



Federal Reserve Issues Final Rule Regulating Debit Interchange Fees and Network Exclusivity

June 29, 2011

Today, the Board of Governors of the Federal Reserve System (the “Board”) approved, with one objection, its final rule regulating debit interchange fees and network exclusivity and routing pursuant to Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”). After receiving over 11,000 comments, the Board made significant changes to its proposed rule, including a substantial increase in allowable interchange fees.

The Board’s final rule requires interchange fees to be “reasonable and proportional” by:

- Capping the maximum debit interchange fee that an issuer may receive per transaction at the sum of 21 cents, plus 5 basis points (multiplied by the transaction amount) to account for fraud losses. While an improvement over the 12 cent cap provided in the proposed rule, the new rate structure will reduce interchange rates for covered institutions by more than 40 percent;
- Including as an interim final rule an allowance for fraud prevention equal to an additional 1 cent per transaction, conditioned on the issuer adopting fraud prevention procedures established under the regulation; and
- Exempting from rate caps, consistent with statutory requirements, small issuers with less than \$10 billion in assets and certain general purpose prepaid cards.

Additionally, the final rule provides that an issuer or payment card network must enable at least two unaffiliated payment card networks. Under this provision, it is sufficient for an issuer to issue a debit card that can be processed over one signature-based network and one PIN-based network, provided the networks are not affiliated. The final rule also adopts the statutory prohibition on routing restrictions.

The rule defines “payment card networks” to exclude three-party networks, such as American Express, and ATM networks.

The restrictions on interchange fees and routing restrictions will take effect on October 1, 2011 (including, on an interim basis, the fraud prevention adjustment). The prohibitions on network exclusivity take effect on October 1, 2011 for payment card networks and April 1, 2012 for issuers. A delayed effective date of April 1, 2013 applies to certain cards with particular technological challenges, such as health benefit and certain other prepaid cards.

The Board’s [final rule](#) and [interim final rule](#) are available on the Federal Reserve website.

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