

**Meeting Between Federal Reserve Staff And
Representatives of Discover Financial Services (Discover)
October 28, 2010**

Participants: David Nelms and Kelly McNamara (Discover); Dave Schneider (PULSE)

Louise Roseman, Stephanie Martin, Dena Milligan, David Stein, Ky Tran-Trong, Mark Manuszak, David Mills, Chris Clubb, Jeffrey Yeganeh and Edith Collis (Federal Reserve Board); Julia Cheney (Federal Reserve Bank of Philadelphia)

Summary: Federal Reserve staff met with representatives of Discover to discuss the interchange fee provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). Discover Financial Services issues debit cards and owns a PIN network (commonly referred to as PULSE).

Using prepared materials, representatives of Discover provided background on Discover’s debit cards, its PIN network, and the PIN-debit market more generally. As part of this discussion, representatives from Discover also discussed fraud-prevention capabilities offered by the network and characteristics of the current market that enhance a network’s ability to monitor and detect fraud. Representatives of Discover discussed possible approaches to establishing issuer-specific interchange fees and preventing evasion of the interchange fee and network routing/exclusivity provisions of the Dodd-Frank Act. A copy of the prepared materials distributed at the meeting is attached.

Perspectives on the U.S. Debit Market

October 28, 2010

DISCOVER[®]

Topics for today

- **Overview of Discover Financial Services and our debit businesses**
- **Evolution of the debit market**
- **Network competition in debit**

Overview of Discover Financial Services

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US card issuing

- \$45 BN in receivables
- Leading cash rewards program
- 1 in 4 U.S. households

Deposits and Other Lending

- \$19 BN in consumer deposits
- \$5 BN in personal and student loans



- \$94 BN volume
- 30+ issuers



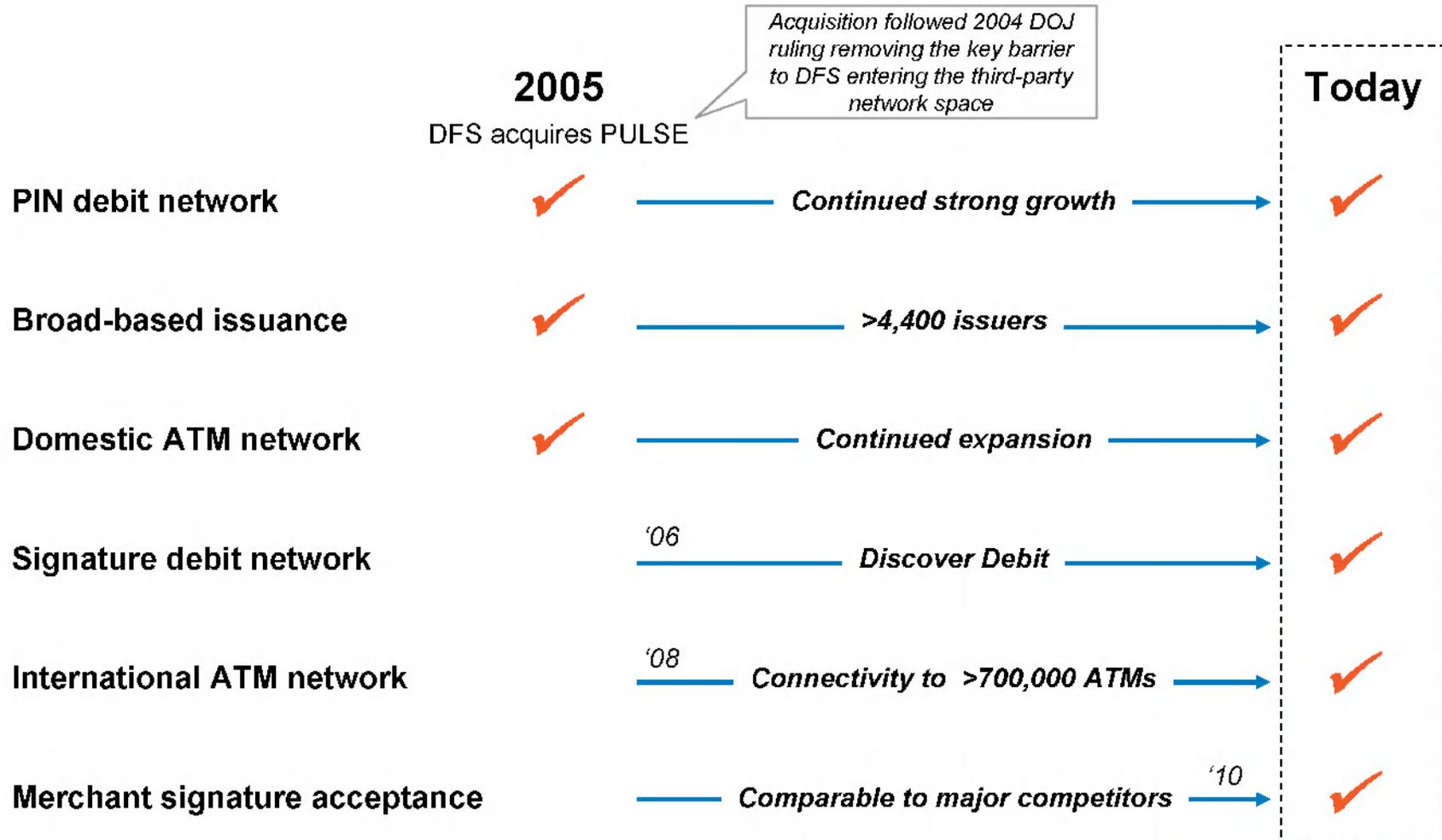
- \$27 BN volume
- 50 franchises
- 185 countries/territories



