May 10, 2024

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

Re: Docket No. R-1818, RIN 7100-AG67
Notice of Proposed Rulemaking: Debit Card Interchange Fees and Routing

Dear Ms. Misback:

The National Grocers Association (NGA) is grateful for the opportunity to submit this comment on the Notice of Proposed Rulemaking ("NPRM" or "Proposed Rule") published by the Board of Governors of the Federal Reserve System ("Board") regarding debit interchange fees.

NGA is the national trade association representing retail and wholesale grocers that comprise the independent sector of the food retail and distribution industry. An independent retailer is a privately owned or controlled food retail company operating in a variety of formats. Independents are the true "entrepreneurs" of the grocery industry and dedicated to their customers, associates, and communities. Much of NGA's membership is comprised of family-owned and family-operated small businesses. Nearly half of NGA's members are single-store operators, and another quarter operate less than five stores. Independent retail and wholesale grocers are an important part of America's economy. Independent community grocers account for 33 percent of all grocery sales, exceeding $250 billion, and more than 1 million American jobs. We are inherently tied to the strength and vitality of the markets we serve – at the heart of local communities and the U.S. economy. Having often been in the business for generations, independent grocers are dedicated to their customers, associates, and communities.

NGA appreciates that the Board has proposed to update Regulation II and to reduce the maximum debit interchange rate that covered issuers are allowed to receive when card networks establish interchange rates on their behalf. For years, data collected by the Board has made a compelling case that the rate established by Regulation II in 2011 is not reasonable and proportional to the costs incurred by covered issuers as the governing statute requires. As our coalition wrote to the Board in 2021, "[i]t is time for the Board to reduce the regulated debit rate to reflect issuer costs more accurately and to adhere to the intent of the law."[1] We appreciate the

[1] Comment by the Merchants Payments Coalition on Clarification of Regulation II, Docket No. R-1748, RIN 7100-AG15, August 10, 2021, *available at* https://www.federalreserve.gov/SECRS/2021/September/20210901/R-1748/R-1748_081021_140772_394947042778_1.pdf.

Board's recognition that the regulated rate must be reduced and that the Board's fees relating to fraud losses and fraud prevention costs must be revisited.

NGA believes that several modifications are needed to the Proposed Rule in order to make it fully consistent with the governing statute. Those modifications relate to each of the three components that make up the regulated rate—the base component, the *ad valorem* fraud loss fee, and the fraud prevention adjustment—as well as the process the Board has proposed for regularly updating the rate going forward. We discuss each of these modifications below.

Base Component

While NGA appreciates the Board's recognition that the base component must be reduced, the Proposed Rule's suggested methodology for calculating the base component falls short of compliance with the statutory reasonable and proportional standard. The NPRM explicitly states that "the Board believes it is necessary to revise the interchange fee standards to reflect the decline since 2009 in base component costs."[2] Those costs decreased by nearly 50 percent from 2009 to 2021 (7.7 cents to 3.9 cents). However, the methodology set forward in the Proposed Rule produces a base component rate that is reduced by less than a third from the current rate. The methodology does so by applying a fixed multiplier of 3.7, which is significantly larger than the 2.7 multiplier that the Board effectively adopted when Regulation II was published in 2011. It is neither reasonable nor proportional for the Board to adopt a larger multiplier than before and to propose a reduction that does not adequately reflect the decline since 2009 in base component costs.

The NPRM's proposed methodology for the base component rate is particularly problematic in that it establishes one uniform rate at a level that excessively overcompensates the high-volume covered issuers who handle the vast majority of debit transactions, while providing full cost recovery to many low-volume, high-cost covered issuers for whom debit transactions are a relatively insignificant part of their business. The Board previously applied a methodology in Regulation II that set the base component rate to target the 80th percentile of covered issuers, but the NPRM now proposes setting a full cost-recovery target of 98.5 percent of covered issuer transactions, with the justification that such a target equates to an efficiency gap of 5.2. There is no justification from the collected data why this particular efficiency gap and this cost recovery target should be locked into the methodology, especially since these metrics clearly skew revenue in the base component rate toward the highest-volume, lowest-cost issuers. If the Board is desirous of fully compensating low-volume, high-cost covered issuers, it can do so consistent with the statute by setting a separate base component rate tier for those low-volume issuers or, alternatively, by setting a safe harbor rate targeted to high-volume issuers while allowing other issuers able to receive a higher rate if they can justify it (similar to the Board's original proposal in December 2010). However, it is not reasonable for the Board to set a single base component rate that massively overcompensates high-volume, low-cost issuers because the Board is seeking

[2] 88 Fed. Reg. 78105.

to accommodate high-cost, low-volume issuers whose debit operations are a tiny part of their overall business.

One way the Board could revise its methodology to ensure that the base component fee is reasonable and proportional to cost is to establish one or more tiers of fee rates that are consistent with rates of return that are reasonable for businesses in a competitive market. The methodology in the Proposed Rule, which provides high-volume issuers with huge net profit margins, falls short of meeting the reasonable and proportional standard.

***Ad Valorem* Fraud Loss Component**

NGA also appreciates the Board's recognition that the *ad valorem* fee for fraud losses must be reduced. However, we are concerned that the Board's methodology for this component neither meets the data the Board has collected nor fits with Congress's statutory design. It was a discretionary decision by the Board in 2011 to establish an *ad valorem* fee to uniformly compensate all covered issuers in advance for predicted fraud losses. The Board crafted this approach back when the data showed that issuers bore approximately 61 percent of fraud losses. But this structure is no longer justifiable when issuers now bear only 33 percent of fraud losses and when losses are increasingly being charged back to merchants or covered by cardholders. And the Board's current structure simply has not worked to incentivize reductions in fraud, as both overall fraud incidence and fraud losses on covered transactions have approximately doubled under Regulation II. The Board's current *ad valorem* fee structure simply does not appear to be making issuers more effective at reducing the incidence or cost of fraud, though it does appear to be incentivizing issuers to be more effective at shifting fraud losses onto other parties.

There is no reasonable justification for continuing to require merchants to pre-pay for potential fraud losses through interchange when merchants now absorb a higher percentage of actual fraud losses than issuers. And as post-pandemic debit transactions and fraud increasingly shift to card-not-present channels where merchants already absorb the vast majority of fraud losses, locking in the Proposed Rule's methodology risks becoming even more inconsistent with the statute. Merchants are now paying for fraud multiple times—through the *ad valorem* fee, by absorbing actual fraud losses, and by paying the fraud prevention adjustment—with no evidence that fraud will actually decrease. This must change.

The *ad valorem* fee was not part of Congress's design for reducing fraud in the debit system, and it has not worked to reduce fraud. Additionally, the data that prompted the Board to create the fee—namely, data showing that 61 percent of fraud losses in 2009 were borne by issuers—has shifted dramatically. In light of these changed circumstances, the Board should exercise its discretion to eliminate the *ad valorem* fee and allow fraud losses to be apportioned after the fact as already happens today. This would incentivize issuers to do their best to reduce fraud, similar to the way that merchants are incentivized to reduce fraud due to the large losses they take on them, rather than have merchants effectively subsidize issuers for their losses.

Fraud Prevention Adjustment

Congress's plan for addressing fraud in the debit system was centered around authorizing the Board to adjust the amount of interchange a covered issuer can receive to account for certain fraud prevention costs. The statute specifically provides that the Board must establish fraud prevention standards that "require issuers to take effective steps to reduce the occurrence of, and costs from, fraud in relation to electronic debit transactions" and that an issuer can only receive a fraud prevention adjustment if the issuer "complies" with the Board's standards.[3] In other words, the statute requires that an issuer must take effective fraud prevention steps in order to receive an adjustment. However, neither the current regulation nor the Proposed Rule appropriately administer this requirement. The standards established by the Board simply direct issuers to have policies in place and instruct issuers to self-certify to networks that they follow the policies. And the Board appears to have awarded the fraud prevention adjustment to every covered issuer on every transaction, without collecting any data from issuers that would demonstrate whether any fraud prevention step taken by the issuer was or was not effective. The Board's data collection through its Debit Card Issuer Survey simply asks issuers to check a box whether or not they engage in certain broad activities like "data security" and "PIN customization."[4] The Board has not established a target metric for effectiveness, nor does it appear to evaluate whether issuers comply with their own policies or how often issuers use particular fraud prevention measures on their transactions. It is not clear if the Board even collects copies of the annual certifications that issuers are required to provide to networks.

