Via Electronic Mail

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

Re: Regulation II Proposed Amendment –Debit Card Interchange Fees and Routing (Docket No. R-1818, RIN 7100-AG67)

Dear Ms. Misback:

On behalf of Zions Bancorporation, N.A. ("Zions" or "Bank"), and as a concerned stakeholder in the banking industry, I write to express Zions' unreserved opposition to the Federal Reserve Board's ("FRB") proposed rulemaking to significantly decrease the interchange fee cap under Regulation II (Docket No. R–1818, RIN 7100–AG67) (the "Proposed Amendment").

Zions urges the FRB to immediately withdraw the Proposed Amendment due to the detrimental effects it would have on consumers, small businesses, and financial institutions.

- First, the Proposed Amendment will harm consumers by further reducing interchange fees which play a crucial role in supporting financial inclusion initiatives. Among these initiatives are Bank On accounts, which provide unbanked and underbanked consumers with affordable access to essential banking services at minimal expense. Lowering the interchange fee cap will undermine banks' ability to financially support these products and their beneficiaries - lower income households.
- Second, the data on which FRB relies to support the reduction of interchange fees is outdated and incomplete. Further research must be conducted that includes current costs and reflects all relevant expenses banks incur, including, but not limited to, card production, card and statement delivery costs, account maintenance, non-sufficient funds handling and losses, and fraud and monitoring costs. The data also does not include the impact of the FRB's recently imposed debit card routing rule on bank costs.
- Third, the Proposed Amendment would disadvantage consumers, smaller covered issuers like Zions, and other community banks in favor of merchants, merchant acquirer processors, and FRB's own FedNow payment services. Finally, the Proposed Amendment will undermine the health of financial institutions and the payments system, as well as limit public participation in future rule changes, contrary to the principles of the Administrative Procedure Act.

About Zions Bancorporation, N.A.

Zions Bancorporation, N.A. is one of the nation's premier financial services companies with nearly $90 billion in total assets. Founded in 1873, Zions operates under local management teams and distinct brands in 11 western states: Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, Washington, and Wyoming. Zions employs approximately 10,000 people and serves a diverse range of customer segments, including individuals, small businesses, large corporations, and institutional clients. The Bank specializes in meeting the financial needs of these customer segments by offering a broad array of banking products and services tailored to each segment's unique requirements.

Zions' Concerns with the Proposed Amendment

Under the Proposed Amendment amending Regulation II, the FRB proposes to update all three components of the interchange fee cap based on the latest data reported to the FRB by large debit card issuers. Further, the FRB

One South Main Street, Salt Lake City, UT 84133 | *Direct* (801) 844-7111 | *harris.simmons@zionsbancorp.com*

proposes to update the interchange fee cap every other year going forward by directly linking the interchange fee cap to data from the FRB'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.

From Zions' perspective, the Proposed Amendment presents numerous challenges that warrant careful examination and refinement before any further rulemaking is contemplated by the FRB. Specifically, we believe the following key issues merit further review and consideration by the FRB:

1. **Detrimental Impact on Consumers**: The Proposed Amendment would further reduce fee income revenue that covers the myriad of costs banks incur to support and service deposit account relationships. The original proponents of the Durbin Amendment claimed that merchants would pass on savings resulting from the Interchange Price Cap to consumers. But as the FRB's own study makes plain,[1] merchants who claimed they would pass on those savings never did. Banks, on the other hand, were forced to respond by modifying banking benefits to offset the loss of debit card revenue. Given the historical association between the Interchange Price Cap and increased account fees, tightening the cap further, as proposed, is likely to exacerbate the financial burden on consumers.

2. **Inadequate and Outdated Data**: The 2021 data supporting the Proposed Amendment is outdated and incomplete. According to the U.S. Bureau of Labor Statistics, the consumer price index (CPI) increased 17.27% between January 2021 and December 2023, but only 10.76% between January 2019 and December 2021. [cite https://www.bls.gov/data/inflation_calculator.htm]. The 2021 data not only fails to reflect the rising CPI, but it lacks comprehensiveness by failing to encompass critical financial institution costs like card production, card and statement delivery costs, account maintenance, non-sufficient funds handling and losses, and fraud and monitoring costs. Furthermore, the proposed Interchange Price Cap relies on flawed industry cost data, using averages heavily skewed by major large-scale financial institutions. Moreover, this model does not take into consideration the relatively higher costs incurred by smaller institutions like Zions and community banks, exposing these institutions to the risk of future costs exceeding revenue. Therefore, it is imperative that the FRB base any policy decisions on a comprehensive and contemporary understanding of the real-world costs incurred by covered financial institutions of all sizes, including indirect fixed costs associated with supporting a debit card ecosystem.

