

**Supporting Statement for the
Interchange Transaction Fees Survey
(FR 3064a and FR 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 mandatory Interchange Transaction Fees Survey (FR 3064; OMB No. 7100-0344) which is composed of the following reports:

- 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.
- 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 Federal Reserve 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 Federal Reserve considers appropriate or in the public interest. The data from these surveys are used in fulfilling that disclosure requirement. In addition, the Federal Reserve 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 Federal Reserve uses the data from these surveys in determining whether to propose revisions to the interchange fee standards in Debit Card Interchange Fees and Routing (Regulation II) (12 CFR Part 235). The Dodd-Frank Act provides the Federal Reserve 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) by deleting questions in which respondents are asked to allocate their costs between fixed costs and variable costs. In addition, the Federal Reserve proposes to alter the timing of the survey such that, for each data collection, the survey be made available to respondents in mid-January with a filing deadline in mid-April.² This allows respondents a full 90 days to respond to the surveys.

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

² The Federal Reserve will provide respondents with secure online access to respond to the debit card issuer and payment card network surveys.

The Federal Reserve also proposes to make several clarifications throughout both surveys. The current annual burden is estimated to be 112,875 hours and with the proposed changes decrease by 22,320 hours to 90,555 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 Federal Reserve 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 Federal Reserve considers appropriate and in the public interest.³ When the Federal Reserve adopted Regulation II setting debit card interchange fee standards, the Federal Reserve 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.⁴

In 2010, the Federal Reserve distributed three surveys to industry participants (an issuer survey, a network survey, and a merchant acquirer survey) designed to gather information to assist the Federal Reserve in developing Regulation II.⁵ In 2011, the Federal Reserve 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 FR 3064b. In 2014, the Federal Reserve added questions to FR 3064a in which respondents were asked to break out fixed and variable cost components, so as to provide the Federal Reserve with sufficient flexibility to respond to possible outcomes of pending litigation regarding Regulation II. The Federal Reserve also modified the instructions in FR 3064a such that transactions monitoring costs were excluded from costs of authorization, clearing and settlement of debit card transactions; transactions monitoring costs were already reported in a separate question. On FR 3064b, the Federal Reserve deleted timeframes that were no longer relevant and asked respondents to allocate exempt general-use prepaid card transactions between transactions using cards issued by exempt issuers and transactions using cards issued by non-exempt issuers.

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.

³ See 15 U.S.C. 1693o-2(a)(3)(B).

⁴ See 76 FR 43394, 43436 (July 20, 2011).

⁵ 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).

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 transactions: 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.

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 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

⁶ 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.

⁷ 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.

⁸ The 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.

prescribed by the Federal Reserve.⁹ 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.¹⁰

- 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 3064a

- II. Information for all Debit Card Transactions (including general-use prepaid card transactions):** The Federal Reserve proposes to delete questions 3e and 3f, which break out the fixed and variable cost components for line items 3b.1 In-house costs and 3b.2 Third-party processing fees, respectively.
- III. Information for Single-Message (PIN) Debit Card Transactions (excluding general-use prepaid card transactions):** The Federal Reserve proposes to delete questions 3e and 3f, which break out the fixed and variable cost components for line items 3b.1 In-house costs and 3b.2 Third-party processing fees, respectively.
- IV. Information for Dual-Message (Signature) Debit Card Transactions (excluding general-use prepaid card transactions):** The Federal Reserve proposes to delete questions 3e and 3f, which break out the fixed and variable cost components for line items 3b.1 In-house costs and 3b.2 Third-party processing fees, respectively.
- V. Information for General-Use Prepaid Card Transactions:** The Federal Reserve proposes to delete questions 3e and 3f, which 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 remain in the instructions. The break out of variable and fixed costs was originally included so as to enable the Federal Reserve to respond to possible outcomes of pending litigation regarding Regulation II. This litigation has been resolved.

⁹ See 12 CFR 235.8.

¹⁰ Entities that have both single-message and dual-message networks are asked to report data for each program separately.

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 July 31, 2016, (and by the same date in subsequent years) for the Payment Card Network Survey results and December 31, 2016, for the Debit Card Issuer Survey results.

The Federal Reserve proposes to make the Debit Card Issuer Survey and Payment Card Network Survey available online by mid-January and request that the survey be submitted to the Federal Reserve within 90 calendar days.

Legal Status

The Board's Legal Division has determined that these surveys are 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 statutory provision requires the Board, at least once every two years,¹¹ to 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 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 and payment card networks 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. 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, 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").

