

**OMB Supporting Statement for the
Interchange Transaction Fees Surveys
(FR 3064a and 3064b; OMB No. 7100-0344)**

Summary

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the following mandatory interchange transaction fees surveys (FR 3064a and 3064b; OMB No. 7100-0344):

1. The **debit card issuer survey (FR 3064a)** collects 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)** collects 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 Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) requires the Board to disclose, at least every two years, such aggregate or summary information concerning the costs incurred for, and interchange transaction fees received by, issuers with respect to debit card transactions as the Board considers appropriate or in the public interest. The data from these surveys are used in fulfilling that disclosure requirement. In addition, the Board uses data from the payment card network survey (FR 3064b) to publicly report on an annual basis the extent to which networks have established separate interchange fees for exempt and covered issuers.¹ Finally, the Board uses the data from these surveys in determining whether to propose revisions to the interchange fee standards in Regulation II (12 CFR Part 235). The Dodd-Frank Act provides the Board with authority to require debit card issuers and payment card networks to submit information in order to carry out provisions of the Dodd-Frank Act regarding interchange fee standards.

The Federal Reserve proposes to revise the debit card issuer survey (FR 3064a) to collect data on costs of authorization, clearance, and settlement broken out by variable costs and fixed costs, and to instruct respondents to exclude transactions monitoring from the calculation of costs of authorization, clearance, and settlement. In addition, the Federal Reserve proposes that, for the data collection for calendar year 2013, the survey be made available to respondents by February 3, 2014, with a filing deadline of March 17, 2014.

¹ Average debit card interchange fee by payment card network,
<http://www.federalreserve.gov/paymentsystems/regii-average-interchange-fee.htm>

The Federal Reserve proposes to revise the payment card network survey (FR 3064b) to collect data on exempt general-use prepaid card transactions broken out between transactions using cards issued by an issuer that qualifies for the small issuer exemption and transactions using cards issued by a non-exempt issuer. In addition, the Federal Reserve proposes to modify the confidentiality status of the FR 3064b allowing for the public release of more data at the network level, specifically, average transaction values, and proportions of transactions for exempt and not-exempt issuers for each network.

Lastly, the Federal Reserve proposes to make several clarifications throughout both surveys and delete data items applicable to specific timeframes no longer relevant.

The proposed revisions to both surveys would be effective for the collection of calendar year 2013 data, collected as of December 31, 2013. The total current annual burden is estimated to be 90,630 hours and is estimated to increase by 22,320 hours for a proposed annual burden of 112,950 hours.

Background and Justification

Section 920(a)(3) of the Electronic Fund Transfer Act, as added by Section 1075(a)(3) of the Dodd-Frank Act, provides that the Board shall, on at least a biennial basis, disclose such 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 as the Board considers appropriate and in the public interest.² When the Board adopted Regulation II setting debit card interchange fee standards, the Board stated that, in order to monitor the effectiveness of the small-issuer exemption from the interchange fee standards, it planned to collect information from payment card networks annually and planned to publish annually a list of the average interchange fees each network provides to its covered and exempt issuers.³

In 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.⁴ In 2011, the Board distributed revised network and issuer surveys to industry participants for comments. In response to the comments, the two surveys were modified, as appropriate, as the current FR 3064a and 3064b.⁵

Description of Information Collection

The FR 3064 comprises 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.

² 15 U.S.C. 1693o-2(a)(3)(B).

³ 76 FR 43394, 43436 (July 20, 2011)).

⁴ The 2010 issuer and network surveys were conducted under the emergency clearance provision of the Office of Management and Budget's (OMB) regulation, Interchange Transaction Fees Survey (FR 3062; OMB No. 7100-0329).

⁵ The 2011 interchange surveys were conducted under the Office of Management and Budget's (OMB) regulation, Interchange Transaction Fees Survey (FR 3064a and 3064b; OMB No. 7100-0344).

