

**Supporting Statement for the
Interchange Transaction Fees Surveys
(FR 3064a and b; OMB No. 7100-to be assigned)**

Summary

The Board of Governors of the Federal Reserve System (the Board), under delegated authority from the Office of Management and Budget (OMB), proposes to implement the following mandatory surveys:

1. The **debit card issuer survey (FR 3064a)** would collect data from issuers of debit cards (including general-use prepaid cards) that, together with affiliates, have assets of \$10 billion or more, including information regarding the volume and value of debit card (including general-use prepaid card) transactions, costs of authorization, clearance, and settlement of debit card transactions, associated interchange fees, payments and incentives paid by networks to issuers, and the incidence of and losses due to debit card fraud.
2. The **payment card network survey (FR 3064b)** would collect data from payment card networks including the volume and value of debit card (including general-use prepaid card) transactions; associated interchange fees; network fees; and payments and incentives paid by networks to acquirers, merchants, and issuers.

The Board would use data from these surveys to prepare for public-disclosure aggregate or summary information concerning the costs incurred for, and interchange transaction fees received by, issuers with respect to debit card transactions. The Board would also consider the data from these surveys in determining whether to propose revisions to the interchange fee standards in Regulation II (12 CFR Part 235). In addition, the Board would use data from the payment card network survey (FR 3064b) to determine which networks have established separate interchange fee schedules for exempt and covered issuers. With respect to networks that have established such separate schedules, the Board would note any variance between interchange fees received by exempt issuers before Regulation II became effective and those received after Regulation II became effective.

The first data collection for both surveys would be conducted during the first quarter of 2012, with the data collected as of December 31, 2011. The Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) provides the Board with authority to require submission of information from debit card issuers and payment card networks in order to carry out provisions of the Dodd-Frank Act regarding interchange fee standards. The total annual burden for the card issuer and payment card network surveys is estimated to be 46,825 hours. Draft copies of the FR 3064a and FR 3064b surveys are available on the Board's Public web site: <http://www.federalreserve.gov/reportforms/review.cfm>

Background and Justification

Section 1075(a)(3) of the Dodd-Frank Act provides that the Board shall at least on a biennial basis disclose aggregate or summary information concerning the costs incurred, and interchange transaction fees charged or received, by issuers or payment card networks in

connection with debit card transactions.¹ When the Board adopted Regulation II setting debit card interchange fee standards, the Board's rulemaking stated that information would be gathered from payment card networks annually regarding interchange fees that are received by covered and exempt issuers.²

On September 13, 2010, the Board distributed three surveys to industry participants (an issuer survey, a network survey, and a merchant acquirer survey) designed to gather information to assist the Board in developing Regulation II. Industry participants, including payment card networks, trade groups, and individual firms from both the banking industry and merchant community, commented on preliminary versions of the 2010 issuer and network surveys, through both written submissions and a series of drop-in calls. In response to the comments, two of the surveys were modified, as appropriate.³ The implementation of the FR 3064a and b would replace the 2010 issuer and network surveys.

Description of Information Collection

The FR 3064 would comprise two surveys: (1) the debit card issuer survey (FR 3064a) and (2) the payment card network survey (FR 3064b). A general description of these surveys is provided below.⁴

Debit Card Issuer Survey (FR 3064a)

The debit card issuer survey would be required for each debit card issuer that, together with its affiliates, has assets of \$10 billion or more.⁵ The survey would request information on accounts and cards associated with accounts domiciled in the United States, the District of Columbia, and U.S. territories.⁶

In general, the debit card issuer survey would collect information on card programs using two types of authentication mechanisms: dual-message transactions (those requiring a signature) and single-message transactions (those requiring the input of a personal identification number (PIN)).⁷

¹ 15 U.S.C. 1693o-2(a)(3)(B).

² Regulation II - Debit Card Interchange Fees and Routing (76 FR 43394 (July 20, 2011)).

