

**Meeting Between Staff of the Federal Reserve Board and Members of the Retail Industry
Leaders Association
October 7, 2021**

Participants: Jess Cheng, Elena Falcettoni, Cody Gaffney, Karen Juszczak, Mark Manuszak, Larkin Turman, and Krzysztof Wozniak (Federal Reserve Board)

Austen Jensen and Jelena Matic (RILA); Alex Ellwood, Christian Johnson, and Joshua Pynn (CMSPI); John Drechny, Elizabeth Provenzano, and Laura Townsend (Merchant Advisory Group); Amy Oberhelman, Susan Smith, and Perry Starr (Target); Beverly Reilly (Home Depot); Samantha Elleson and Barry Hanen (Walgreens); Ryan Burns and Hannah Walker (Walmart); Andrew Szente and Joseph Vasterling (Best Buy); Brendan Woodbury (Amazon); Owen Glist (Constantine Cannon)

Summary: Staff of the Federal Reserve Board met with merchant representatives from the Retail Industry Leaders Association (RILA) to discuss debit card transaction costs and fraud losses as they relate to the interchange fee cap and the fraud-prevention adjustment in Regulation II. The representatives also briefly discussed partnerships between fintechs and banks involving debit cards.

Attachment

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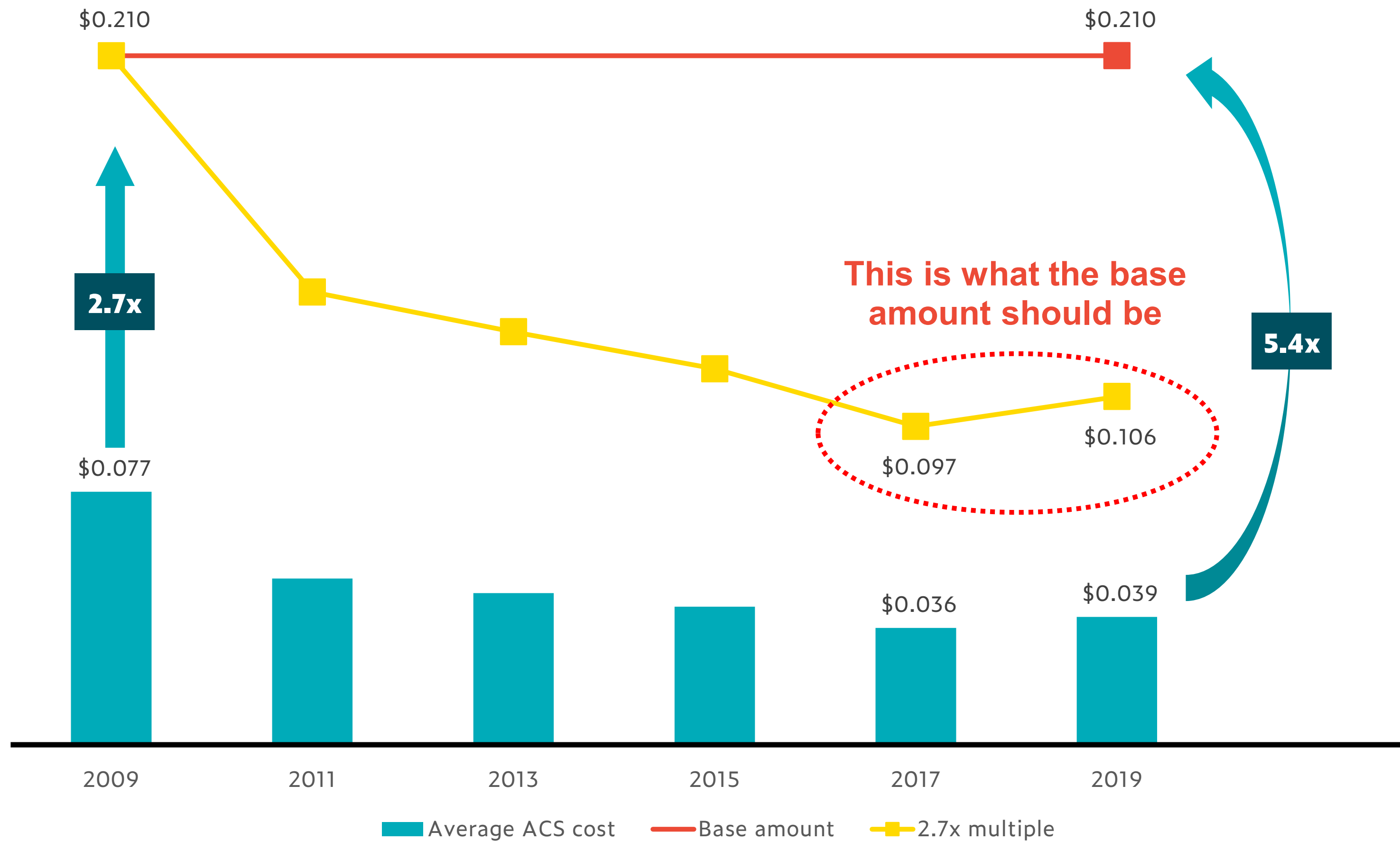
 **cmspi**