Debit Card Issuer Survey (FR 3064a)

The debit card issuer survey is required for each debit card issuer that, together with its affiliates, has assets of \$10 billion or more. In general, the debit card issuer survey collects information on two types of debit card programs and transaction: dual-message (signature) and single-message (personal identification number (PIN)).⁶ Both programs include general-use prepaid card transactions. The survey requests information on accounts and cards associated with accounts domiciled in the United States, the District of Columbia, and U.S. territories.⁷

The debit card issuer survey comprises five sections.

- I. Respondent Information:** Respondents 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.
- II. Information for all Debit Card Transactions (including general-use prepaid card transactions):** Respondents report summary information for: debit card (including general-use prepaid card) transaction volume and value; chargebacks to and returns from acquirers; costs of authorization, clearance, and settlement; payments and incentives received by networks; costs for fraud prevention and data security; interchange fee revenue, and fraudulent transactions and fraud losses.⁸
- III. Information for Single-Message (PIN) Debit Card Transactions (excluding general-use prepaid card transactions):** Respondents submit data for the same set of questions asked in Section II above, but specifically about single-message debit card programs, excluding general-use prepaid cards.
- IV. Information for Dual-Message (Signature) Debit Card Transactions (excluding general-use prepaid card transactions):** Respondents submit data for the same set of questions asked in Section II above, but specifically about dual-message debit card programs, excluding general-use prepaid cards.
- V. Information for General-Use Prepaid Card Transactions:** Respondents submit data for the same set of questions asked in Section II above, but specifically about general-use prepaid card transactions.

⁶In 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.

⁷U.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.

⁸The list of fraud prevention activities (such as transaction monitoring, merchant blocking, data security, PIN customization, and other) may be updated over time based on “other” activities reported.

Proposed Revisions to FR 3064a

Section I: Respondent Information:

Questions 3: Do you have a general-use prepaid card program? - The Federal Reserve proposes to delete question 3 because it is redundant.

Section II: All Debit Card Transactions and Section V: General-Use Prepaid Card Transactions

Question 1: General-use prepaid card exemption: Exempt vs. non-exempt general-use prepaid card transactions - The Federal Reserve proposes to modify question 1.d by deleting line item 1d.1 (Volume and Value), All general-use prepaid card transactions between January 1 and September 30, 2011, as this timeframe is no longer relevant. Subsequent line items 1d.2 and 1d.3 would be renumbered as 1d.1 and 1d.2.

Section II: All Debit Card Transactions, Section III: All Single-Message (PIN) Debit Card Transactions, Section IV: All Dual-Message (Signature) Debit Card Transactions, and Section V: General-Use Prepaid Card Transactions

Question 3: Costs of authorization, clearance, and settlement - The Federal Reserve proposes to add questions 3e and 3f to break out the fixed and variable cost components for line items 3b.1 In-house costs and 3b.2 Third-party processing fees, respectively. Definitions for variable and fixed costs would be added to the instructions.⁹ A break out of variable and fixed costs would provide the Board with sufficient flexibility to respond to possible outcomes of pending litigation regarding Regulation II.

The Federal Reserve proposes to modify the instructions for question 3 to exclude transactions monitoring costs as part of the costs of authorization, clearance, and settlement. Transactions monitoring costs are currently reported in Question 5, Fraud prevention and data security costs, line item 5a.1 Transactions monitoring cost tied to authorization.

General Instructions

The Federal Reserve proposes to change the timing for conducting the calendar year 2013 survey. Currently, the debit card issuer survey becomes available to respondents in mid-February with responses due within 60 days. To enable the Board to collect and use updated data to respond quickly to pending litigation regarding Regulation II, the Federal Reserve proposes accelerating the schedule for calendar year 2013 survey, making the survey available by February 3, 2014, with responses due by March 17, 2014. Future surveys would revert to the original schedule (mid-February to mid-April).