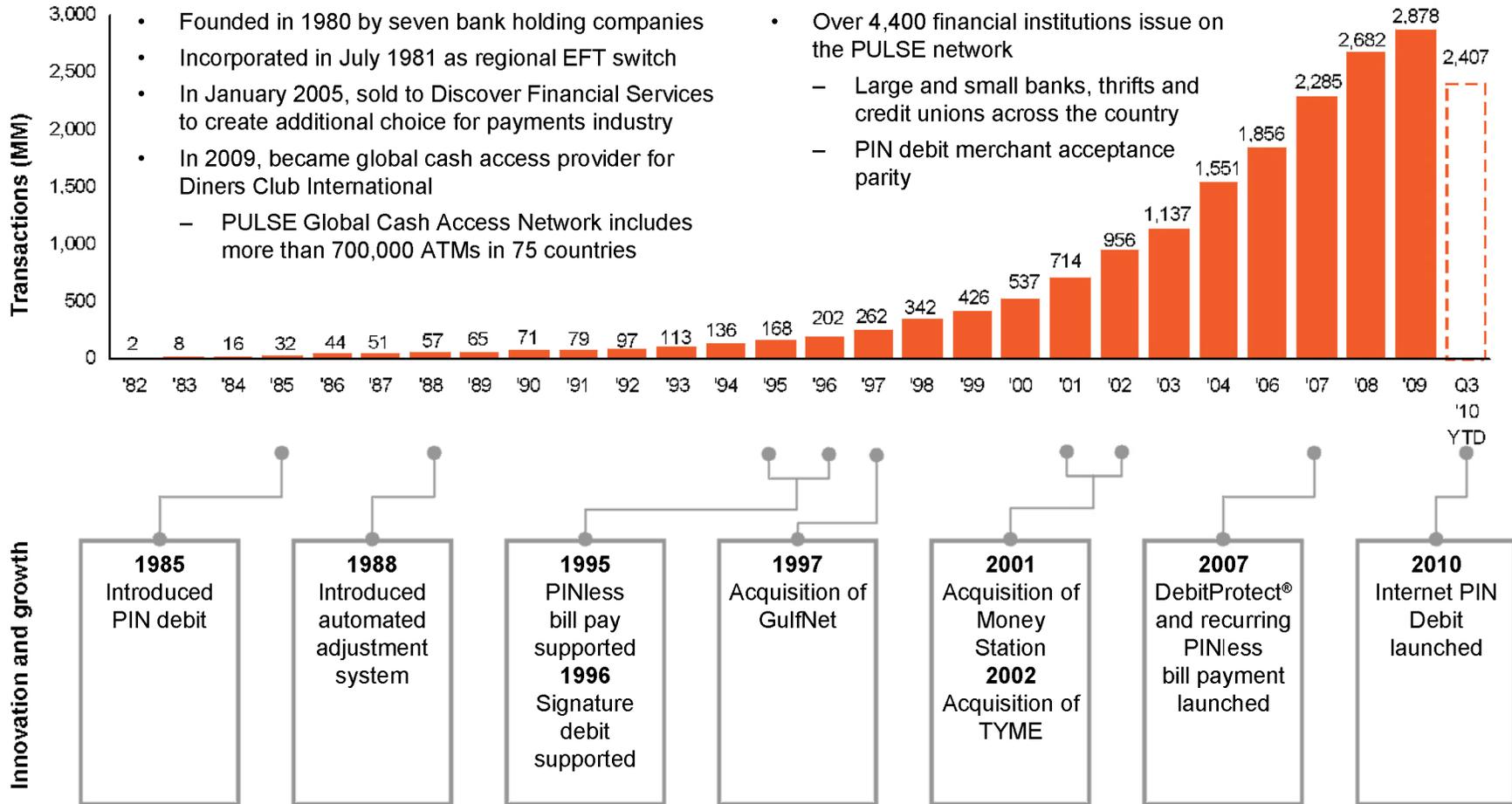
- \$112 BN volume
- 4,400+ issuers

Note: Balances as of August 31, 2010; Volume based on the trailing four quarters ending fiscal 3Q10

We have made a significant commitment to debit



PULSE has been a success story for 30 years

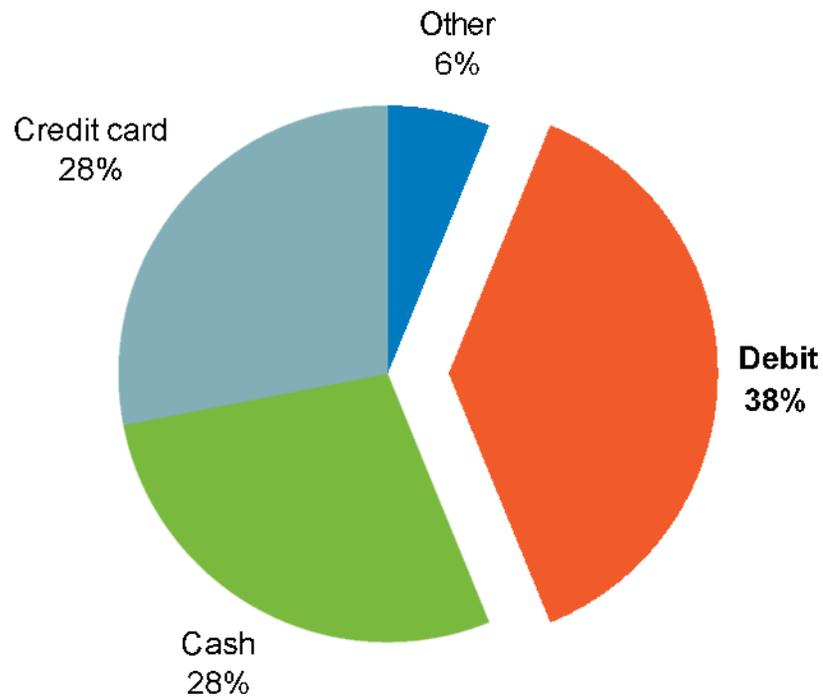