In order to comply with the statute, the Board's final rule must condition an issuer's eligibility for the fraud prevent adjustment on the issuer demonstrating that the adjustment is supporting fraud prevention steps that are effective in minimizing fraud. Issuers that cannot demonstrate reduced per-transaction fraud losses over a period of time (or, alternatively, slower growth in fraud than the mean for covered issuers) should lose eligibility for the fraud prevention adjustment until the issuer can demonstrate to the Board that it is taking effective fraud prevention steps. It is particularly important that the Board hold issuers accountable for taking effective fraud prevention steps given that the Proposed Rule seeks to increase the fraud prevention adjustment from one cent to 1.3 cents based on a revised methodology for measuring issuer fraud prevention costs, even though median issuer fraud prevention costs have decreased on a per-transaction basis since the Board's initial rule in 2012. It would be clearly unreasonable for the Board to award covered issuers a larger fraud prevention adjustment when the issuers have not demonstrated that they have taken effective fraud prevention steps.

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[3] 15 U.S.C. 1963o-2(a)(5)(A)(ii)(II) and 15 U.S.C. 1963o-2(a)(5)(A)(ii) (emphasis added).

[4] *See* Debit Card Issuer Survey, FR3064a, Survey Period: Calendar Year 2021, at p. 11, *available at* https://www.federalreserve.gov/paymentsystems/files/2021DebitCardIssuersurvey.pdf.

Regular Updates to the Regulated Rate

NGA appreciates the Board's proposal to establish a process to adjust the regulated debit rate every two years. However, it is critically important that the Board not lock in methodologies for future rate adjustments that permit issuers to circumvent the statutory requirements. For example, the NPRM proposes to adopt a fixed multiplier for the base component while continuing to treat issuer-paid network fees as an allowable cost; this would give networks and issuers incentive to increase issuer-paid network fees in order for issuers to receive multiple times that amount back from merchants as interchange. It is critical that this network fee loophole be addressed in the final rule. Additionally, the Board should establish a process by which disputes over issuer costs can be brought to the Board's attention, evaluated, and resolved during the periodic rate adjustment process. The Board should also conduct oversight of the data collection process to ensure that issuer costs are not misstated or inflated, including by establishing an audit plan and enforcement mechanisms. This is important because the adoption of a fixed multiplier would give issuers incentive to inflate costs, to adjust the timing of costs during data reporting periods, and to shift costs from credit to debit operations in order to benefit from the multiplier's effect. The Board should further consider retaining the flexibility for adjusting or excluding costs from specific issuers if audits or other data indicate that those costs are not legitimate or representative. And, of course, the Board should not make additional costs a profit center that is out of line with normal net profits in issuers' other lines of business. Doing so inevitably creates negative incentives for issuers to game the system by inflating costs in order to later gain windfall returns.

Conclusion

NGA sincerely appreciates that work that the Board and staff have put into the NPRM. Congress assigned the Board the critical role of ensuring reasonableness, proportionality, and competition in a debit card industry that lacked them, and Main Street businesses and our customers rely on the Board to fulfill that role effectively.

When interchange fees are centrally fixed by networks on behalf of issuers, competitive market forces do not serve to keep those fees in check. Instead, each issuer receives the same network-established schedule of fees as any other issuer regardless of the efficiency or security of the issuer's debit operations, and networks are motivated to increase fees in order to incentivize issuers to issue more of their cards. Centrally-fixed interchange rates thus subsidize inefficiency and end up inflating the retail prices paid by all consumers, including those who do not pay with plastic.

Because normal marketplace competition does not serve to keep these centrally-fixed interchange fees in check, Congress directed the Board to ensure that such fees are limited to levels that are reasonable and proportional to the cost incurred by the issuer with respect to the transaction. Reducing the fees that are deducted from debit transactions provides cost savings to merchants that ultimately accrue to the benefit of consumers, because merchants operate in an intensely competitive market environment with tight profit margins. When merchants save on costs, those merchants' customers save on prices. Since Regulation II took effect, merchants

have faced inflation and production cost increases but have shielded consumers from their full effects in part because of debit interchange savings, resulting in prices that are lower than they otherwise would have been. And our recommendations for improvements to the Proposed Rule would also benefit consumers by incentivizing more effective fraud reduction in the debit system—fraud that is increasingly being shifted to consumers as well as to merchants.

For the reasons discussed above, we urge the Board to act quickly to finalize the Proposed Rule with the recommendations of NGA incorporated. Thank you for your consideration of this comment.

Sincerely,

National Grocers Association

CONSIDERATIONS FOR THE FEDERAL RESERVE BOARD'S PROPOSED RULE FOR DEBIT INTERCHANGE

Suggested modifications to help the FRB adhere to the reasonable and proportional standard

Abstract

Since debit regulation took effect in 2011, Merchant costs have continued to increase while Issuer costs have declined. While the FRB's proposal would lower regulated interchange, it does not adhere to the reasonable and proportional standard that the FRB is compelled to follow. Specific modifications are suggested to aid the FRB in complying with the standard. In addition, suggestions are made to enhance the statistical information the FRB presents.

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Contents

Executive Summary 2
The Proposal Fails to Meet the Reasonable and Proportional Standard 2
The Process of Regularly Adjusting Rates Requires Change 3
Fraud Loss Component 3
Fraud Prevention Adjustment 4
Changes Since Interchange Regulation Was Implemented in 2011 4
Overall Debit Landscape 4
Issuer Cost Changes 5
Network Fee and Rule Changes 6
New Merchant Fees Introduced 7
Elimination of Interchange Refunds 7
Overview of FRB Proposal 8
Base Rate Discussion 9
Fixed Multiplier & Including Issuer Network Fees in Allowable Costs 9
ACS Costs and the FRB's 98.5% Full Cost Recovery Target 10
Suggestion for Ensuring that the Base Rate Adheres to the Reasonable and Proportional Standard 12
ACS Margin at Varying Base Rates 13
$0.06 Base Rate / 35% Margin Scenario 14
Implementing Multiple Regulated Rates Could Cost Effectively Increase the Percentage of Issuers Receiving Full Cost Recovery 15
Total Fraud 15
Issuer Fraud Losses 16
Issuer Fraud Prevention 18
Suggestions for Changing Issuer Groupings and Reporting Statistics 19
Summary of Recommendations 21
Core Proposal 21
Other Alternatives for Consideration 22
Single Base Rate Scenario Summary 22
Multiple Base Rate Scenario Summary 22
Sources 23

Executive Summary

Regulation II applies to debit card-issuing financial institutions with over $10 billion in assets, and as such it includes the largest, high-volume US debit Issuers as well as many institutions whose debit operations are a rather insignificant portion of their business. The statute requires that the Federal Reserve Board (FRB or Board) establish a rule whereby the regulated debit interchange rate is reasonable and proportional to certain Covered Issuer costs. As one would expect, the largest and highest-volume Covered Issuers have costs that are significantly lower than other Covered Issuers with small debit operations. Since 2011 the FRB has classified Covered Issuers into three separate volume tiers: High-Volume > 100 million annual transactions; Mid-Volume between 1 million and 100 million transactions; and Low-Volume under 1 million annual transactions.

For the first time since 2011, the FRB has proposed modifying the regulated rate that would apply to debit transactions from Covered Issuers from the existing rate of $0.21 per transaction + 0.05% of transaction dollar value with a $0.01 per transaction fraud prevention adjustment to a rate of $0.144 + 0.04% with a $0.013 fraud prevention adjustment. Going forward, the FRB proposes updating the regulated rate every two years using a prescribed formula designed so that 98.5% of Covered Issuer transactions would receive full cost recovery.

When initially established, the base rate of $0.21 was set equal to 2.7 times Covered Issuer costs, which at that time were $0.077 per transaction. Under the new proposal, the base rate of $0.144 per transaction would be set equal to 3.7 times Covered Issuer costs of $0.039 per transaction, and future base rates would also be set equal to 3.7 times actual ACS[1] costs every two years.

The Proposal Fails to Meet the Reasonable and Proportional Standard

The Board's proposal does not meet the reasonable and proportional standard required by the governing statute. The proposal's 98.5% full cost recovery target is unjustifiably high, and using such a high full cost recovery target means that the FRB proposal increases the multiplier that it used in 2011 even though Issuer costs decreased. In using such a high 3.7 multiplier, the proposal fully compensates many relatively inefficient Mid-Volume debit Issuers and generates an enormous Issuer margin for most transactions, while the impact on the small percentage of transactions not receiving full cost recovery is essentially immaterial to those Issuers' operations. The High-Volume Issuers have average ACS costs of $0.035 per transaction, and thus would receive over 4 times their costs under the FRB's proposal, while the Mid-Volume Issuers on average would receive 32% more than their costs. Since the High-Volume

[1] In this paper "ACS" is used as a proxy for the allowable costs that the Board considered and included in the Base Rate. While ACS is used here for convenience to discuss Regulation II, the rule and the proposed rule include costs in the calculation of ACS that are not necessary to include. In fact, there remains legal controversy regarding the appropriateness of including some costs. The use of ACS should not be read to agree with the Board's decision to include costs in the calculation that are not specific to the authorization, clearance, and settlement of the debit transaction at issue.