Payment Card Network Survey (FR 3064b)

The payment card network survey is required for all entities that are considered “payment card networks” under Regulation II. The payment card network requests information on domestic debit card transactions (i.e., those in which both the merchant and account debited are

⁹ Fixed costs would be defined as costs that do not vary with changes in the number or value of transaction over the course of the reporting period (i.e., calendar year 2013 for this application of the survey).

located in the United States). Regulation II requires each payment card network to submit information about debit card (including general-use prepaid card) transactions in a form prescribed by the Board.¹⁰ The Payment Card Network Survey collects data on transaction volume and value; interchange fees; other network fees; and incentives and discounts paid to acquirers, merchants, and issuers. The network survey comprises two sections.¹¹

- I. **Respondent Information:** Respondents 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 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. **Information on Debit Card Transactions (including general-use prepaid card transactions):** Respondents report summary information for: the volume and value of all debit card transactions; chargebacks to and returns from acquirers; the volume and value of transactions involving exempt and non-exempt issuers; the volume and value of transactions involving exempt and non-exempt general-use prepaid card transactions; the value of interchange fees for all transactions, exempt/non-exempt issuers, and exempt general-use prepaid card transactions; the value of network fees, and payments and incentives paid by networks to acquirers, merchants, and issuers.

Proposed Revisions to FR 3064b

Section I: Respondent Information

Is your payment card network a single-message (PIN) or dual-message (signature) network? Although no revisions are proposed to this question, the Federal Reserve is requesting comment in the Federal Register on a payment card network's ability to process single-message transactions across dual-message networks and vice versa. In addition, the Federal Reserve is requesting comment in the Federal Register on how such transactions should be categorized. Based on this feedback, the instructions for this question may be clarified as to how to categorize such transactions.

Section II: Debit Card Transactions

Small issuer exemption: Transactions using card of exempt vs. non-exempt issuers – The Federal Reserve proposes to revise this section by deleting line item 1e.1 (Volume and Value), All settled purchase transactions between (January 1, 2011 – September 30, 2011), as this timeframe is no longer relevant. Subsequent line items 1e.2 and 1e.3 would be renumbered as 1e.1 and 1e.2.

Transactions using card of exempt vs. non-exempt issuers (January 1, 2011 – September 30, 2011) - The Federal Reserve proposes to revise this section by deleting

¹⁰ 12 CFR 235.8.

¹¹ Entities that have both single-message and dual-message networks are asked to report data for each program separately.

line items 1f through 1f.2 as this timeframe is no longer relevant. Subsequent line items would be renumbered accordingly.

General-use prepaid card exemption: Exempt vs. non-exempt general-use prepaid card transactions and General-use prepaid card exemption: Interchange fees on exempt vs. non-exempt card transactions - The Federal Reserve proposes to revise line items 1g and 2i by requiring networks to allocate volume, value, and interchange fee revenue for exempt general-use prepaid card transactions between transactions using prepaid cards issued by exempt (small) issuers (adding line items 1g.1.1 and 2i.1.1) and transactions using prepaid cards issued by non-exempt issuers (adding line items 1g.1.2 and 2i.1.2). Currently, payment card networks are required to allocate volume and value of general-use prepaid card transactions, and associated interchange fee revenue, between exempt and non-exempt general-use prepaid card transactions and interchange fees. Under Regulation II, a general-use prepaid card transaction may be exempt from the interchange fee standards either because the card is issued by an issuer that qualifies for the small issuer exemption or because the card qualifies for the prepaid card exemption, irrespective of the size of the issuer. The proposed break-out of these data would allow the Federal Reserve to determine which type of exemption applies to each exempt transaction, thus improving interpretation of these data.

Small issuer exemption: Interchange fees on transactions using card of exempt vs. non-exempt issuers – The Federal Reserve proposes to revise this section by deleting line items 2g.1, All interchange fees paid to issuers between (January 1, 2011 – September 30, 2011), and 2g.3, Interchange fees paid to non-exempt issuers between (October 1, 2011 – December 31, 2011), as these timeframes are no longer relevant. Subsequent line item 2g.2 would be renumbered as 2g.1.