Source: Internal PULSE Reports

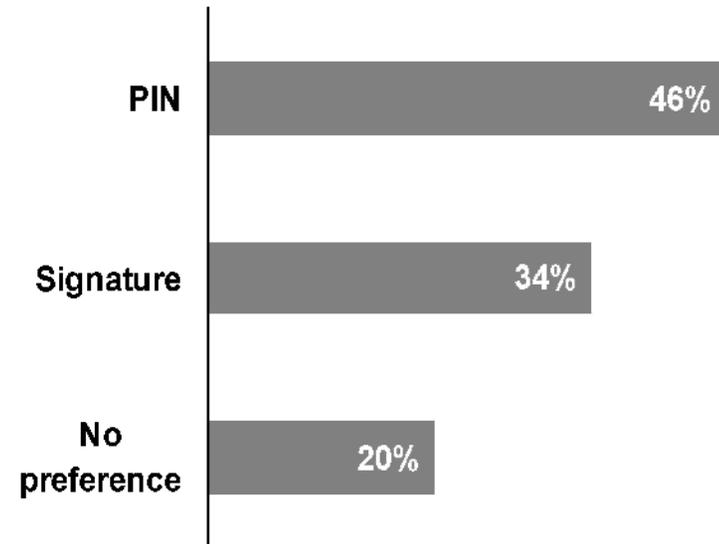
Note: PULSE did not publicly disclose annual network volume in 2005, the year it was acquired by Discover Financial Services

Consumer payment preferences are clear

Many consumers prefer debit for in-store payment...