Issuers generate over 94% of the transaction volume, most transactions would generate revenue far out of proportion to their underlying costs if the proposal were adopted. Using 2021 actual covered transactions, the Board's proposal generates an unreasonably high annual excess margin for Covered Issuers of around $5.9 billion. That measure is inconsistent with the statutory language calling for fees to be "reasonable and proportional" to costs. And, when one considers that the Board has included costs that go beyond what is actually called for by the statute, the gap between the proposal and any measure of "reasonable and proportional" is even further out of balance. It is worth noting that the Issuers for the 1.5% of transactions that would not receive full cost recovery for their transactions would on average have a negative ACS margin of about $700,000 per Issuer, clearly an immaterial amount for a financial institution with assets exceeding $10 billion. Reducing the proposal to ensure that the 94% of transactions generated by High-Volume Issuers becomes "reasonable and proportional" would not increase the negative margin of Issuers at the other end of the spectrum in a way that would be material to their operations.

The Process of Regularly Adjusting Rates Requires Change

The FRB's proposal to update the regulated rate every two years is an improvement over the existing approach where the FRB has not made changes since the initial rule was implemented, which allowed Covered Issuers to collect interchange revenue that far exceeded costs for over a decade. However, the FRB's proposal to derive the future base rate by applying a fixed 3.7 multiplier to actual costs promotes inefficiency and may encourage abuse. It is likely that having a fixed multiplier will change the behavior of Covered Issuers, networks, and third-party processors thus undermining the logic under which the fixed multiplier concept was developed. Covered Issuers will not be encouraged to control costs under the FRB proposal, as each dollar in additional cost will be rewarded by $3.70 in additional base component revenue. This incentivizes manipulation between Covered Issuers and their vendors such as third-party processors and networks to shift costs around and use the multiplier to circumvent the statute's reasonable and proportional standard. It is important to note that networks and third-party processors provide and bill for services to Covered Issuers for both debit and credit transactions. It would be relatively straight-forward for these entities to increase fees on debit transactions while decreasing fees on credit transactions, leaving total Issuer costs unchanged, but nonetheless benefitting Covered Issuers due to the multiplier applied to Covered debit costs. Even without abuse, it is highly likely that networks will quickly realize that they can increase the network fees Issuers pay and Issuers will benefit through the fixed multiplier from any increase in Issuer-borne network fees. To prevent these unintended consequences, the fixed multiplier approach should be avoided.

Fraud Loss Component

It was a discretionary decision by the Board to establish a uniform *ad valorem* fee component to compensate all Covered Issuers in advance for predicted fraud losses. When the FRB implemented the *ad valorem* fraud loss component in 2011, total fraud losses were less than 8 basis points (bps) of transaction dollar volume and Issuers bore 61% of fraud losses. By 2021, fraud losses more than doubled

to over 17bps and Issuers only picked up about a third of fraud losses while Merchants bore a larger share of fraud losses than did Issuers.[2] Accordingly, including an *ad valorem* component for fraud losses is no longer reasonable as Merchants already cover more fraud losses than do Issuers.

Fraud Prevention Adjustment

The percentage of fraudulent transactions has increased steadily from 4bps in 2009 to 10.8bps in 2021.[3] Meanwhile, median fraud prevention costs have decreased from $0.017 per transaction in 2009[4] to $0.013 per transaction in 2021.[5] Under the FRB's current rule as well as its proposal, Covered Issuers are merely required to have fraud prevention policies in place and to self-certify to networks that they follow their policies to receive the current $0.01 fraud prevention adjustment. All Covered Issuers receive the adjustment on their entire transaction volume despite differing effectiveness in fraud prevention. As an example, High-Volume Issuers at each quartile incurred the same or lower fraud losses in 2021 vs. 2011 while comparatively each Mid-Volume Issuer quartile incurred higher fraud losses.[6] The current rule and the proposal do not require fraud prevention to be effective for the fraud prevention adjustment to be awarded and should be modified to condition the adjustment on effectiveness. Covered Issuers should have to show either reduced fraud on their transactions or slower fraud growth on average to receive fees to cover their fraud prevention spending. An Issuer that has not demonstrated overall reduced per-transaction fraud losses (or slower increases than average) over a measurement period should lose eligibility for the adjustment until they demonstrate that they are effective in reducing fraud. Also, rather than increase the fraud prevention adjustment from $0.01 to $0.013, the adjustment should be lowered proportionately with the decrease in median costs that took place between 2009 and 2021.

Changes Since Interchange Regulation Was Implemented in 2011

Overall Debit Landscape

Since the FRB put Regulation II in place, significant changes have taken place in the debit marketplace. Total debit transactions have increased from 38.6 billion in 2009 to 92.1 billion in 2021.[7] Card-not-present (CNP) transactions have experienced explosive growth from 3.6 billion in 2009 to 29.5 billion in 2021.[8] CNP transaction growth has contributed to a shift that has taken place between Issuers and Merchants with respect to fraud losses. Network rules primarily assign responsibility to Merchants for

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[2] Table 11 and analysis.
[3] Table 10.
[4] Table 13 in 2009.
[5] Table 14.
[6] Table 14.
[7] Table 3.
[8] Table 2.

fraud conducted on CNP transactions, and now Merchants shoulder significantly more fraud losses than do Issuers.

With the growth of CNP transactions, the Dual-Message networks (Visa and MasterCard) have had their share of transactions grow from 62% of transactions in 2009 to 68% of transactions in 2021.[9] Since both Visa and MasterCard also own single message networks, these leading debit networks have maintained their market dominance since 2011. While the number of Issuers subject to the regulation has increased from 131 in the early years of regulation to 163 in 2021, Covered Issuers' share of the total debit market remained fairly constant.[10]

Chip cards and terminals have been widely deployed since Regulation II was published and networks encouraged Merchant adoption of EMV terminals by changing rules to make Merchants liable for counterfeit fraud on card-present transactions when EMV terminals were not used. Despite an estimated $30 billion investment by Merchants in EMV technology,[11] counterfeit fraud increased, and the portion of counterfeit fraud absorbed by Merchants has increased.[12]

Issuer Cost Changes

Covered Issuer transaction costs have fallen nearly 50%, from $0.077 per transaction in 2009 to $0.039 per transaction in 2021.[13] This decrease appears to be from a combination of declining transaction processing expenses and declining network fees charged to Issuers.

[9] Table 3 and analysis.

[10] Covered Issuer debit transaction dollar share changed from 63.7% in 2013 to 63.3% in 2021 while Covered Issuer share of debit transactions measured by count dipped from 62.9% to 61.0% between 2013 and 2021. Table 3 and analysis.

[11] From NRF "EMV Chip Cards" available at https://nrf.com/emv-chip-cards.

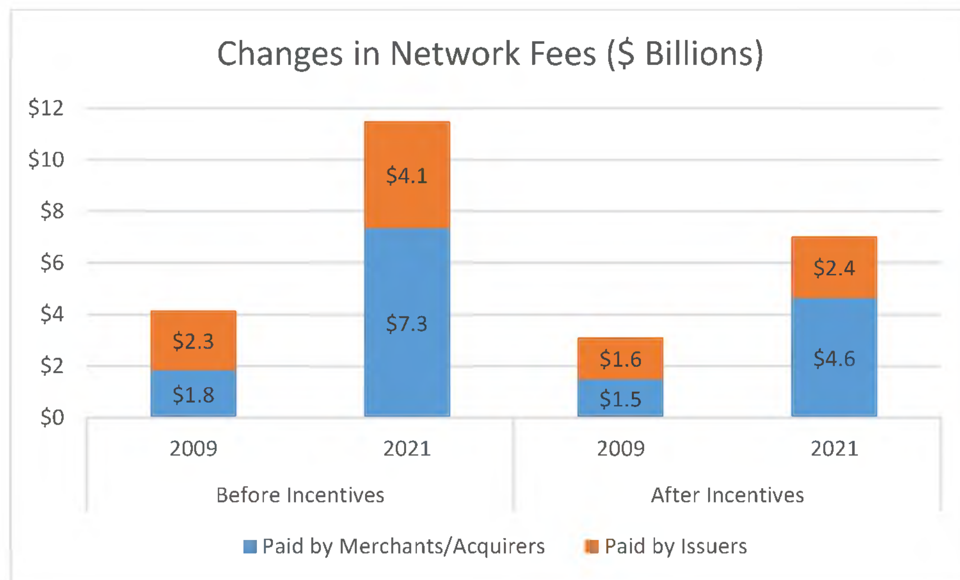
[12] Note these are aggregate statistics. Impacts on individual Merchants varies, and not all Merchants have deployed EMV terminals.

[13] Table 13.

Network Fee and Rule Changes

As Figure 1 below indicates, overall network fees charged to Merchants have increased substantially since Regulation II, as have the incentives that networks pay.[14] While networks earned most of their revenue from Issuers before Regulation II was published, now most of their revenue is derived from Merchants. After factoring in incentives, network fees have tripled for Merchants between 2009 and 2021 from $1.5 billion to $4.6 billion, while Issuer fees have increased about 50%, from $1.6 billion to $2.4 billion. Network fees after incentives have increased at a higher rate than has the growth in debit transaction volumes.

