

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

July 7, 2011

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

Federal Reserve Issues a Final Rule Establishing Standards for Debit Card Interchange Fees and Prohibiting Network Exclusivity Arrangements and Routing Restrictions

The Federal Reserve Board on June 29, 2011 issued a final rule establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. This rule, Regulation II (Debit Card Interchange Fees and Routing), is required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Debit card interchange fees are established by payment card networks and ultimately paid by merchants to debit card issuers for each electronic debit transaction. As required by the statute, the final rule establishes standards for assessing whether debit card interchange fees received by debit card issuers are reasonable and proportional to the costs incurred by issuers for electronic debit transactions. Under the final rule, the maximum permissible interchange fee that an issuer may receive for an electronic debit transaction will be the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. This provision regarding debit card interchange fees is effective on October 1, 2011.

The Board also approved on June 29, 2011 an interim final rule that allows for an upward adjustment of no more than 1 cent to an issuer's debit card interchange fee if the issuer develops and implements policies and procedures reasonably designed to achieve the fraud-prevention standards set out in the interim final rule. If an issuer meets these standards and wishes to receive the adjustment, it must certify its eligibility to receive the adjustment to the payment card networks in which it participates. Comments on the interim final rule are due by September 30, 2011. The fraud-prevention adjustment is effective on October 1, 2011, concurrent with the debit card interchange fee limits. The Board will re-evaluate this adjustment in light of feedback received during this comment period.

When combined with the maximum permissible interchange fee under the interchange fee standards, a covered issuer eligible for the fraud-prevention adjustment could receive an interchange fee of up to approximately 24 cents for the average debit card transaction, which is valued at \$38.

In accordance with the statute, issuers that, together with their affiliates, have assets of less than \$10 billion are exempt from the debit card interchange fee standards. To assist payment card networks in determining which of the issuers are subject to the debit card interchange fee standards, the Board plans to publish by mid-July and annually thereafter lists of institutions that are above and below the small issuer exemption asset threshold. Also, the Board plans to annually survey the networks and publish a list of the average interchange transaction fees each network provides to its covered and exempt issuers. This information should enable issuers, including small issuers, to more readily compare the interchange revenue they would receive from each network.

The final rule prohibits all issuers and networks from restricting the number of networks over which electronic debit transactions may be processed to less than two unaffiliated networks. The effective date for the network exclusivity prohibition is April 1, 2012, with respect to issuers, and October 1, 2011, with respect to payment card networks. Issuers of certain health-related and other benefit cards and general-use prepaid cards have a delayed effective date of April 1, 2013, or later in certain circumstances.

Issuers and networks are also prohibited from inhibiting a merchant's ability to direct the routing of the electronic debit transaction over any network that the issuer has enabled to process them. The merchant routing provisions are effective on October 1, 2011.

The Board's notices for the final rule and the interim final rule that will be published in the *Federal Register* are attached.

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:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
(415) 974-2136

Attachment: [Statement by Chairman Ben S. Bernanke](#)

[Statement by Vice Chair Janet L. Yellen](#)

[Interim final rule \(114 KB PDF\)](#)

[Final rule \(742 KB PDF\)](#)

[2009 Interchange Revenue, Covered Issuer Cost, and Covered Issuer and Merchant Fraud Loss Related to Debit Card Transactions \(134 KB\)](#)