...and PIN for authentication



Source: 2010 Study of Consumer Payment Preferences, based on primary research with a nationally representative sample of 3,200 consumers conducted in August 2010

Benefits of PIN authentication

	Benefit	Underlying causes
1	More efficient	<ul style="list-style-type: none">▪ Single message▪ Lower incidence of chargebacks
2	Lower fraud	<ul style="list-style-type: none">▪ More secure form of authentication▪ Significant network investments
3	Distinct applicability	<ul style="list-style-type: none">▪ All consumers qualify for PIN debit▪ Enhanced functionality (e.g. cash back)



***PIN is the global debit standard preferred
by both merchants and consumers***

Networks provide important fraud prevention capabilities

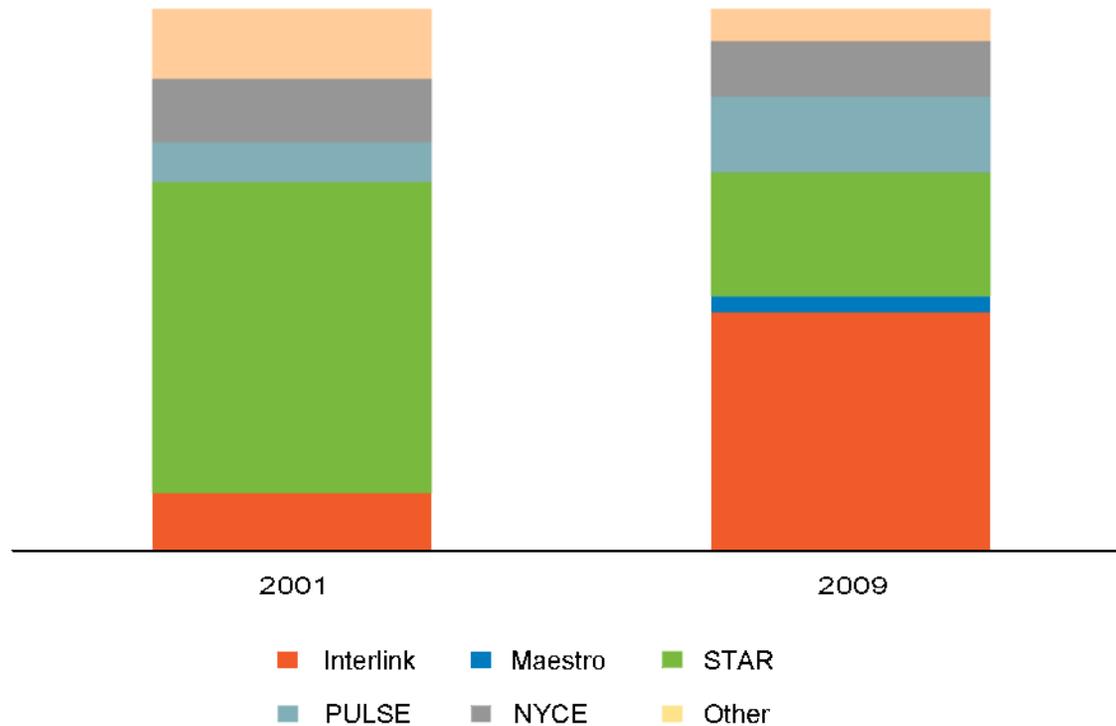
- Many networks employ neural networks to monitor transactions and identify suspicious activity
- PULSE has invested in – and continues to invest in – advanced fraud detection techniques
- Fragmentation reduces the effectiveness of network fraud prevention

