



Innovative Payments Association

110 Chestnut Ridge Rd, Suite 111

Montvale, NJ 07645

btate@ipa.org

February 8, 2023

Submitted via E-Mail at: regs.comments@federalreserve.gov

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

Re: Notice of Proposed Rulemaking
[Docket No. R-1818]

Dear Ms. Misback:

This letter is submitted to the Board of Governors of the Federal Reserve System (the “**Board**”) on behalf of the Innovative Payments Association (“**IPA**”),¹ in response to the Notice of Proposed Rulemaking concerning Debit Card Interchange Fees and Routing issued by the Board on October 25, 2023 and published in the Federal Register on November 14, 2023 (the “**Proposed Rule**”).² The Proposed Rule seeks to amend Federal Reserve Board Regulation II (“**Regulation II**”), which implemented the Dodd-Frank Wall Street Reform and Consumer Protection Act (“**Dodd-Frank Act**”). In particular, the Proposed Rule seeks to modify the components of the cap that large issuers³ may assess on covered debit card transactions, with a net result of a significantly lowered cap. The stated basis for the Board’s proposal is data collected by the Board from covered issuers, which purports to show that costs incurred by covered issuers in connection with debit card transactions have significantly decreased in the years since Regulation II’s implementation. Our members have serious concerns that the modifications proposed by the Board will negatively impact both consumers and industry by unnecessarily increasing costs and fees for the provision of debit card products and we are therefore opposed to the Proposed Rule and urge the Board to withdraw it.

¹ The IPA is a trade organization that serves as the leading voice of the electronic payments sector, including prepaid products, mobile wallets, and person-to-person (P2P) technology for consumers, businesses and governments at all levels. The IPA’s goal is to encourage efficient use of electronic payments, cultivate financial inclusion through educating and empowering consumers, represent the industry before legislative and regulatory bodies, and provide thought leadership. The comments made in this letter do not necessarily represent the position of all members of the IPA.

² 88 Fed. Reg. 78100 (Nov. 14, 2023).

³ Those with at least \$10 billion in assets. We note that the Proposed Rule includes a definition of “Covered Issuer,” which is defined as an issuer that, for a particular calendar year, together with its affiliates, has assets of \$10 billion or more as of the end of the preceding calendar year. While this definition of “Covered Issuer” proposed for inclusion in the Proposed Rule is consistent with the definition in the Dodd-Frank Act, we note that any changes to the definition of a “Covered Issuer” itself require modifications to the Dodd-Frank Act itself and Congressional action.



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Debit card transactions play an integral part in the U.S. payment system and form part of a complex process featuring a wide variety of differing business models.⁴ For this reason, regulatory proposals impacting the operation of debit card transactions have the potential to materially impact both financial institutions and consumers. In the case of the Proposed Rule, the modifications proposed by the Board have the potential to negatively impact providers of all sizes as well as consumers. Specifically, while the Proposed Rule may be directed only at large issuers its impact will be felt throughout the banking industry, regardless of size.

Smaller issuers and community banks do not operate in a vacuum and are not immune to the inevitable pricing pressure the modifications to the interchange fee cap will present. As noted by Governor Michelle Bowman in her statement at the Board meeting upon the release of the Proposed Rule, in which she outlined her broad opposition to the proposal, “smaller debit card issuers do not exist in a vacuum. Issuers of all sizes use the same payment rails, and smaller issuers inevitably face some degree of pricing pressure, at least indirectly, from the interchange fee cap.”⁵ According to Governor Bowman, such providers are also less able than their large issuer counterparts to manage such pricing pressures given that they have “smaller transaction volumes, less negotiating power, and fewer efficiencies in scales.”⁶ For these reasons, our members believe the Board should give further consideration to the Proposed Rule’s impact on banking as a whole, and not just on those institutions with \$10 billion or more in assets, before moving forward with its proposal.

Further, the Proposed Rule may also result in negative consequences for consumers. Debit card products are already offered at very low-margins and are often provided to consumers on a fee-free basis. This fact makes these already important products an especially vital financial tool for lower income persons. The economic pressures described above will make it even more challenging for providers to continue to offer these products and an increasing number of them will not be able to recoup their costs. As a result, providers may be forced to increase fees on consumers and even remove free-options from the market altogether. The resultant increase in fees and degrading of product choice would be harmful to all consumers, but particularly low-income persons. We share Governor Bowman’s concerns that one “real and important” risk presented by the Board’s proposal is that banks may need to “discontinue their lowest-margin products, including options designed to increase financial inclusion and access for low- and moderate-income individuals and families.”⁷ Moreover, as noted in the Board’s own research and study into the impacts of Regulation II,⁸ Merchants have not passed through realized savings to consumers from the interchange cap in meaningful ways and so any increase in consumer fees is unlikely to be offset by corresponding savings passed on by the benefited merchants.

⁴ See [Statement on Proposed Revisions to Regulation II’s Interchange Fee Cap by Governor Michelle W. Bowman](#), Oct. 25, 2023 (noting the important role debit card transactions play in the U.S. payments ecosystem, as evidenced by the fact that, in 2021, industry dated showed debit cards remained the most popular form of noncash payment), available at <https://www.federalreserve.gov/newsevents/pressreleases/bowman-statement-20231025.htm>.

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

⁸ Fed. Reg. 78115.



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Our members also take issue with the Board's proposed methodology for determining the interchange fee cap as a whole and are therefore not supportive of either the proposed methodology or the Board's stated intention to revisit and further modify the interchange fee cap going forward every other year. The Dodd-Frank Act requires the Board to establish standards for assessing whether the amount of the interchange fee is reasonable and proportional to the **costs incurred by the issuer**.⁹ In our view, the methodology proposed by the Board as part of the Proposed Rule fails to appropriately consider costs incurred by the issuer by establishing a transaction-based rate-setting methodology that disregards individual issuers by only evaluating weighted average costs across issuers. The methodology therefore eschews the issuer cost assessment required under the Dodd-Frank Act. For this reason, we request that the Board review this aspect of its Proposed Rule and make changes necessary to ensure that issuer costs are appropriately considered as required by statute in any methodology proposed as part of a final rule.

Finally, we note that the current Proposed Rule's final effective date of 60-days after the final rule's publication,¹⁰ is far too short for issuers to make the required changes to their systems and products. Our members believe they would need a minimum of 1-year to make such changes.

The IPA appreciates your consideration of our comments. If you have any questions or wish to discuss this letter, please do not hesitate to contact me at: btate@ipa.org.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brian Tate', is written over a white background.

Brian Tate
President and CEO
IPA
btate@ipa.org

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⁹ See Dodd-Frank Act Section 920.

¹⁰ Fed. Reg. 78113.