 **RETAIL INDUSTRY
LEADERS ASSOCIATION**

REG II REPORT - INTERCHANGE CAPS

OCTOBER 2021

Issuer ACS Costs



- The transaction weighted average cost for ACS for all issuers fell from **\$0.08** per transaction in 2009 to **\$0.039** per transaction in 2019
- This drop in ACS costs has increased the ACS margin for issuing banks from **64%** in 2009 to **82%** in 2019
- Debit spending has more than doubled from 2009 to 2019, increasing by **116%** in that period.
- In 2019, regulated banks accounted for **63%** of debit transactions

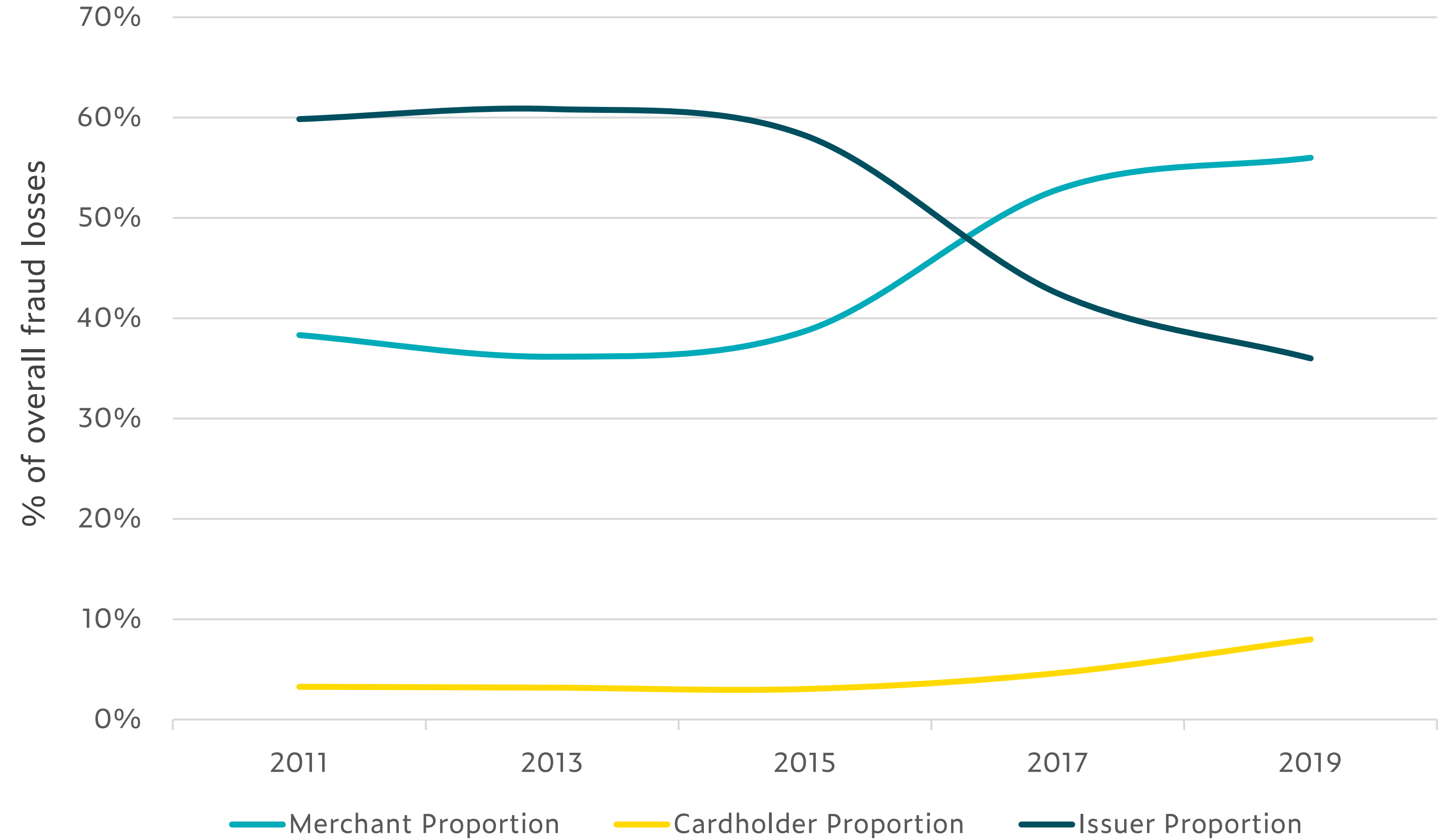
Regulated Issuer Debit ACS Margin



- The transaction weighted average cost for ACS for all issuers fell from **\$0.08** per transaction in 2009 to **\$0.039** per transaction in 2019
- Issuer ACS margin has increased from an estimated **\$3.6 billion** in 2009, to **\$9 billion** in 2019
- Debit spending has more than doubled from 2009 to 2019, increasing by **116%** in that period.

Source: Federal Reserve Reg ii Report (2019)