2010 PULSE fraud product roadmap

2010	<ul style="list-style-type: none">• Custom rules• Rules optimization analytics• Security subcommittee	<ul style="list-style-type: none">• DebitProtect forum• Fraud 360⁰ website• Point of compromise analytics
2011	<ul style="list-style-type: none">• New FI web interface• FI engagement program	<ul style="list-style-type: none">• Transaction decisioning and card autoblocking
2012	<ul style="list-style-type: none">• Enhanced authorization	

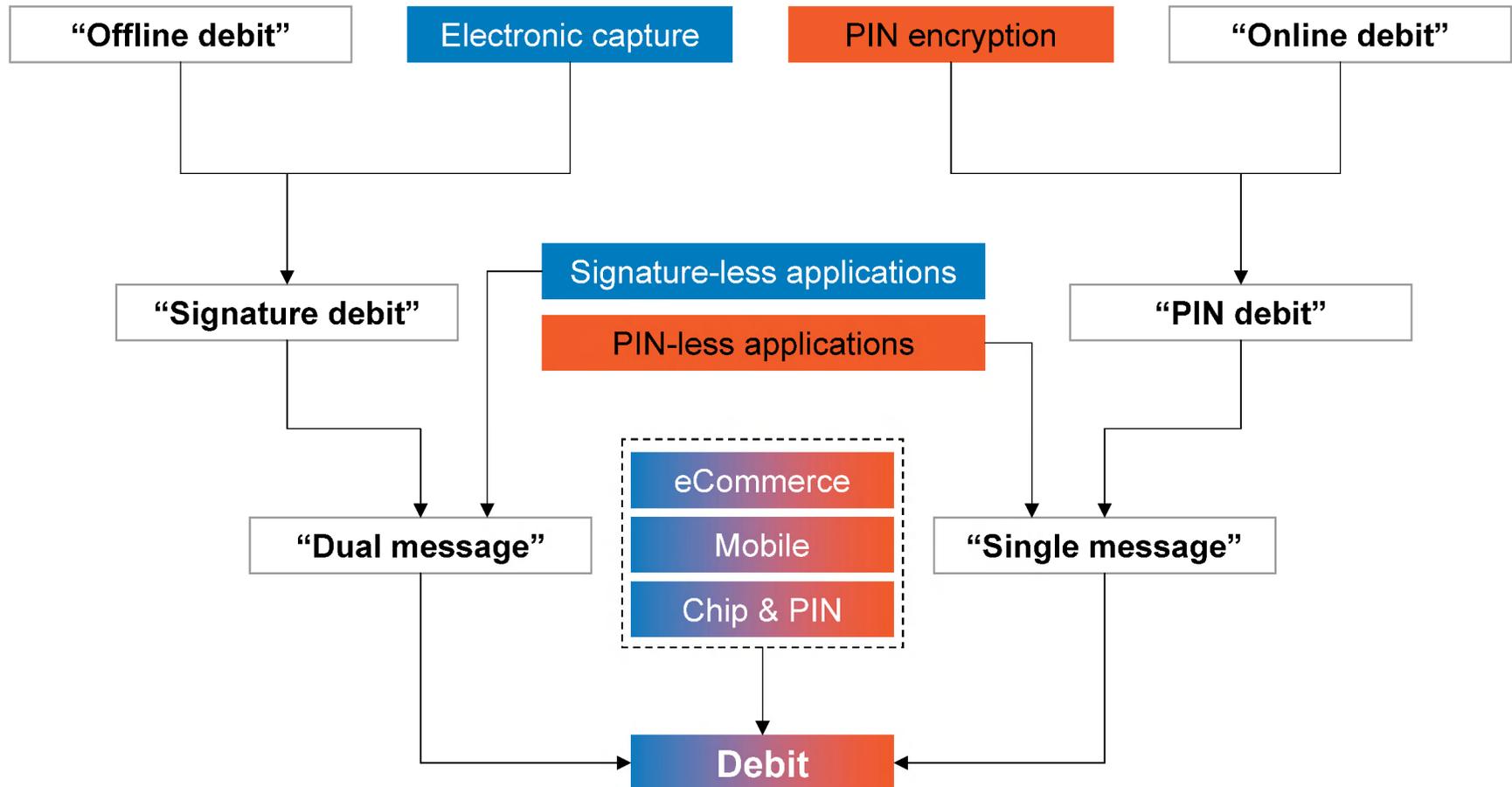
PIN debit market share

PIN Debit payment networks' market share (estimated)
% of PIN debit volume



Source: "Interchange Fees and Payment Card Networks", Federal Reserve Board, May 2009; "A Guide to the ATM and Debit Card Industry, 2006 Update", Federal Reserve Bank of Kansas City, 2006; PULSE analysis