Figure 1. Changes in Network Fees[15]



[14] Networks pay incentives to some Issuers to secure brand decisions and to some Merchants in order to ensure that Merchants route debit transactions to the network providing the incentive.
[15] Tables 6, 8 and analysis.

New Merchant Fees Introduced

Since regulation took place, many networks introduced new Merchant fees not specifically tied to transactions. As examples, Visa introduced its Fixed Acquirer Network Fee and MasterCard introduced its Merchant Location Fee. PIN networks have implemented similar fees. By introducing fees not linked to individual transactions, networks can lower the cost of a marginal transaction for Merchants, thus helping networks compete for routing, while still increasing overall revenue from Merchants.

Prior to regulation, Visa and MasterCard applied the lowest interchange rates to transactions meeting each of their respective highest qualification standards. Higher interchange rates applied to transactions not meeting those standards. Subsequently, both Visa and MasterCard implemented new "Transaction Integrity" fees that apply to debit transactions not meeting specific standards. Now the fee flows to the networks instead of Issuers. It is unclear whether the network fees included in [the previous chart] [Figure 1] include these integrity fees, as the network survey allows networks to exclude "optional" fees, and it is not clear which fees the networks classify as optional.[16]

Elimination of Interchange Refunds

Prior to regulation, it was common for Issuers to refund interchange to Merchants on cardholder returns and chargeback transactions. Since regulation, many networks have eliminated this practice, thereby improving economics for Issuers and increasing effective interchange rates.

The result of all these changes is a significant increase in Merchant costs and a significant decrease in Issuer costs.

[16] Address Verification Service provides an interesting example of the difficulty in determining whether a fee should be considered optional. To receive the best CNP interchange rates a Merchant must perform an AVS, for which the networks receive a fee. While AVS is not mandatory, on every CNP transaction a network will either receive an AVS fee or a Transaction Integrity Fee (which would apply if the AVS is not performed). Accordingly, it seems reasonable that AVS fees should not be considered optional.

Overview of FRB Proposal

The table below summarizes the Board's proposal for regulated debit interchange.

Figure 2. Summary of FRB Proposal

Component	Value	Rationale
Base rate	$0.144	Transaction weighted ACS cost of $0.039 times fixed multiplier of 3.7 set to provide full cost recovery for 98.5% of transactions.
Ad valorem	4bps of transaction value	Set at overall Issuer median for fraud losses.
Fraud prevention	$0.013 per transaction	Set at overall Issuer median cost and available to Issuers that have fraud prevention policies in place.

In addition, the Board's proposal contemplates updating the values for the components (except for the 3.7 multiplier) every two years.

We will analyze the three components separately in later sections but first we will explore how the FRB proposal compares to actual costs for Covered Issuers. Based on an average transaction value of around $48, combining these three components results in a per transaction interchange fee of $0.176. The base rate is the most significant component, comprising about 82% of the sum of the three components.

Since 2011 the FRB has grouped Covered Issuers into three separate groupings based on their annual covered debit transaction volume. Figure 3 below shows selected statistics across Covered Issuers, using the FRB's proposal and 2021 transaction volumes.[17] Under the FRB's proposal, the 24 Covered Issuers with the smallest debit programs on average will generate around $34,000 annually from regulated debit interchange and Issuers that fall in the middle on average will generate about $6.6 million. These institutions likely average over $45 billion in assets and generate annual pre-tax profits of more than $730 million, suggesting that the debit card business is a rather insignificant business line for them, yet they are impacting the Board's recommendation.[18]

In contrast, the largest volume Issuers will on average receive interchange revenue of approximately $176 million, with the very largest generating nearly $1.7 billion.[19]

[17] The Board should consider changing its Issuer groupings. Please see the section "Suggestions for Changing Issuer Groupings and Reporting Statistics" on pages 19-20 regarding the advantages of making changes.
[18] According to the FDIC Quarterly Banking profile, there were 142 FDIC Insured institutions with between $10 billion and $250 billion in assets, with average assets of $45 billion and trailing 4 quarter return-on-assets of 1.63% in Q3 2023.
[19] Tables 3, 12, Nilson data and analysis. Maximum for High-Volume Issuers is approximated by referencing Nilson Report #1218 from April 2022. Wells Fargo had over 9.63 billion debit transactions in 2021. Bank of America and Chase each generated over 8.7 billion.

Figure 3. Covered Issuer Interchange with Current FRB Proposal using 2021 Transaction Data[20]

In millions except # of Issuers				Interchange per Issuer (Millions)		
Volume Tier (annual trans)	**# of Issuers**	**Transactions**	**Total Interchange**	**Average**	**Maximum**	**Minimum**
High (over 100)	53	52,996	$ 9,333.4	$ 176.1	$ 1,695.4	$ 17.6
Medium (1-100)	86	3,189	$ 566.9	$ 6.6	$ 17.6	$ 0.176
Low (under 1)	24	4	$ 0.8	$ 0.034	$ 0.176	n/a
Total	*163*	*56,190*	*$ 9,901.1*	$ 60.7		

Base Rate Discussion

Fixed Multiplier & Including Issuer Network Fees in Allowable Costs

The FRB's proposal to derive the future base rate by applying a fixed 3.7 multiplier to costs promotes inefficiency and may encourage abuse. Issuers will not be incentivized to control costs under the FRB proposal, as each $1 in additional cost will be rewarded by $3.70 in additional revenue. This will encourage manipulation between Covered Issuers and their vendors such as third-party processors and networks.

The existing FRB rule allows Issuers to include network-imposed fees when calculating their allowable costs of debit transaction processing. All networks charge transaction-related fees to both Issuers and Merchants. By allowing Issuers to include network fees when determining regulated debit interchange, ***the FRB has implicitly determined that Merchants should incur all transaction related network fees***. This approach is contrary to the approach to interchange and client fees that every network has adopted. If networks had wanted to only charge Merchants for transaction related fees, they could have achieved the same economic result by lowering interchange by the amount of implicit Issuer network fees and increasing Merchant fees by the same amount. This approach would seem to be less costly for the networks since they would only have to collect from Merchants and not Issuers. Despite the cost advantage of this approach, no network implemented their fee structure this way, suggesting that the networks always considered interchange separate and distinct from Issuer network fees.

Even more problematic, it is highly likely that networks will quickly realize that Issuer fee increases can be easily implemented since Issuers will benefit by any increase in Issuer fees, as any $0.01 increase in network fees upon Issuers will result in the Issuers receiving $0.037 in additional interchange. A perverse competitive dynamic could easily transpire where networks leapfrog one another with higher and higher Issuer fees (which ironically would benefit Issuers), just the way that Visa and MasterCard leap-frogged one another in 1998 and 1999 with a series of interchange increases in attempt to win Issuer issuance decisions. To prevent these unintended consequences, the fixed multiplier approach should be avoided, or at a minimum, network fees must be removed from allowable ACS costs and the FRB should retain the flexibility to adjust or exclude consideration of costs that facilitate circumvention

[20] Tables 3, 12, Nilson data and analysis. Maximum for High-Volume Issuers is approximated by referencing Nilson Report #1218 from April 2022. Wells Fargo had over 9.63 billion debit transactions in 2021. Bank of America and Chase each generated over 8.7 billion.

of the regulation or that do not appear representative or legitimate. In 2021 Mid-Volume Issuers incurred per transaction network Fees 7.6 times higher than High-Volume Issuers ($0.046 vs. $0.006).[21] Clearly, High-Volume Issuers have been successful negotiating lower fees with networks. The approach adopted by the FRB should continue to encourage Issuers to reduce their costs.

ACS Costs and the FRB's 98.5% Full Cost Recovery Target

Covered Issuer allowable costs vary widely, but average $0.039 across all transactions.[22] The Board derives its base rate recommendation of $0.144 per transaction by multiplying the actual $0.039 transaction weighted average of per-transaction allowable costs by 3.7 as that generates a result where 98.5% of transactions would receive full cost recovery. This target is unreasonable in that it is very high. The proposed multiplier is like a profit margin for a business, and a business that can generate revenue equal to 3.7 times costs would be completely out of character for any business in a functioning competitive market. Further, the FRB points out that at the 98.5% transaction threshold the average allowable cost for transactions above the threshold is 5.2 times that for transactions below the threshold, and claims that suggests that the threshold is reasonable.[23] While we agree that having a cost difference of five times is large, we also note that having a much smaller cost difference would also generally be perceived as large. For example, we suspect that most consumers would perceive the 25% price difference between a $40,000 car and a similar $50,000 car to be large.

In sum, the transaction threshold is not consistent with the statute. The profit margin implied by a 3.7 multiplier is excessive and 5.2 "efficiency ratio" is not reasonable and cannot be justified.