³ The 2010 issuer and network surveys were conducted under the emergency clearance provision of the OMB's regulation, Interchange Transaction Fees Survey (FR 3062; OMB No. 7100-0329).

⁴ The *Federal Register* notice requests comment on the clarity of the description of the information to be collected with each survey.

⁵ 12 CFR Part 235.8(b). The *Federal Register* notice requests comment on the feasibility of requiring each chartered entity, that issues debit cards, to complete a separate survey rather than completing one survey for all chartered entities within the bank holding company.

⁶ U.S. territories include American Samoa, Federal States of Micronesia, Guam, Midway Islands, Northern Mariana Islands, Puerto Rico, Republic of Palau, Republic of the Marshall Islands, and U.S. Virgin Islands.

⁷ In dual-message transactions, authorization information is carried in one message and clearing information is carried in a separate message. In single-message transactions, authorization and clearing information is carried in one message. General-use prepaid card transactions use either communication method (although dual-message transactions are more common) and can be reloadable or non-reloadable cards. The *Federal Register* notice requests comment regarding the terms used in identifying types of processing (single-message and dual-message versus PIN and signature), given that not all dual-message transactions require signature and not all single-message transactions require PIN.

Both programs include general-use prepaid card transactions.⁸ The first reporting period would cover the calendar year 2011, collected as of December 31, 2011. If certain costs for a card program are shared with other card programs, respondents would be asked to allocate costs to a particular card program based on transaction volume. The debit card issuer survey would comprise four sections.

- I. **Respondent Information:** Respondents would provide the name of the debit card issuer covered in the response and the contact person(s) name, section of the survey for which they are responsible, e-mail and phone number. Respondents also would report whether general-use prepaid cards are issued.
- II. **All Debit Card Transactions (including general-use prepaid card transactions):** Respondents would report summary information for debit card (including general-use prepaid card) transaction volume and value, chargebacks to acquirers, costs of authorization, clearance, and settlement, payments and incentives paid by networks to issuers, costs for fraud prevention and data security, interchange fee revenue, fraudulent transactions, and fraud losses.⁹
- III. **All Single-Message (PIN) Debit Card Transactions (including general-use prepaid card transactions):** Respondents would submit data for the same set of questions asked in Section II above, but specifically about single-message debit card programs, including general-use prepaid cards.
- IV. **All Dual-Message (Signature) Debit Card Transactions (including general-use prepaid card transactions):** Respondents would submit data for the same set of questions asked in Section II above, but specifically about dual-message debit card programs, including general-use prepaid cards.

⁸ In the 2009 debit card issuer survey, general-use prepaid cards were treated separately as their own program and issuers reported much higher costs for the authorization, clearance, and settlement of prepaid card transactions than for other debit card transactions. However, the authorization, clearance, and settlement process for prepaid card transactions is essentially the same as it is for other debit card transactions. The higher reported 2009 costs likely resulted from the costs of prepaid account maintenance, costs for loading funds onto the cards, and costs for other activities that are not considered to be tied to the authorization, clearance, and settlement of prepaid card transactions. Nonetheless, prepaid card programs may be treated as a separate program and issuers may find it easier to report prepaid transaction data separately. The *Federal Register* notice requests comment on whether issuers would be able to report general-use prepaid card data combined with other transaction data related to single- or dual-message systems or should be requested to report general-use prepaid card activity separately.

⁹ The *Federal Register* notice requests comment regarding whether authorization, clearing, and settlement processes outsourced to an affiliate within the same bank holding company should be considered “in-house” costs or third-party processing costs. In addition, the *Federal Register* notice requests comment on the usefulness of including a list of fraud prevention activities and, if so, which fraud prevention activities should be included in the list (such as transaction monitoring, merchant blocking, data security, PIN customization, and Category E). If provided in the survey, the list of activities could be updated over time based on “other” activities reported. The *Federal Register* notice will also request comment regarding the issuers’ ability to allocate payments and incentives as specified and whether other major categories of payments and incentives should be included. The *Federal Register* notice requests comment regarding the issuers’ ability to report the subset of customer service costs associated with customer inquiries regarding particular debit card transactions (as opposed to customer inquiries regarding the account, the debit card more generally, or credit cards/ATM cards).