Interchange fees on transactions using card of exempt vs. non-exempt issuers (January 1, 2011 – September 30, 2011) - The Federal Reserve proposes to revise this section by deleting line items 2h through 2h.2 as this timeframe is no longer relevant. Subsequent line items would be renumbered accordingly.

Small issuer exemption: Network fees received from exempt vs. non-exempt issuers - The Federal Reserve proposes to revise this section by deleting line items 3c.1, All network fees received from issuers that settled between January 1, 2011 – September 30, 2011, and line items 3d through 3d.2, as these timeframes are no longer relevant. Subsequent line items would be renumbered 3c.1 and 3c.2.

Small issuer exemption: Payments and incentives paid to exempt vs. non-exempt issuers - The Federal Reserve proposes to revise this section by deleting line items 4c.1, All payments and incentives paid to issuers between January 1, 2011 – September 30, 2011, and line items 4d through 4d.2, as these timeframes are no longer relevant. Subsequent line items would be renumbered 4c.1 and 4c.2.

General Instructions

Response Confidentiality and Burden - The Federal Reserve proposes to revise the confidentiality statement to indicate that the Board may release some information identified by network, rather than in the aggregate, by total, or as an average. The Federal Reserve currently publishes this information only at the aggregate levels across networks for signature, PIN, and total debit card transactions: the percent of total number of transactions for exempt and non-exempt issuers; the percent of total value of transactions for exempt and non-exempt issuers; and the average transaction value for exempt, non-exempt, and all issuers. This information can already be determined mathematically at the network level from the information the Federal Reserve currently releases on average interchange fees. Network-specific information may be useful to issuers (both exempt and non-exempt) and merchants in choosing payment card networks in which to participate and to policymakers in assessing the effect of Regulation II on the level of interchange fees received by exempt and nonexempt issuers over time. The existing confidentiality statement provides that only the average interchange fees for exempt and non-exempt issuers would be released by network.

Reporting Panel

The Federal Reserve estimates that there are 558 chartered institutions that, together with affiliates, have assets of \$10 billion or more and that may issue debit cards.¹² The Federal Reserve estimates that there are 18 payment card networks that process electronic debit transactions.¹³ The Federal Reserve will provide respondents with secure online access to respond to the debit card issuer and payment card network surveys.

Time Schedule for Information Collection and Publication

The Federal Reserve 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 Federal Reserve previously announced that it will disclose information on payment card network interchange fees on an annual basis. The Federal Reserve is targeting a publication date of June 30, 2014 (and by the same date in subsequent years) for the payment card survey results and December 31, 2014 for the debit card issuer results.

The Federal Reserve proposes to make the payment card network survey available online by early-February 2014 and request that the survey be submitted to the Board within 45 calendar days, as has been done previously. For the debit card issuer survey, the Federal Reserve proposes to make the calendar year 2013 survey available by February 3, 2014 and request that the surveys be submitted by March 17, 2014. Future-year surveys would be made available by mid-February of the year following the calendar year for which data are collected, with responses due within 60 calendar days.

Legal Status

12 See <http://www.federalreserve.gov/paymentsystems/regii-interchange-fee-standards.htm> for a list of institutions that are known to be non-exempt.

13 This estimate is based on payment card networks known to process electronic debit transactions and responses to the payment card network data collection for calendar year 2012.

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 disclose (on a biennial basis) 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. Response to these surveys is mandatory. In accordance with the statutory requirement, the Board will release aggregate or summary information from the survey responses. In addition, the Board will release, at the network level, the percentage of total number of transactions, the percentage of total value of transactions, and the average transaction value for exempt and not-exempt issuers obtained on the FR 3064b. The Board has determined to release this information both because it can already be determined mathematically based on the information the Board currently releases on average interchange fees and because the Board believes the release of such information may be useful to issuers and merchants in choosing payment card networks in which to particulate and to policymakers in assessing the effect of Regulation II on the level of interchange fees received by issuers over time.