In 2011, the Board noted that the term "reasonable" implies that, above some amount, an interchange fee is not reasonable, and noted that common definitions of the term "reasonable" include "fair, proper, or moderate" and "not excessive." [24] Since the current Board proposal increases the multiplier from the one applied in 2011 and derives a result that generates a whopping $5.9 billion in overcompensation to Issuers with ACS costs below the $0.144 threshold (and an immaterial under-compensation to the Low-Volume Issuers with ACS costs above the threshold), it is evident that the Board's current base component proposal is unreasonably high.

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[21] Table 13.

[22] To ease review by making the statistics referenced agree with those included in the FRB data set, we did not adjust allowable costs by removing network fees. Doing so would reduce actual per transaction allowable costs somewhere between $0.008 per transaction and $0.0011 per transaction, thus reducing actual per transaction costs to somewhere between $0.028 and $0.031 per transaction. The impact from removing fees is expressed as a range because only a subset of Issuers separated network fees from other allowable costs. See Table 13.

[23] "For the proposed cost-recovery target of 98.5 percent of overed Issuer transactions, the average value of this ratio across these data collections is approximately 5.2, meaning that covered Issuers whose transactions are above the 98.5 percentile are, on average, more than five times less efficient than covered Issuers whose transactions are below the 98.5 percentile. Accordingly, the Board believes that targeting full cost recovery over time for 98.5 percent of covered transactions is reasonable." Federal Register/ Vol.88 No. 218 pages 78107 and 78108.

[24] Federal Register/ Vol.88 No. 218 page 78107 footnote 45.

Figure 4 below displays the enormous margin derived from Issuers with costs below the proposed base component rate compared to the small negative margin from Issuers with costs above the proposed rate.

Figure 4. Estimated Issuer Margin from Current Proposal[25]

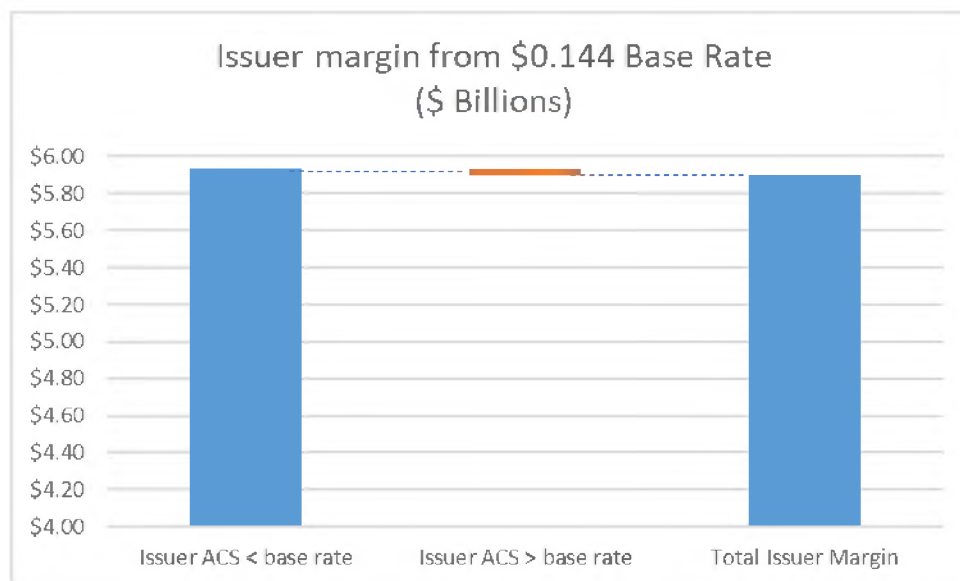


Figure 4 highlights how unreasonable the Fed proposal is with respect to the base rate, as well as its lack of proportionality. The proposal overcompensates 98.5% of transactions by $5.9 billion dollars, while it undercompensates 1.5% of transactions by $40 million.

Figure 5 below compares key differences if the FRB were to reduce the full cost recovery target to 95%, which was another scenario the FRB considered. The table highlights how striking it is that the FRB did not propose a lower base rate. Reducing the base rate to $0.105 would bring excess revenue closer to actual Issuer costs by about $2.2 billion annually, thus moving in the right direction to achieve the reasonable and proportional standard.

In doing so, twenty-three fewer Issuers would receive “full cost recovery,” and on average these Issuers no longer receiving full cost recovery would generate about $3.3 million less annually in interchange revenue. Still, over half of the 163 covered Issuers– those responsible for 95% of transactions - would receive full cost recovery.[26] It is also interesting to note that at a 95% full cost recovery target the base rate of $0.105 would be 2.7 times average Issuer costs of $0.039 per transaction, the same ratio of base rate to cost that the FRB used when implementing the initial regulated rate.

[25] Table 12 was used for volumes withing each Issuer grouping. Nilson data was used to estimate volume within each quartile. ACS margins were estimated using Table 14.
[26] Likely over 60% of High and Mid Volume Issuers would receive full cost recovery at the $0.105 base rate.

While we believe the scenarios cited below considered by the FRB each have a base rate that is too high, the fact that the FRB proposed a 98.5% target recovery threshold when the 95% scenario clearly better matches the reasonable and proportional standard is alarming. On that point, it is interesting to note that a base rate of $0.105 is exactly half of the current base rate of $0.21, which is proportional to the approximately one-half decrease in Covered Issuer allowable costs since the issuance of Regulation II.

Figure 5. FRB Proposal & the 95% Recovery Target Considered by the FRB[27]

	Fed Proposal	95% Target
Transaction Full Cost Recovery Target	98.5%	95%
Base Rate	$0.144	$0.105
Multiplier	3.7	2.7
Difference in Base Rate Revenue from $0.144	n/a	$0.039 per tran $2.2 billion overall
Issuers with Full Cost Recovery	108 (66%)	85 (52%)
Change in Issuers with Full Cost Recovery	n/a	23 (14%)
Average annual transactions per changed Issuer without Full Cost recovery (millions)		85.5
Average change in Base Rate Revenue per changed Issuer without Full Cost recovery		$0.039 * 85.5 = $3.3 MM

Suggestion for Ensuring that the Base Rate Adheres to the Reasonable and Proportional Standard

In a way, interchange revenue from a debit card transaction is unique to financial institutions in that it provides a revenue source when demand deposit account (DDA) holders choose to access their funds when other access methods usually only provide costs to Issuers. If a DDA holder enters a financial institution (FI) to make a withdrawal to access funds, the FI typically receives no revenue. Similarly, when DDA holders write checks or withdraw funds from a FI-owned ATM, usually the FI receives no revenue and only incurs costs. This reality also highlights the incongruity associated with the FRB's desire to seek ***full*** cost recovery for a very high percentage of debit transactions, including from FIs that have relatively small debit programs.

We recommend that the FRB adopt an approach to establishing the base rate for debit interchange that sets the base rate as close to actual transaction weighted Issuer cost as possible, while providing full cost recovery for most transactions and balancing the materiality of the impact of the base rate on Covered

[27] First three rows derived from Federal Register/ Vol 88. No. 218 page 78113. Information in remaining rows derived from analysis using data from various FRB Tables.

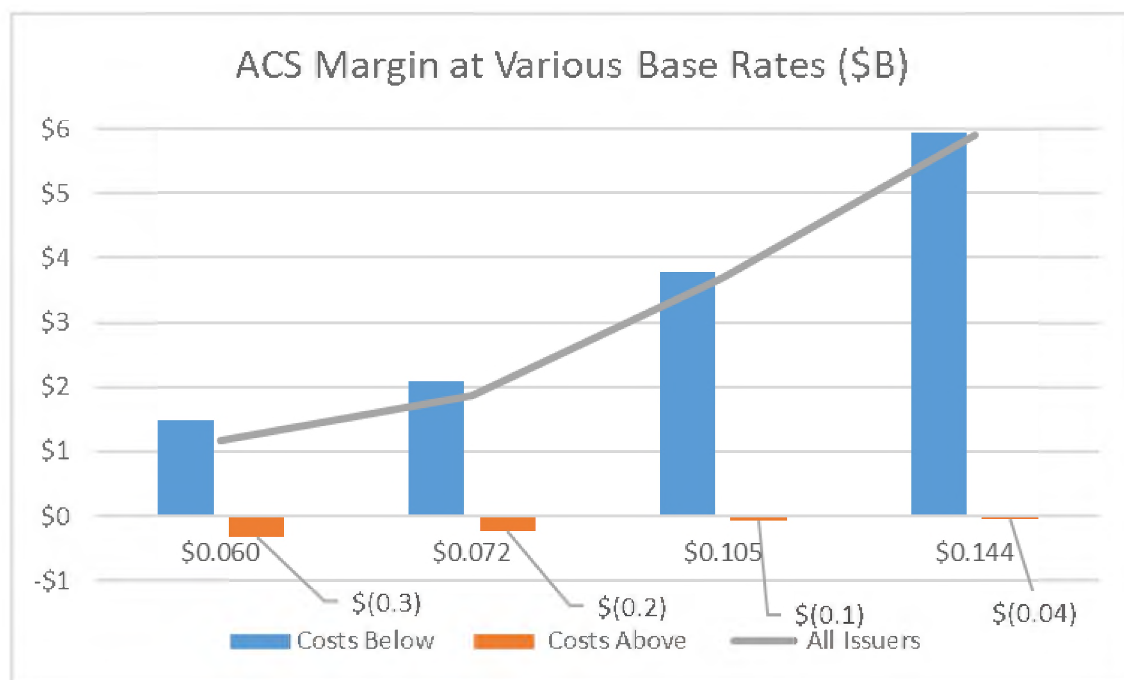
Issuers not receiving full cost recovery. To the extent that total Issuer base rate revenue exceeds Issuer cost, the overall margin should approximate financial institution margins.[28]

Additionally, if the Board adopts an automatic process to adjust future rates based on Issuer-reported costs, the Board must conduct oversight of the data collection process to ensure that costs are not misstated or inflated. An audit plan and enforcement mechanisms must be made part of the Proposed Rule.

