

**Supporting Statement for the
Interchange Transaction Fees Survey
(FR 3064; OMB No. 7100-0344)**

Summary

The Board of Governors of the Federal Reserve System (Board), under authority delegated by the Office of Management and Budget (OMB), has extended for three years, with revision, the Interchange Transaction Fees Survey (FR 3064; OMB No. 7100-0344). This information collection comprises 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 Dodd-Frank 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 - Debit Card Interchange Fees and Routing (12 CFR 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 Board revised the FR 3064a to 1) remove the breakout of interchange fees reimbursed to acquirers as a result of chargebacks or returns, 2) add tokenization as an option for fraud prevention activity, and 3) update the survey instructions and glossary terms to improve clarity. In addition, the Board revised the FR 3064b to 1) remove a question about the number of merchant establishments, 2) remove questions about offering an interchange fee schedule that differentiates between exempt and non-exempt issuers, 3) remove questions about refunds of interchange fees to acquirers for chargebacks and returns, and 4) update the survey instructions and glossary of terms to improve clarity. The revisions to the surveys will be effective for the

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

collection of calendar year 2019. The Board will make the surveys available online by early-February 2020 and will request that the surveys be submitted to the Board by May 1, 2020.

The current estimated total annual burden for the FR 3064 is 87,685 hours and would remain unchanged with the adopted revisions. The draft surveys and instructions are available on the Board's public website at <https://www.federalreserve.gov/apps/reportforms/review.aspx>.

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

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.

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)).⁴ 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.⁵ 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

² See 15 U.S.C. § 1693o-2(a)(3)(B).

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

⁴ 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.

⁵ 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.

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.⁶

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 survey 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 prescribed by the Board.⁷ The Payment Card Network Survey collects data on transaction volume and value; interchange fees; other network fees; and payments and incentives discounts paid by a network to acquirers, merchants, and issuers. The network survey comprises two sections.⁸

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. In the

⁶ 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.

⁷ See 12 CFR 235.8.

⁸ Entities that have both single-message and dual-message networks are asked to report data for each program separately.

event that a network processes both single-message and dual-message transactions, the survey requires the network to complete a survey for each type of transaction.

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.

Respondent Panel

The FR 3064 panel comprises debit card issuers and payment card networks.

Adopted Revisions to the FR 3064a

Remove breakout of interchange fees reimbursed to acquirers as a result of chargebacks or returns (Section II, III, IV, and V, Question 6b.1 and 6b.2). Currently, debit card issuers are asked to break out separately the amount of interchange fees reimbursed to acquirers as a result of chargebacks and returns, as well as the total amount of interchange fees reimbursed to acquirers as a result of chargebacks or returns. Because only the total amount of interchange fees reimbursed to acquirers is needed to compute the net interchange fee revenue received by an issuer, the Board deleted questions 6b.1 and 6b.2.

Add tokenization as an option for fraud prevention activity (Section II, III, IV, and V, Question 5c). The existing fraud prevention activities that an issuer has the option to select are transaction monitoring, merchant blocking, data security, and PIN customization. The Board views tokenization as an important emerging fraud prevention technique and added it the current list.

Update Survey Instructions and Glossary of Terms. The Board is added language in the instructions to address the situation where a debit card issuer has become newly covered by the interchange fee standards in the year that the survey is being conducted, after not having been covered in the previous year. The new language clarifies that such an issuer does not need to file a report with information for the previous calendar year, when it was not covered by the interchange fee standards. The Board also updated definitions in the survey glossary to provide more clarity.

Adopted Revisions to the FR 3064b

Remove question about number of merchant establishments (Section I, Question 5). Because information about the number of locations at which merchants accept payments on the respondent's network is not used in the Board's analysis, the Board deleted the question.

Remove question about offering an interchange fee schedules that differentiates between exempt and non-exempt issuers (Section I, Question 6). This question was originally included to enable the Board to establish whether payment card networks were offering interchange fee schedules that differentiate between issuers based on their status under Regulation II. The existence of such differential fee schedules has been established and can further be inferred from responses to subsequent questions in the survey. As a result, the Board removed the question.

Remove questions about refunds of interchange fees to acquirers for chargebacks and returns (Section II, Question 2b, 2b.1, 2b.2, 2c, 2c.1, 2c.2, 2d, 2d.1, 2d.2, 2e, 2e.1, and 2e.2). Currently, the survey poses a series of yes/no questions asking payment card networks if they refund to acquirers the ad valorem component, fixed per-transaction component, or the entire interchange fee for returns and chargebacks that compose an entire purchase transaction or a portion of it. These questions were originally included to address a series of issues that now have been resolved, so the Board removed them.

Update Survey Instructions and Glossary of Terms. The Board adopted additional language in the instructions to clarify reporting expectations for entities who own multiple networks. The Board also updated definitions in the survey glossary to provide more clarity.

Time Schedule for Information Collection and Publication

The Board plans to make the Debit Card Issuer Survey and Payment Card Network Survey available online by early February 2020 and requests that the survey responses be submitted to the Board by May 1, 2010.

Public Availability of Data

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 will disclose information on payment card network interchange fees on an annual basis. The Board is targeting a publication date of July 31, 2020, (and by the same date in subsequent years) for the Payment Card Network Survey results and December 31, 2020, for the Debit Card Issuer Survey results.

Legal Status

The FR 3064 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 statutory provision requires the Board, at least once every two years,⁹ 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

⁹ The subsection refers to bi-annual disclosures and the Board interprets this to mean once every two years. See 76 FR 43458.

settlement of electronic debit transaction as the Board considers appropriate and in the public interest.¹⁰ 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.¹¹ The FR 3064 is mandatory.

In accordance with the statutory requirement, the Board releases aggregate or summary information from the survey responses. In addition, the Board releases, 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 participate and to policymakers in assessing the effect of Regulation II on the level of interchange fees received by issuers over time.

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

Consultation Outside the Agency

There has been no consultation outside the agency.

Public Comments

On August 12, 2019, the Board published an initial notice in the *Federal Register* (84 FR 39847) requesting public comment for 60 days on the extension, with revision, of the FR 3064. The comment period for this notice expired on October 11, 2019. The Board did not receive any comments. On November 29, 2019, the Board published a final notice in the *Federal Register* (84 FR 65815).

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FR 3064 is 87,685 hours and would remain unchanged with the adopted revisions. The Board estimates that there are 541 chartered institutions that, together with affiliates, have assets of \$10 billion or more and that may issue debit cards.¹² In addition, the Board estimates that there are 15 payment card

¹⁰ 15 U.S.C. § 1693o-2(a)(3)(B).

¹¹ *Id.*

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

networks that process electronic debit transactions.¹³ These reporting requirements represent less than 1 percent of the Board’s total paperwork burden.

FR 3064	<i>Estimated number of respondents¹⁴</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR 3064a	541	1	160	86,560
FR 3064b	15	1	75	<u>1,125</u>
<i>Total</i>				87,685

The estimated total annual cost to the public for these collections of information is \$5,050,656.¹⁵

Sensitive Questions

These collections of information contain no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The estimated cost to the Board for collecting and processing these information collections is \$172,500.¹⁶

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 2018.

¹⁴ Of these respondents, none are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$600 million in total assets), <https://www.sba.gov/document/support--table-size-standards>.

¹⁵ 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 \$19, 45% Financial Managers at \$71, 15% Lawyers at \$69, and 10% Chief Executives at \$96). 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 2018*, published March 29, 2019, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Occupational Classification System, <https://www.bls.gov/soc/>.

¹⁶ Total cost to the Board 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.