¹¹ The subsection refers to bi-annual disclosures and the Board interprets this to mean once every two years. See 76 FR 43458.

Consultation Outside the Agency

On August 9, 2016 the Board published a notice in the *Federal Register* (81 FR 52689) requesting public comment for 60 days on the extension, with revision, of the Interchange Transaction Fees Surveys. The comment period for this notice expired on October 11, 2016. The Board received one joint comment letter addressing this collection, which is summarized and addressed below.

Summary Discussion of Public Comments and Recommended Responses

The Federal Reserve received one joint comment letter from eight banking industry associations, which concerned the Debit Card Issuer Survey (FR 3064a). The commenters in this letter commended the Federal Reserve for proposing a full 90-day period for respondents to complete the survey, but suggested that the 90-day period commence in mid-February rather than mid-January, because respondents generally cannot begin collecting the requested data until February. The commenters suggested several changes to the online reporting tool which they argued would facilitate completion of the survey. The commenters also suggested that the survey no longer ask respondents to provide information on interchange fees repaid as a result of chargebacks and, separately, interchange fees repaid as a result of returns, but instead ask respondents to provide a single number that is interchange fees repaid as a result of chargebacks or returns. In addition, the commenters argued that the survey's definition of "costs of authorization, clearance, and settlement" fails to include all costs related to a debit card issuer's authorization, clearance, and settlement activities, and they recommended expanding the definition to include additional cost items. Lastly, the commenters suggested that international fraud losses be included as part of reported fraud losses.

In addition to revisions that were already suggested and were supported by the commenters, the Federal Reserve revised the debit card issuer survey to incorporate certain additional suggestions from the commenters. In particular, the Federal Reserve is commencing the survey at the beginning of February, providing a total line for interchange fees repaid as a result of chargebacks or returns, and making certain technical changes to the reporting tool for the survey. The Federal Reserve is not expanding the survey to include international fraud losses or additional cost elements.

Detailed Discussion of Public Comments and Recommended Responses

Debit Card Issuer Survey (FR 3064a)

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: Cost of authorization, clearance, and settlement - The Federal Reserve proposed to delete questions 3e and 3f which break out the fixed and variable cost components for line items 3b.1 *In-house costs* and 3b.2 *Third-party processing fees*, respectively. The

commenters strongly supported this proposal. They argued that the allocation of costs to fixed and variable components places an undue burden on respondents by forcing them to categorize costs in an artificial manner outside of respondents' standard cost accounting practices. The Federal Reserve believes that the commenters' support for this change validates the Federal Reserve's proposal to remove these items.

The commenters further believe that the definition of "costs of authorization, clearance, and settlement" fails to include all costs related to a debit card issuer's authorization, clearance, and settlement activities. The commenters provided a list of categories of costs that should be included and recommended that these categories be reported as individual cost items, if they are not already. Specifically, the commenters recommended expanding the definition to include the following items: costs associated with receiving, responding to, and resolving customer inquiries with respect to debit card transactions; debit card transaction compliance costs; debit card transaction non-sufficient funds handling costs; card production and delivery costs; and a portion of costs related to establishing and maintaining debit account relationships.

The Federal Reserve is keeping the set of data elements as proposed. Some of the proposed categories of costs (e.g., cardholder inquiry and non-sufficient funds handling costs) are already included in the survey, and all of the proposed categories are costs that the Federal Reserve determined would not be considered as part of the interchange fee standard in Regulation II. Including these additional cost categories and requiring issuers to report at a more detailed level would not significantly enhance the Federal Reserve's understanding of the relevant costs for Regulation II and would represent a significant burden to respondents.

The commenters suggested that international fraud losses be included as part of reported fraud losses. The commenters argued that international fraud losses should be considered as part of the fraud losses associated with domestic transactions for U.S.-issued debit cards because the data compromise leading to the fraudulent debit card activity frequently occurs in the United States and generates fraudulent international transactions even if the cardholder never leaves the United States. The commenters likened this to the Federal Reserve allowing respondents to include costs from international transaction processing centers when reporting the costs associated with U.S.-issued debit cards. The commenters acknowledge that the Federal Reserve's authority to regulate debit card activity is restricted to the United States, but argued that this does not preclude the Federal Reserve from considering costs that occurred outside of the United States, if those costs could not have been incurred but for the issuance of a U.S. debit card.

