

Federal Reserve Bank of San Francisco  
101 Market Street, San Francisco, California 94105

July 30, 2012

To State Member Banks, Bank  
Holding Companies, Financial Holding  
Companies, Savings and Loan Holding Companies,  
and Foreign Banking Offices  
in the Twelfth Federal Reserve District

**Federal Reserve Board Approves Final Rule Permitting Debit Card Issuers to Receive Fraud-Prevention Adjustment**

The Federal Reserve Board on July 27, 2012 announced the approval of a final rule that amends the provisions in Regulation II (Debit Card Interchange Fees and Routing) that permit a debit card issuer subject to the interchange fee standards to receive a fraud-prevention adjustment. The final rule revises provisions that are currently in effect as an interim final rule.

Under the final rule, an issuer will be eligible for an adjustment of no more than 1 cent per transaction--the same amount as in the interim final rule--if it develops and implements policies and procedures that are designed to reduce the occurrence and costs of fraudulent debit card transactions. The final rule makes changes simplifying the elements required to be included in an issuer's fraud-prevention policies and procedures. To receive an adjustment, an issuer will be required to review its fraud-prevention policies and procedures, and their implementation, at least annually. An issuer also will be required to update its policies and procedures as necessary in light of their effectiveness and cost-effectiveness and, as currently required, in light of changes in the types of fraud and available methods of fraud-prevention.

The final rule retains and clarifies the requirement that an issuer that meets these standards and wishes to receive the adjustment must annually notify the payment card networks in which it participates of its eligibility to receive the adjustment. In addition, the final rule explicitly prohibits an issuer from receiving or charging a fraud-prevention adjustment if the issuer is substantially noncompliant with the Board's fraud-prevention standards and describes steps an issuer must take once it becomes substantially noncompliant to become eligible to receive the fraud-prevention adjustment in the future.

The amendments are effective on October 1, 2012.

**Additional Information**

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact:

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