ACS Margin at Varying Base Rates

The chart below displays the total margin (grey line), margin from Issuers receiving full cost recovery (blue bar) and negative margin from Issuers not receiving full cost recovery (orange bar). Importantly, note how much smaller the orange bar is than the blue bar, even at base rates significantly lower than the Fed proposal of $0.144. A $0.06 Base Rate still generates over a $1 billion margin for covered Issuers.

Figure 6. ACS Margin at Various Base Rates[29]



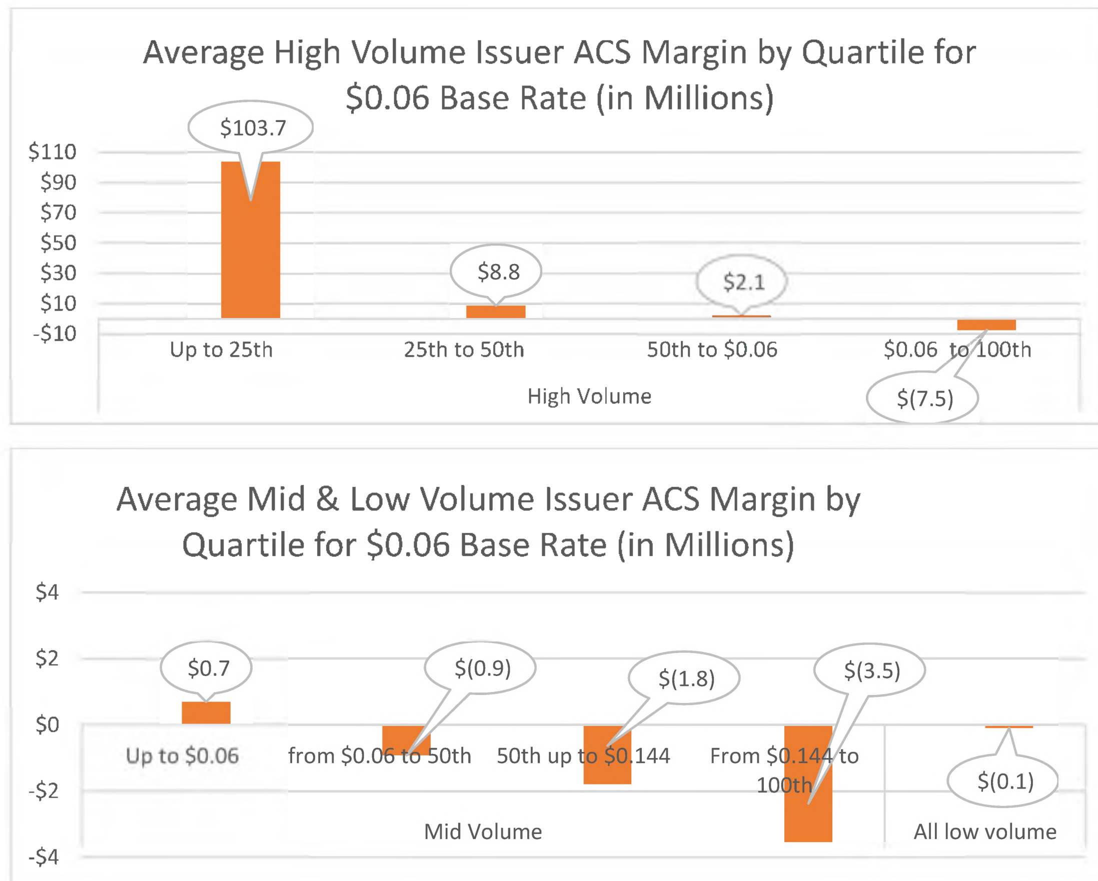
[28] In his January 5, 2024, summary of various industry profit margins, Professor Aswath Damodaran of NYU's Stern School of Business indicates Money Center Bank net profit margin of 30.89% and Regional Bank profit margin of 29.67%.

[29] Table 12 was used for volume within each Issuer grouping. Nilson data was used to estimate volumes within each quartile. ACS quartile margins were estimated using Table 14.

$0.06 Base Rate / 35% Margin Scenario

One scenario that would represent a significant improvement over the current proposal would be to implement a $0.06 base rate. In aggregate, this would result in a 35% overall margin which is reasonable in comparison to financial institution margins.[30] Over half of High-Volume Issuers would receive full cost reimbursement and some of the first quartile Mid-Volume Issuers would likely receive full cost reimbursement. The average impacts on Issuers not receiving full cost reimbursement appear immaterial.

Figure 7. ACS Quartile Margins per Issuer for Covered Issuers with $0.06 Base Rate[31]



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[30] ($0.06 - $.039 = $0.021; $0.021 / $0.06 = 35%) A 35% margin is generous for financial institutions. In his January 5, 2024 summary of various industry profit margins, Professor Aswath Damodaran of NYU's Stern School of Business indicates Money Center Bank net profit margin of 30.89% and Regional Bank profit margin of 29.67%. Macrotrend's Financial Institution Pre-Tax Margin averaged 28.7% from 12/09 – 9/23. Keep in mind that allowable costs have not been adjusted to exclude Issuer network Fees. Issuer network fees are likely about $0.01 per transaction, so similar quartile $ margins would result in a Base Rate Scenario of $0.05 and allowable costs of $0.029. However, the overall % margin would increase to about 42% ($0.05- $0.029 = $0.021; $0.021/ $0.05 = 42%).

[31] Fed Table 12 was used for volume data within each Issuer grouping. Nilson data was used to estimate volumes within each quartile. ACS margins were estimated using Table 14.

Implementing Multiple Regulated Rates Could Cost Effectively Increase the Percentage of Issuers Receiving Full Cost Recovery

Perhaps the most straightforward way for the Board to ensure full cost recovery for a large portion of Issuers while also applying a more reasonable base rate would be to implement multiple regulated rates. While doing so marginally increases complexity,[32] it has the advantage of more closely ensuring that regulated debit interchange is reasonable and proportional to Issuer costs. One scenario for the FRB to consider would be to set the base rate equal to the 50% percentile of Mid-Volume Issuer cost ($0.113) for Low and Mid-Volume Issuers and similarly set the base rate for High-Volume issuers equal to the 50% percentile of Issuer costs ($0.042) for High-Volume Issuers. This solution would not create any significant competitive advantage for any Covered Issuer. The smallest Covered Issuer would have assets near $10 billion, and FDIC insured institutions in this size range average 1.63% pre-tax return on assets, or $163 million for a covered Issuer with exactly $10 billion in assets.[33] The revenue difference that occurs for a Covered Issuer crossing into the High-Volume Tier would be an immaterial $7.1 million (100 million transactions * ($0.113-$0.042) or roughly 4% of pre-tax profits for the smallest possible Covered Issuer.[34] The Board could update the qualification criteria for the High-Volume tier every two years, along with the planned update to the regulated rate to manage the impacts on specific Issuers crossing tiers.

This approach would provide full cost recovery to the majority of High and Mid-Volume Issuers and over 88% of transactions and would provide an overall margin of 15% (network fees included) - 37% (if network fees are excluded). A summary of various scenarios where multiple base rates are implemented is included on page 22.

Total Fraud

Under the current regulation, Merchants cover the costs of fraud multiple times. As fraud increasingly shifts to card-not-present channels where Merchants already absorb most fraud losses, locking in the Board's current methodology for addressing fraud risks becoming even more inconsistent with the statute as Merchants would cover anticipated fraud losses in advance via the *ad valorem* fee, absorb actual fraud losses via network rules and chargebacks, and pay the fraud prevention adjustment with no evidence that fraud would actually be reduced.

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[32] However, we note that the market already exists with complex network interchange structures. The current market includes dozens of tiers of regulated and unregulated rates. Introducing an additional regulated rate would appear to be trivial.