Overall Fraud Losses by Stakeholder

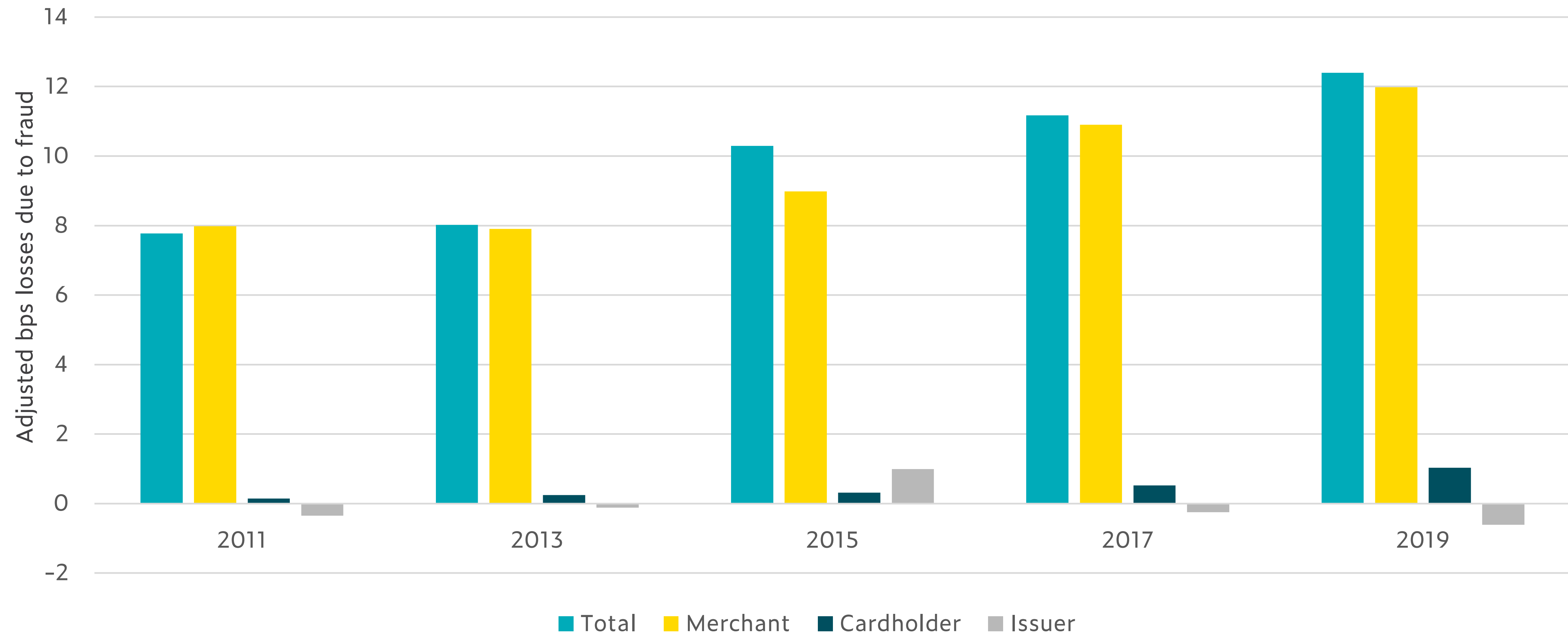


From 2011 to 2019, the percentage of losses from fraudulent transactions reported by covered issuers absorbed by merchants steadily increased from **38 to 56%**, while the percentage of losses absorbed by issuers steadily decreased from **60 to 35%**.



Source: Federal Reserve Reg ii Report (2019)

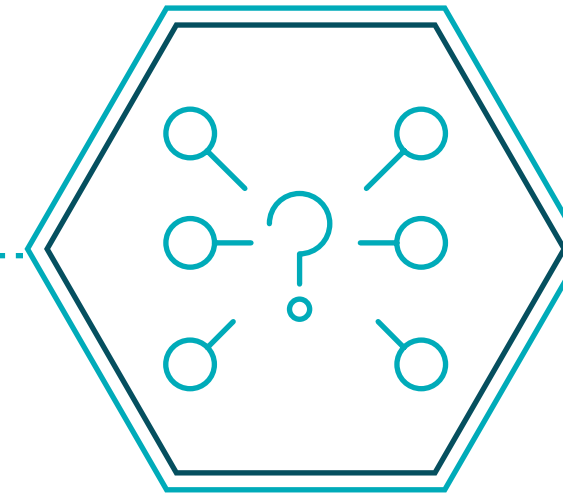
Fraud Loss as Share of Transaction Value



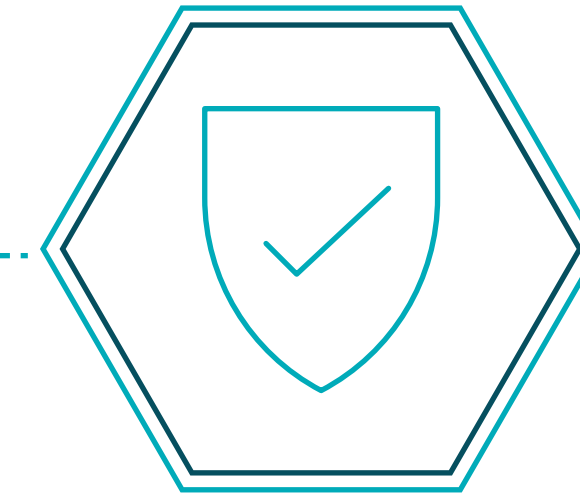
Summary



ACS cost has decreased by 50% leading to Issuers profitability on debit doubling since 2009. Reg II requires regulated rate to be proportional to cost of transactions. **We request the Federal Reserve revises the regulated rate to reflect the change in ACS cost.**



Fraud loss have shifted from Issuers to Merchants to the point where Issuers now are compensated more for fraud than their cost. **We request the Federal Reserve eliminates 5bps fraud adjustment.**



Merchants have invested heavily in preventing fraud. The majority of investment in implementing EMV was born by the merchants in both hardware and labor cost. Merchants also have greater liability for online transactions and have also invested in fraud prevention tools like AI and machine learning. **As such, the 1 cent fraud improvement charge to merchants should be eliminated.**

Q&A



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THANK YOU