3. **Unexplored Ramifications of the Recent Routing Rule**: The financial impact of the FRB's recently implemented debit card routing rule, which mandates that banks offer multiple networks for internet, card-not-present transactions, has not been adequately examined nor incorporated into the data the FRB considered in the Proposed Amendment. The new routing rule impacts expenses such as network fees and fraud monitoring costs. A thorough understanding of the costs that would result from the Proposed Amendment is essential for an accurate calculation of a reasonable Interchange Price Cap.

4. **Lack of Rigorous Cost-Benefit Analysis**: The FRB's cost-benefit analysis does not adequately evaluate the consequences of the reduced Interchange Price Cap on consumers and financial institutions. Because the Interchange Price Cap does not appropriately capture the debit card issuer costs recoverable by statute, a third of card issuers, primarily smaller covered issuers, will incur a loss on transactions. If the FRB were to undertake a more comprehensive review of the impact of a reduced Interchange Price Cap, it would likely find that the costs of the Proposed Amendment to consumers and financial institutions significantly outweigh any benefit to merchants.

5. **Rulemaking Not Mandated by Statute**: The discretionary nature of the FRB's actions, which are not mandated by statute, raise concerns about the necessity of revisiting the Interchange Price Cap. Neither the Durbin Amendment nor any other law requires the FRB to modify or revise the Interchange Price Cap.

---

[1] Zhu Wang, Scarlett Schwartz, Neil Mitchell, *The Impact of the Durbin Amendment on Merchants: A Survey Study*, Economic Quarterly, Vol. 100, No. 3, at 183 – 208 (available at https://www.richmondfed.org/-/media/RichmondFedOrg/publications/research/economic_quarterly/2014/q3/pdf/wang.pdf).

6. **Overlooking the Impact of FedNow**: The Proposed Amendment fails to consider the competitive implications introduced by FedNow Service, the FRB's payments system. By implementing a cap on revenue that banks may earn from debit cards, FedNow Service may receive an unfair advantage from the Proposed Amendment. Notably, FedNow Service pricing remained constant this year, despite similar services' price increases. However, there is concern within the banking industry that the FRB should ensure the careful separation of its debit card rulemaking to ensure no improper benefit accrues to the FedNow Service. Further, because interchange fees support the payments services associated with checking accounts, the Proposed Amendment may stall the adoption and implementation of FedNow Service at many banks. These concerns should have been thoroughly examined by the FRB, but were not, in the course of developing the Proposed Amendment.

7. **Overall Impact on U.S. Payments Systems:** The proposed reduction in the Interchange Price Cap by approximately 31.4% will force banks, particularly smaller covered issuers like Zions, to reduce costs to make up for the shortfall in revenue. This could undermine the health of financial institutions and the broader United States payments system. In particular, this may discourage covered issuers from investing in sophisticated fraud detection and prevention tools, posing risks to consumers, smaller financial institutions, and the payments and banking systems generally.

8. **Public Participation Concerns**: The proposal to update Regulation II biennially based on collected data raises significant concerns about the role of public commentary in rulemaking. A fundamental principle of the Administrative Procedure Act is the opportunity for public notice and commentary on the Proposed Amendment. The Proposed Amendment foregoes this crucial process by automatically resetting the price cap calculation biennially based on data collected by the FRB without the benefit of public comment. This approach is problematic and denies the public and banking industry a meaningful opportunity to engage in the notice and comment rulemaking process. Further, there may be technological innovations or other important considerations that would be excluded from the price cap calculation because of the "set it and forget it" structure of the Proposed Amendment.

In conclusion, Zions urges the FRB to withdraw the current Regulation II proposal immediately and then proceed to conduct research to update its data in light of the FRB's recently effective internet transaction routing rule. Zions also urges the FRB to not re-propose any further rulemaking in this area until it has completed significant additional research that calculates potential consumer impacts and reflects the real-world experience of covered financial institutions.

Thank you for the opportunity to comment on the FRB's proposal. I welcome any questions you may have about the issues I have outlined above.

Sincerely yours,

Harris Simmons
Chairman and Chief Executive Officer
Zions Bancorporation, N.A.