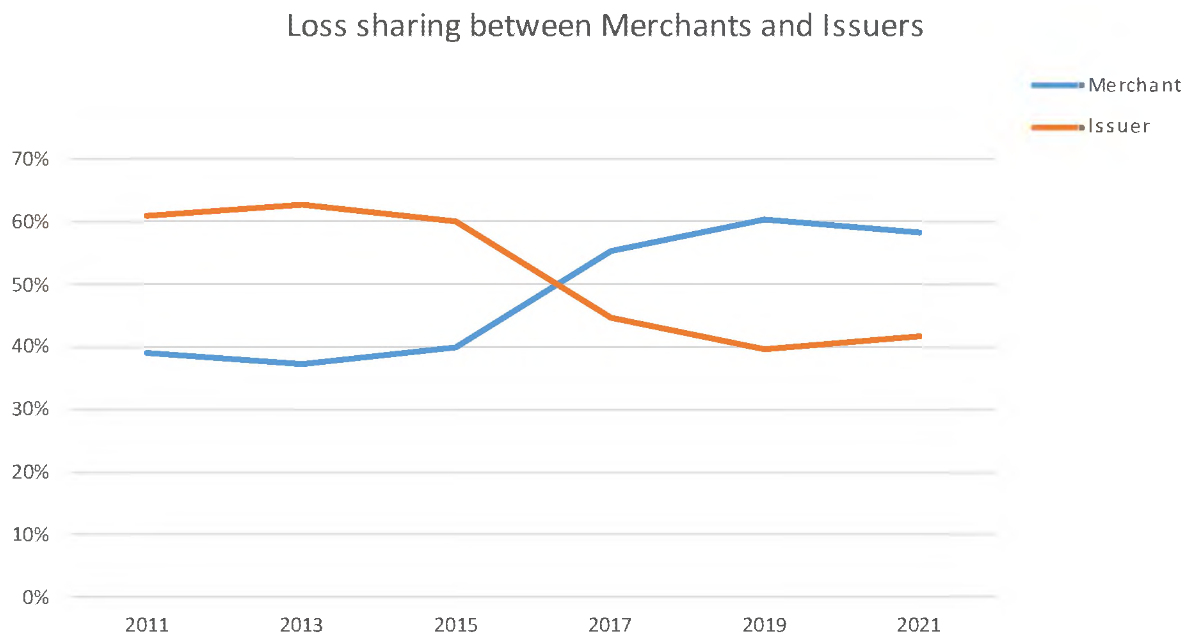
[33] FDIC Quarterly Banking Profile; ratios-by-asset-size; 4 quarters ended Q3 2023

[34] The New Importance of Materiality, by James Brady Vorhies in The Journal of Accountancy, May 1, 2005. "Working materiality levels or quantitative estimates of materiality generally are based on the 5% rule, which holds that reasonable investors would not be influenced in their investment decisions by a fluctuation in net income of 5% or less."

Issuer Fraud Losses

In the debit card market each stakeholder plays a role in combatting fraud. Fraud can occur from lapses by Issuers as well as Merchants. Recognizing this interdependency, the networks have established a set of rules that allocate fraud losses between Issuers and Merchants. For example, a Merchant may be on the hook for a fraudulent transaction if the Merchant did not properly obtain cardholder authorization. Additionally, networks have devised reimbursement schemes under which Merchants pay Issuers for card reissuance costs when it is determined that a breach has taken place for which the Merchant is culpable. As depicted in the graphic below, Merchants have shouldered more of the fraud losses than have Issuers since 2017.

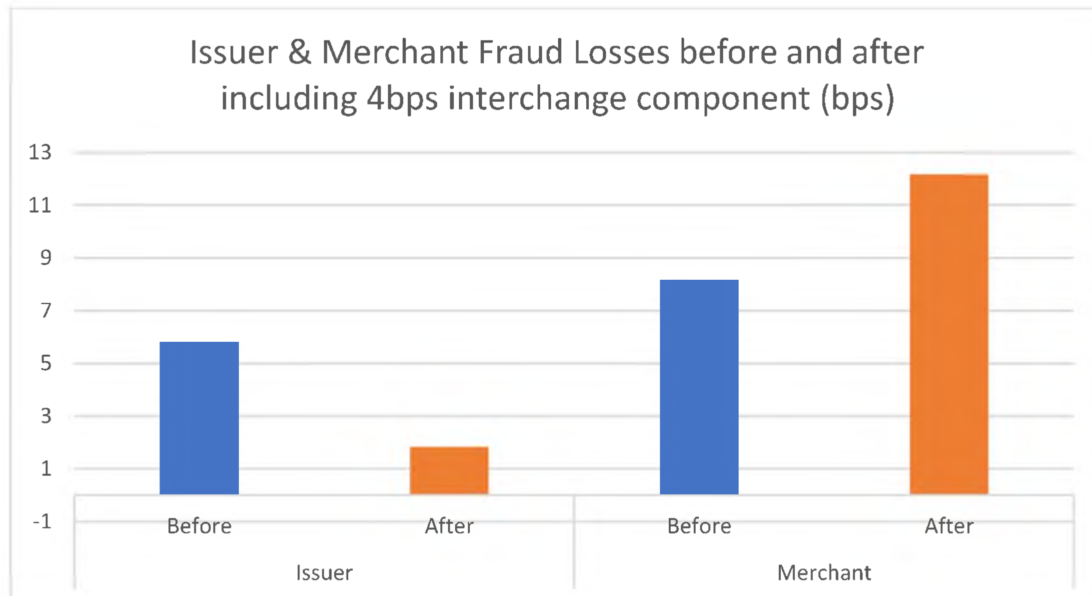
Figure 8. % of Fraud Losses Absorbed between Merchants and Issuers[35]



Even though **Merchants are already incurring more fraud losses than Issuers**, the *ad valorem* component of the Board's proposed interchange fee pushes yet another 4bps of losses onto Merchants. The result is that fraud losses are minimal and shrinking for Issuers and exceed 12bps for Merchants.

[35] From Table 11 and analysis; excludes losses absorbed by cardholders.

Figure 9. Issuer and Merchant Fraud Losses after 4bps Interchange Component[36]



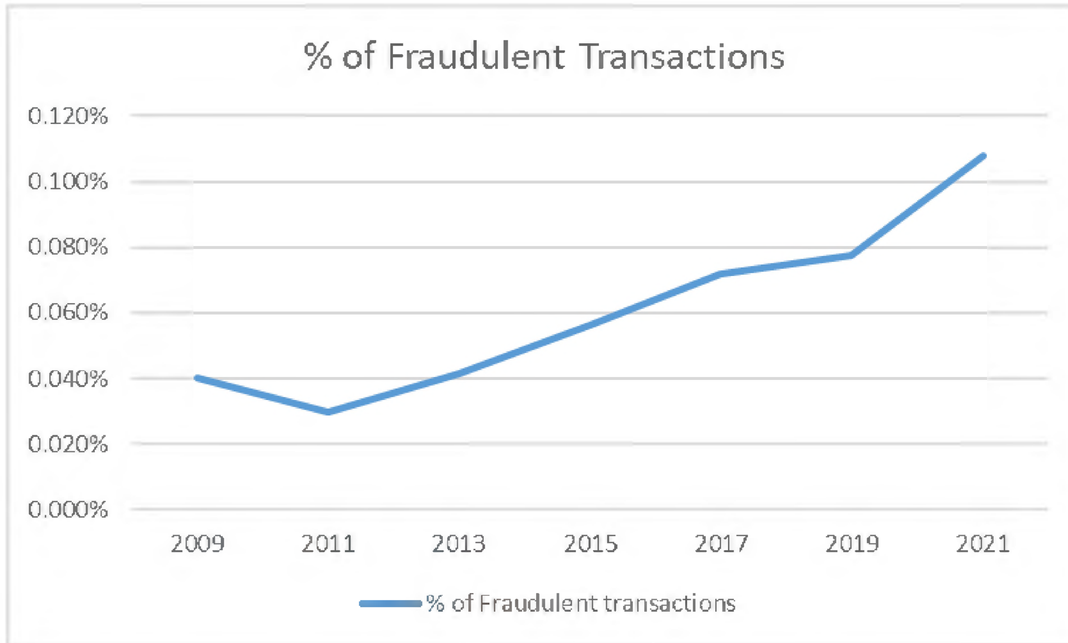
The reality that all stakeholders must play a role to effectively combat fraud would seem to suggest that a combination of network rules and regulated interchange that results in Merchants absorbing significantly more fraud losses thank Issuers is not reasonable and may reduce the incentive for Issuers to diligently combat fraud.

[36] Table 14 and analysis.