Payment Card Network Survey (FR 3064b)

The payment card network survey would require payment card networks to submit information about debit card (including general-use prepaid card) transaction volume and value; interchange fees; other network fees; and incentives and discounts paid to acquirers, merchants, and issuers.¹⁰ The first reporting period would cover the calendar year 2011, collected as of December 31, 2011. The network survey would comprise two sections.¹¹

- I. **Respondent Information:** Respondents would provide the network covered in this response and the contact person(s) name, section of the survey for which they are responsible, e-mail and phone number. Respondents also would report whether the payment card network is a single-message (PIN) or dual-message (signature) network, and whether the payment card network offers a tiered interchange fee rate schedule that differentiates between exempt issuers and non-exempt issuers, and the number of merchant locations.
- II. **Debit Card Transactions (including general-use prepaid card transactions):** Respondents would report the volume and value of settled purchase transactions; as well as information related to card-present versus card-not-present transactions; general-use prepaid card versus non-general-use prepaid card transactions; general-use prepaid card transactions exempt from the interchange fee standards in Regulation II versus general-use prepaid card transactions that are not exempt; transactions processed for small issuers that are exempt from the interchange fee standards versus those processed for non-exempt issuers; pre- and post-effective date transactions processed for exempt and non-exempt debit card issuers; chargebacks and returns to merchants; the value of interchange fees; the value of network fees; and payments and incentives paid by networks to acquirers, merchants, and issuers.¹²

Reporting Panel

The Board estimates that there are 580 chartered institutions that, together with affiliates, have assets of \$10 billion or more and that may issue debit cards.¹³ The Board estimates that there are 17 payment card networks that process electronic debit transactions.¹⁴

¹⁰ 12 CFR Part 235.8.

¹¹ Entities that have both single-message and dual-message networks will be asked to report data for each program separately. The *Federal Register* notice requests comment on the payment card network's ability to identify separately general-use prepaid card transactions from other debit card transactions.

¹² The *Federal Register* notice requests comment regarding whether networks can provide data for exempt and non-exempt issuers that compares information for three time periods: January 1 to June 30, 2011 (during which all transactions would be considered exempt); July 1 to September 30, 2011 (during which all transactions could be considered exempt, but some networks may begin to distinguish between exempt and non-exempt issuers if such networks are offering a tiered interchange fee schedule); and October 1, 2011 to December 31, 2011 (during which all networks that provide a tiered interchange fee schedule would distinguish between exempt and non-exempt issuers).

¹³ See <http://www.federalreserve.gov/paymentsystems/debitfees.htm> for a list of institutions that are known to be non-exempt. This is not a complete list, as the Board had incomplete information (as of the time it was posted) to determine the exemption status of some institutions that may issue debit cards.

¹⁴ This estimate is based on payment card networks known to process electronic debit transactions and responses to the 2010 payment card network survey.

Time Schedule for Information Collection and Publication

The Board is required to disclose, as appropriate and in the public interest, aggregate or summary information concerning the costs incurred and interchange fees charged or received by issuers and payment card networks on a biennial basis. In addition, the Board previously announced that it would disclose information on payment card network interchange fees on an annual basis. The Board anticipates publishing the payment card network survey results by June 30, 2012 (and by the same date in subsequent years) and the debit card issuer survey results by December 31, 2012. The Board would make the payment card network survey available by mid-January 2012 and would request that the survey be completed and submitted to the Board within 30 calendar days. The debit card issuer survey would be made available by mid-February 2012 and would request that the surveys be completed and submitted to the Board within 60 calendar days.¹⁵ The Board would provide respondents with secure online access to respond to the debit card issuer and payment card network surveys.