International fraud losses arise from international transactions, not domestic transactions, and are therefore outside the scope of Regulation II.¹² As such, international fraud losses are analogous to ATM fraud losses, which are also not included. The commenters noted that costs incurred at international transaction processing centers are included, but that is because costs incurred at those processing centers are still associated with domestic transactions, whereas international fraud losses are not associated with domestic transactions. Thus, international fraud losses will not be reported.

¹² Regulation II applies only to electronic debit transactions that are initiated at a merchant located in the United States. See paragraph 235.2(h)-5 of the Official Commentary on Regulation II.

Question 6: Interchange fee revenue - The commenters suggested that the survey no longer ask respondents to provide information on interchange fees repaid as a result of chargebacks and, separately, interchange fees repaid as a result of returns. The commenters argued that payment networks providing interchange fee information do not readily provide a breakdown of chargebacks and returns, such that respondents are often forced to make arbitrary allocations. The commenters suggested that the survey instead ask respondents to provide a single value consisting of interchange fees repaid as a result of chargebacks or returns.

The Federal Reserve added a line item in which respondents are asked to provide the value that commenters argue is readily available: interchange fees repaid as a result of chargebacks or returns. However, the Federal Reserve will continue to also ask respondents to provide a breakdown of this total number into interchange fees repaid as a result of chargebacks and, separately, interchange fees repaid as a result of returns. Respondents will, as always, have the option of entering “not reported” for those items.

General Instructions

The Federal Reserve proposed to make the survey available in mid-January, with a deadline in mid-April, thereby giving respondents a full 90 days in which to provide responses. The commenters commended the Federal Reserve for proposing a 90-day completion period, but suggested that the 90-day period begin in mid-February rather than in mid-January. The commenters noted that issuers will not have the required data to respond to the survey before mid-February; for instance, processors and networks often do not provide invoices to issuers until mid-January or later. Also, commenters argued that the necessary personnel are unavailable to begin completing the survey until other end-of-year closing activities are complete.

The Federal Reserve is making the survey available at the beginning of February instead of mid-January, and due in early May rather than mid-April, in order to address the timing concerns raised by the commenters.

The commenters also proposed three changes to the online reporting tool for the survey. First, commenters recommended that the online survey round entries to the nearest whole dollar. Second, commenters recommended that entries be right-justified. Third, commenters suggested that there be a way for respondents to consolidate all of entries, across all sections, into a single editable spreadsheet. The Federal Reserve is making all of these changes, subject to any unanticipated technical difficulties that may arise in the current interface.

Payment Card Network Survey (FR 3064b)

The Federal Reserve received no comments on the Payment Card Network survey (FR 3064b).

On November 14, 2016, the Board published a final notice in the *Federal Register* (81 FR 79484).

Estimate of Respondent Burden

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.¹³ The Federal Reserve estimates that there are 17 payment card networks that process electronic debit transactions.¹⁴ The current annual reporting burden for the surveys is estimated to be 112,875 hours and would decrease to 90,555 hours, as shown in the following table. The proposed revisions to the FR 3064a would result in a decrease of 8 data items (associated with the deletion of 2 break outs of data items in each of the 4 sections). Therefore, the Federal Reserve estimates the average hours per response for the 558 issuers would decrease from 200 hours to 160 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 FR 3064b estimated burden is unchanged. These reporting requirements represents less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Number of respondents¹⁵</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
FR 3064a	558	1	200	111,600
FR 3064b	17	1	75	<u>1,275</u>
<i>Total</i>				112,875
Proposed				
FR 3064a	558	1	160	89,280
FR 3064b	17	1	75	<u>1,275</u>
<i>Total</i>				90,555
<i>Change</i>				(22,320)

¹³ See <http://www.federalreserve.gov/paymentsystems/regii-interchange-fee-standards.htm> for a list of institutions that are known to be non-exempt.

¹⁴ 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 2015.

¹⁵ Of these respondents, none are estimated to be small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) www.sba.gov/contracting/getting-started-contractor/make-sure-you-meet-sba-size-standards/table-small-business-size-standards.

The total cost to the public for these surveys is estimated to decrease from the current level of \$5,999,306 to \$4,812,998 for the revised surveys.¹⁶

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 \$172,500.¹⁷

¹⁶ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$17, 45% Financial Managers at \$65, 15% Lawyers at \$66, and 10% Chief Executives at \$89). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2015*, published March 30, 2016 www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.

¹⁷ 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.