

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

May 28, 2013

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

**Exemption for Small Debit Card Issuers from Interchange Fee Standards Working as Intended**

On Thursday, May 23, 2013, the Federal Reserve Board reported that the exemption designed to protect small debit card issuers from interchange fee standards applied to large issuers is working as intended.

Small depository institutions with consolidated assets of less than \$10 billion, which are exempt from the interchange fee standard in Regulation II, received fee revenue of 43 cents per transaction in 2012. This amount is roughly the same as the average per-transaction fee received by exempt issuers before Regulation II took effect. In addition, most small issuers that responded to a survey about the effect of the network exclusivity provisions of the rule indicated that significant compliance costs were not incurred.

Data collected from payment card networks reveal that all of the networks provided a higher average interchange fee to exempt issuers than non-exempt issuers in 2012. The average interchange fee per signature debit transaction for exempt issuers was slightly more than double that for non-exempt issuers. The average interchange fee per PIN debit transaction for exempt issuers was 1.3 times greater than that for non-exempt issuers. Exempt issuers received \$7.4 billion in total debit card interchange revenue in 2012, compared with approximately \$5.3 billion in debit card interchange revenue in 2009.

Data collected from small issuers reveal that about 16 percent of respondents had to incur costs to comply with the network exclusivity provisions of Regulation II, which require issuers to enable two unaffiliated debit card networks on each debit card. Those issuers that incurred compliance costs reported an average initial cost of 72 cents per card and average projected ongoing annual costs of \$1.19 per card to come into compliance. Only three of the small issuers that responded to the survey indicated that their cardholders complained of having their debit cards discriminated against by merchants, although it is not clear that any complaints were directly due to the fact that the cards were exempt from the interchange fee standard.

**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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**Attachment:** [Impact of Regulation II on Small Debit Card Issuers, May 2013 \(PDF\)](#)  
[Regulation II \(Debit Card Interchange Fees and Routing\)](#)