Legal Status

The Board's Legal Division has determined that this information collection is authorized by subsection 920(a) of the Electronic Fund Transfer Act, which was amended by section 1075(a) of the Dodd-Frank Act (15 U.S.C. § 1693o-2). This subsection requires the Board to (on a biennial basis) disclose aggregate or summary information concerning the costs incurred and interchange transactions fees charged or received, by issuers or payment card networks in connection with the authorization, clearance or settlement of electronic debit transaction as the Board considers appropriate and in the public interest (15 U.S.C. § 1693o-2(a)(3)(B)). It also provides the Board with authority to require issuers to provide information to enable the Board to carry out the provisions of the subsection. The obligation to respond to these surveys is mandatory.

In accordance with the statutory requirement, the Board will release aggregate or summary information from the survey responses. However, the Board believes that, if released, individual issuer and payment card information collect on these survey would cause substantial harm to the competitive position of the survey respondent, the individual data can be kept confidential under exemption (b)(4) of the Freedom of Information Act(5 U.S.C. § 552(b)(4)). This provision exempts from disclosure "trade secrets and commercial or financial information obtained from a person and privileged or confidential."

Consultation Outside of the Agency

At this time there has been no consultation outside the Federal Reserve System, although the Board consulted extensively with debit card issuers and payment card networks when the 2010 surveys were developed. Summaries of substantive contact between The Board and the public regarding the 2010 surveys are located on the Board's public website.¹⁶ On September

¹⁵ In subsequent years, the Board anticipates that both the debit card issuer and payment card network surveys would be made available by mid-January. The *Federal Register* notice requests comment on whether the proposed timeframes for submission (30 and 60 calendar days respectively for the payment card network and debit card issuer surveys) allows sufficient time for respondents to complete the surveys.

¹⁶ See http://www.federalreserve.gov/newsevents/reform_interchange.htm.

15, 2011, the Federal Reserve published a notice in the *Federal Register* (76 FR 57037) requesting public comment for 60 days on the implementation of this information collection. The comment period for this notice expires on November 14, 2011.

Sensitive Questions

These collections of information would contain no questions of a sensitive nature, as defined by OMB guidelines (e.g., ethnicity, sexual relationships, etc.).

Estimate of Respondent Burden¹⁷

The total annual reporting burden for the proposed surveys is estimated to be 46,825 hours, as shown in the following table. The Board estimates that approximately 580 issuers would take, on average, 80 hours each to complete the proposed debit card issuer survey and the 17 payment card networks would take, on average, 25 hours each to complete the proposed payment card network survey. The estimated burden, however, would likely be lower for the debit card issuer survey if holding companies consolidate the responses of their individual issuer subsidiaries. The proposed surveys represent less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Estimated number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average time per response</i>	<i>Estimated annual burden hours</i>
Card issuer survey (235.8(b))	580	1	80 hours	46,400
Network survey (235.8)	17	1	25 hours	<u>425</u>
<i>Total</i>				46,825

The total annual reporting cost to the public for these surveys is estimated to be around \$2 million.¹⁸

Estimate of Cost to the Federal Reserve System

The annual cost to the Federal Reserve System for designing the survey, contacting the respondents and compiling the information is estimated to be \$172,500.¹⁹

¹⁷ No paperwork burden is deemed to be associated with the recordkeeping requirement of Section 235.8(c) of Regulation II because the regulation does not specify the records to be retained as evidence of compliance.

¹⁸ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (30% Office & Administrative Support @ \$16, 45% Financial Managers @ \$50, 15% Legal Counsel @ \$54, and 10% Chief Executives @ \$80). Hourly rate for each occupational group are the median hourly wages (rounded up) from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2010, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.

¹⁹ Total cost to the Federal Reserve System was estimated using the following formula: (estimated staff time of 2,000 hours multiplied by average hourly rate of \$50) plus estimated information technology costs of \$72,500.