Issuer Fraud Prevention

The percentage of fraudulent transactions has increased steadily from 4bps in 2009 to 10.8bps in 2021.[37]

Figure 10. Percentage of Fraudulent Transactions Over Time[38]



Meanwhile, median fraud prevention costs have decreased from $0.017 per transaction in 2009[39] to $0.013 per transaction in 2021.[40] Issuers are directed under Regulation II to have fraud prevention policies in place and to self-certify to networks that they follow their policies to receive the current $0.01 fraud prevention adjustment. All Issuers receive the adjustment despite differing effectiveness in fraud prevention. As an example, High-Volume Issuers at each quartile incurred the same or lower fraud losses in 2021 vs. 2011 while comparatively each Mid-Volume Issuer quartile incurred higher fraud losses.[41]

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[37] Table 10

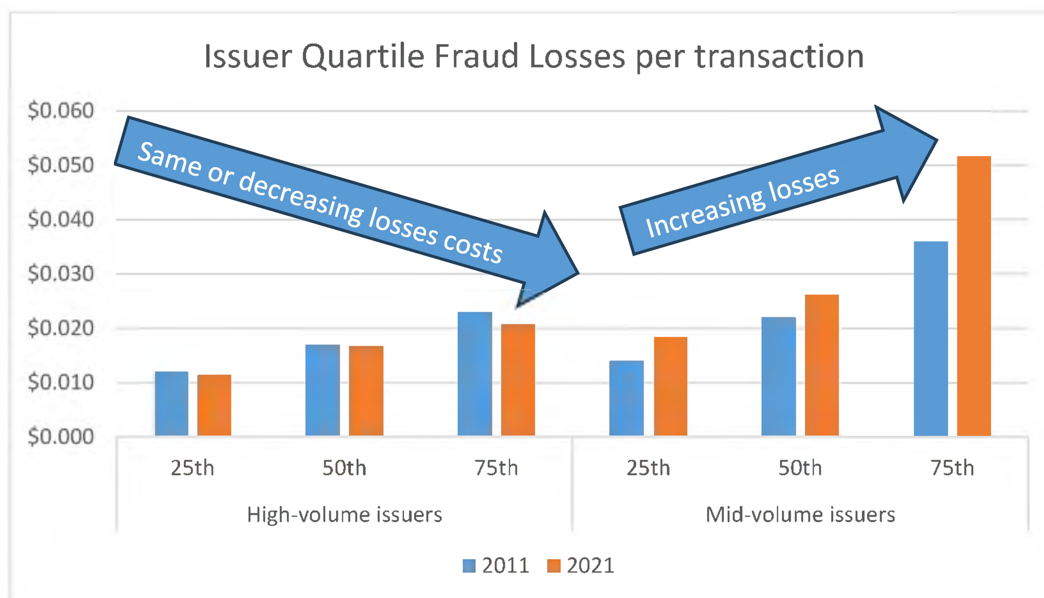
[38] Table 10.

[39] Table 13 in 2009

[40] Table 14.

[41] Table 14.

Figure 11. High-Volume and Mid-Volume Fraud Losses in 2011 and 2021[42]



The current rules and the proposal do not require fraud prevention steps to be effective and should be modified to condition the awarding of the adjustment upon demonstrated effectiveness. Individual Issuers that are effective in reducing fraud should be eligible to receive the fraud prevention adjustment, but ineffective Issuers should not receive the adjustment. There are various ways this could be implemented. Perhaps the fraud prevention adjustment is only made available to Issuers that achieve lower fraud rates than their previous measurement period or have slower growth in fraud than the mean. Those Issuers could then be eligible to receive the adjustment in the future once their fraud prevention efforts are shown to be successful. Since median fraud prevention costs have declined between 2009 and 2021, the amount of the Fraud Prevention Adjustment should be reduced proportionate to the reduction in per transaction spending, to $0.008 per transaction.[43]

Suggestions for Changing Issuer Groupings and Reporting Statistics

Since it first started publishing statistics for covered Issuers, the Board has chosen to group Issuers into the following categories that have stayed consistent over time.

Figure 12. Existing Issuer Transaction Volume Groupings

Issuer Grouping	Annual Transactions
High-Volume	Over 100 million
Mid-Volume	1 to 100 million
Low-Volume	Under 1 million

[42] Table 14.

[43] $0.017 median in 2009 vs, $0.013 in 2021 and a $0.01 existing fraud prevention adjustment ($0.013 / $0.017 = .76; $0.01 *.76~ $0.008)

Grouping Issuers in this manner creates several difficulties. Specifically, the High-Volume Issuer group always overwhelms the other groups. In every year for which data was collected the High-Volume grouping has never generated less than 93.5% of transactions. The low end of the Mid-Volume grouping potentially includes too many Issuers that have small debit programs that are immaterial to those financial institutions' overall operations. (As currently constructed an Issuer with over $10 bill in assets but with under $200k in total interchange revenue could be classified as a Mid-Volume Issuer).

Given the high concentration in the debit card market and the widely varying cost structures across Issuers, we suggest establishing target percentages of transactions when grouping Issuers, while ensuring each group contains no less than 8-12 Issuers. Groups such as those suggested below would allow for better understanding of varying cost structures across Covered Issuers that are having an impact on the overall market and thus would result in more meaningful statistical data.

Figure 13. Suggested Modified Issuer Groupings

Issuer Grouping	Transaction Threshold	Target % of Transactions	Likely number of Issuers
High-Volume	Over 1.0 billion	85%	<15
Mid-Volume	10 million to 1.0 billion	14-15%	105-120
Low-Volume	Under 10 million	~ 1 percent	30-40

In addition, it would be helpful for the FRB to report additional statistics for each quartile (e.g. % of transactions, average ACS for quartile and range within each quartile), as well as include statistics for the 75th-100th quartile, as this would greatly aid in understanding the changes across Issuers.

Summary of Recommendations

Core Proposal

Figure 14. Recommendations to Modify the Board's Proposal

Component	Fed Proposal	Recommendation	Rationale
Allowable costs	Includes Issuer-borne network fees	Exclude Issuer-borne network fees	Allowing Issuer-borne network fees will almost certainly result in increasing Issuer fees (and as a result, interchange) and circumvention of the reasonable and proportional standard
Base rate & multiplier	Implement a formulaic approach targeting full cost recovery for 98.5% of transactions. Set base rate equal to transaction weighted ACS of $0.039 and multiply by 3.7 to derive a $0.144 base rate	Set the base rate consistent with a reasonable FI margin (20-35% above cost)	Adheres to reasonable and proportional standard
Ad valorem component for fraud losses	4bps	Eliminate ad valorem component	Proposed approach ignores fraud losses already being paid by Merchant community which exceed the losses borne by Issuers. Elimination would ensure Issuers still have incentives to reduce fraud while the proposal risks undermining Issuer financial incentives for fraud reduction
Fraud prevention	$0.013; continue to allow self-certification	$0.008; limit to Issuers demonstrating effectiveness in mitigating fraud	Reduce existing $0.01 fraud prevention component by the approximate relative change in median fraud prevention costs between 2009 and 2021
Updates	Every 2 years with a 3.7 multiplier	The final rule must include an oversight and audit plan to ensure allowable costs are not misrepresented or inflated. Make multiplier consistent with reasonable FI profit margins of 20-35%	Essential to ensure the integrity of the update process and keep the regulation reasonable and proportional considering normal market rates of return

Other Alternatives for Consideration

The Board should also consider implementing multiple interchange rates to better match rates with industry costs. Rates that varied by up to $0.08 or $0.09 per transaction between High-Volume and other Issuers would not have a material impact on bank financial results or the competitive landscape.

Single Base Rate Scenario Summary

		Include Network Fees in Allowable Costs		Exclude assumed $0.01 of Network Fees from Allowable Costs			
Scenario	**Base Rate per transaction**	**Margin $ Billions**	**Margin %**	**Margin $ Billions**	**Margin %**	**% Transactions FC Recovery**	**Est # Issuers FC Recovery**
FRB Proposal	$0.144	$5.9	73%	$6.5	80%	98.5%	108
95% Target	$0.105	$3.7	63%	$4.3	72%	95%	85
$0.06 Base Rate	$0.06	$1.2	35%	$1.7	52%	~89%	~41
$0.05 Base Rate	$0.05	$0.6	22%	$1.2	42%	~86%	~35

Multiple Base Rate Scenario Summary

			Include Network Fees in Allowable Costs		Exclude assumed $0.01 of Network Fees from Allowable Costs			
Scenario	**High Volume Base Rate**	**Other Base Rate**	**Margin $ Billions**	**Margin %**	**Margin $ Billions**	**Margin %**	**% Transactions FC Recovery**	**Est # Issuers FC Recovery**
Base Rate equal to 50th ACS percentile	$0.042	$0.113	$0.4	15%	$1.0	37%	~88%	70
Proposal adopted with $0.05 for HV	$0.05	$0.144	$0.9	30%	$1.5	48%	~89%	~84
Proposal adopted with $0.06 for HV	$0.06	$0.144	$1.4	40%	$2.0	55%	~90%	~88

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