However, the remaining individual issuer and payment card information collected on these surveys can be kept confidential under exemption (b)(4) of the Freedom of Information Act (FOIA) because the Board believes that, if released, this information would cause substantial harm to the competitive position of the survey respondents. 5 U.S.C. § 552(b)(4) (exempting from disclosure "trade secrets and commercial or financial information obtained from a person and privileged or confidential").

Consultation Outside the Agency

The Federal Reserve consulted with debit card issuers and payment card networks through the public comment phase of the current versions of FR 3064a and FR 3064b. On October 18 2013, the Federal Reserve published a notice in the *Federal Register* (78 FR 62352) requesting public comment for 60 days on the proposal to extend, with revision, the FR 3064a and b information collection. The comment period for this notice expired on December 17, 2013. The Board received five comment letters addressing the proposed revisions to these surveys; however, no comments specifically addressed current or proposed paperwork burden estimates. On January 15, 2014, the Federal Reserve published a final notice in the *Federal Register* (79 FR 2659) discussing in detail of the comments received adopting the revisions largely as proposed for the calendar year 2013 survey.

Estimate of Respondent Burden

The current annual reporting burden for the surveys is estimated to be 90,630 hours, and would increase to 112,986 hours as shown in the following table. The proposed revisions to the FR 3064a would result in a net increase of 13 data items (associated with the addition of 16 break outs of data items and the deletion of 3 data items). Therefore, the Federal Reserve estimates the average hours per response for the 558 issuers would increase from 160 hours to 200 hours. The estimated burden, however, would likely be lower for the FR 3064a if holding companies consolidate the responses of their individual issuer subsidiaries. The proposed revisions to the FR 3064b would result in a net decrease of 12 data items (associated with the addition of 6 data items and the deletion of 18 data items). The Federal Reserve estimates that, although the proposed revisions result in a net decrease in the total number of FR 3064b data items, there would be no change to the average hours per response of 75 hours. The Federal Reserve believes that the proposed breakouts are readily available and any additional burden associated with these breakouts would be offset by the deleted data items. The proposed total burden represents less than 1 percent of the total Federal Reserve System paperwork burden for all reports.

| | <i>Estimated number of respondents</i> | <i>Annual frequency</i> | <i>Estimated average time per response</i> | <i>Estimated annual burden hours</i> |
|-------------------------------------|--|-----------------------------|--|--|
| <i>Current</i> | | | | |
| FR 3064a | | | | |
| Debit Card Issuer Survey (235.8(b)) | 558 | 1 | 160 hours | 89,280 |
| FR 3064b | | | | |
| Payment Card Network Survey (235.8) | 18 | 1 | 75 hours | <u>1,350</u> |
| | <i>Total</i> | | | 90,630 |
| <i>Proposed</i> | | | | |
| FR 3064a | | | | |
| Debit Card Issuer Survey (235.8(b)) | 558 | 1 | 200 hours | 111,600 |
| FR 3064b | | | | |
| Payment Card Network Survey (235.8) | 18 | 1 | 75 hours | <u>1,350</u> |
| | <i>Total</i> | | | <u>112,950</u> |
| | <i>Change</i> | | | 22,320 |

The total cost to the public for these surveys is estimated to increase from the current level of \$4,522,437 to \$5,636,205 for the revised surveys.¹⁴

¹⁴Total 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 at \$18, 45% Financial Managers at \$59, 15% Lawyers at \$63, and 10% Chief Executives at \$85). Hourly rate for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2012, www.bls.gov/news.release/ocwage.nr0.htm Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The current annual cost to the Federal Reserve System for designing the survey, contacting the respondents and compiling the information is estimated to be \$172,500.¹⁵

¹⁵ 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.