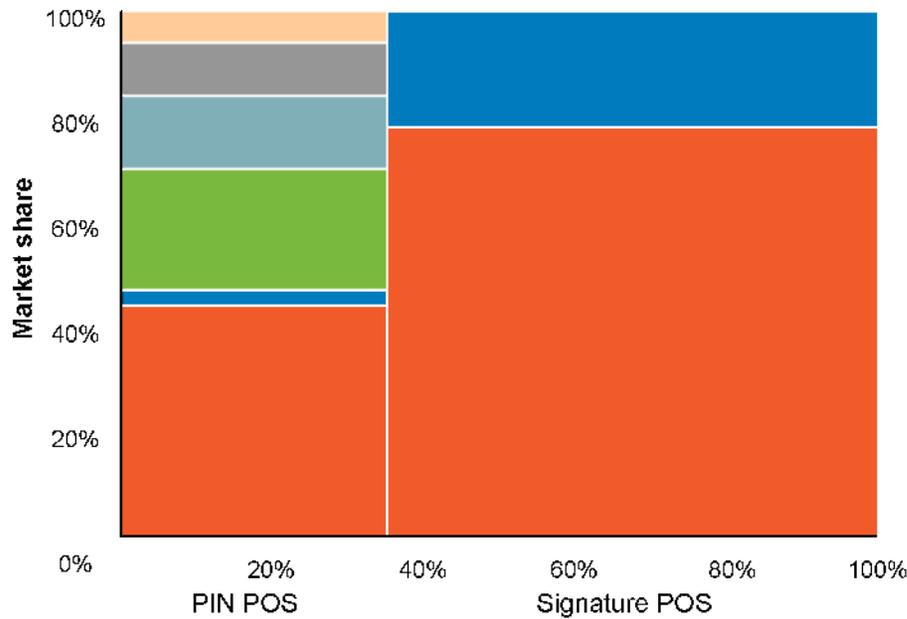
Debit products and technology are evolving



Debit market share

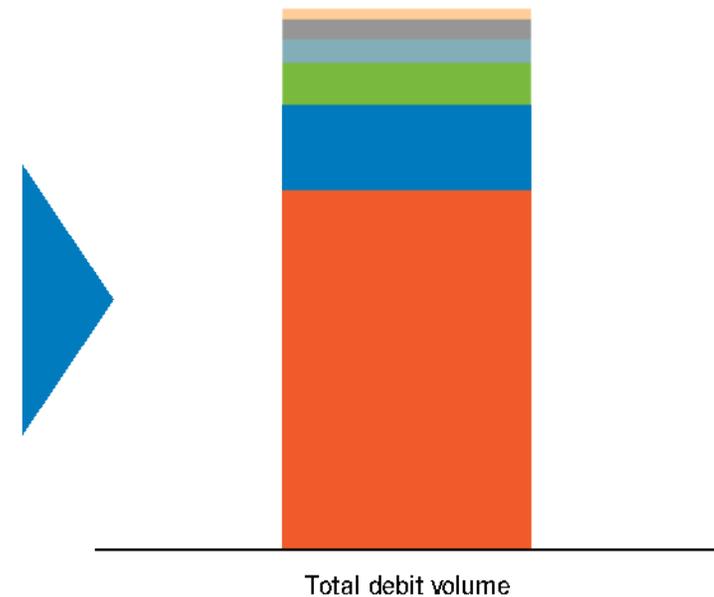
Debit payment networks' market share by authentication method (estimated)

% of total volume



Debit payment networks' market share of the total debit market (estimated)

% of total debit volume



Debit volume

■ Visa/Interlink
 ■ MasterCard/Maestro
 ■ STAR/First Data
 ■ Discover/PULSE
 ■ NYCE/FIS
 ■ Other

Source: 2009 EFT Data Book, Federal Reserve, SEC Filings, Nilson reports, PULSE internal data and analysis

Thank you