July 28, 2025

Via www.federalreserve.gov

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

RE: Notice and Request for Comment on Interchange Transaction Fees Survey; FR 3064, OMB No. 7100-0344

Dear Ms. Misback:

Mastercard International Incorporated ("Mastercard") submits this comment letter to the Board of Governors of the Federal Reserve System ("Board") in response to the notice and request for comment on a proposal to extend for three years, without revision, the Interchange Transaction Fees Survey.[1] Mastercard appreciates the opportunity to provide comments on this important matter.

Background on Mastercard

Mastercard is a technology company in the global payments industry. Mastercard operates a multi-rail payments network that provides choice and flexibility for consumers, merchants and our customers. Mastercard does not issue payment cards of any type nor does it contract with merchants to accept those cards. In the Mastercard network, those functions are performed in the United States by banks and credit unions. Mastercard refers to the financial institutions that issue payment cards bearing the Mastercard brands to cardholders as "issuers." Mastercard refers to the financial institutions that enter into contracts with merchants to accept Mastercard-branded payment cards as "acquirers."

When a cardholder presents a Mastercard-branded payment card to a merchant to purchase goods or services, the merchant sends an authorization request to its acquirer, the acquirer routes the request to Mastercard, and Mastercard routes the request to the issuer. The issuer either approves or declines the authorization request and routes its decision back to the merchant through the same channels. Mastercard's role in the transaction is to facilitate the payment instructions among the parties to the transaction and to facilitate the clearing and settlement of the payment transaction between the issuer and acquirer.

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[1] 90 *Fed. Reg*. 22,726 (May 29, 2025).

Comments

The Interchange Transaction Fees Survey consists of the Debit Card Issuer Survey (FR 3064a) (the "Debit Card Issuer Survey") and the Payment Card Network Survey (FR 3064b) (the "Payment Card Network Survey" and, together with the Debit Card Issuer Survey, the "Surveys"). Below we provide our comments on the Surveys.

I. Frequency of Payment Card Network Survey

Section 1075 of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act authorizes the Board to "require any issuer (or agent of an issuer) or payment card network to provide the Board with such information as may be necessary to" prescribe regulations that limit the amount of interchange that an issuer may receive or charge with respect to an electronic debit transaction to an amount that is "reasonable and proportional to the cost incurred by the issuer with respect to the transaction."[2] That section also requires the Board to disclose the collected information in aggregate form "on at least a bi-annual basis."[3] Currently, the Board requires payment card networks to respond to the Payment Card Network Survey every year and issuers to respond to the Debit Card Issuer Survey every two years.

In 2011, when the Board issued Regulation II, it determined that it would survey payment card networks annually and publish annually a list of the average interchange fees each payment card network provides to its covered issuers and to its exempt issuers in an effort to understand whether the small issuer exemption would have a "meaningful effect."[4] After nearly 14 years, the effect of the small issuer exemption is clear. Yet, the Board still requires annual reporting from payment card networks.

Mastercard expends significant resources on responding to the Payment Card Network Survey on an annual basis. In fact, we estimate that it takes at least 270 hours to complete the Payment Card Network Survey on an annual basis, almost four times the Board's estimate of 75 hours. This process involves running various reports from different platforms, updating spreadsheet formulas, performing cash-back calculations and reviewing the submissions. These costs are no longer justified because the Board now has many years of data to show the meaningful effect of the small issuer exemption. Therefore, we strongly encourage the Board to reset the frequency of required responses to the Payment Card Network Survey to every two years so that it aligns with the Board's bi-annual statutory reporting requirement and the bi-annual Debit Card Issuer Survey reporting requirement.

II. Debit Card Issuer Survey Definitions

We are concerned that issuers may not be fully reporting their allowable costs because the defined terms in the Debit Card Issuer Survey do not make clear all the elements included in

[2] 15 U.S.C. § 1693o-2(a)(3)(B) and (a)(2).

[3] *Id*. at § 1693o-2(a)(3)(B).

[4] 76 *Fed. Reg.* 43,394, 43,436 (July 20, 2011).

key line items. This could ultimately have a bearing on the determination of the debit interchange cap. The relevant defined terms were adopted in 2011 and have not been updated since then.[5] However, nearly a decade and a half removed from 2011, debit card transactions have become substantially more complicated. At the time Regulation II was adopted, debit card transactions primarily occurred through swiping cards at merchant terminals or providing information to an agent or via a user interface checkout screen on a merchant website. In the present day, merchant terminals boast swipe, dip and tap capabilities, while card-not-present transactions have evolved to encompass card-on-file and tokenized transactions. These advances introduce additional costs for issuers. In light of these developments, the definitions relevant to considering the allowable cost of a transaction must adapt to reflect the current landscape.

We believe that the ambiguity in the defined terms results in issuers making judgment calls on what is reportable and invariably underreporting in order to be conservative. To address this concern, we request that the Board take this opportunity to revise the Debit Card Issuer Survey to update the examples of allowable costs to reflect innovative technologies. We propose changes in the glossary to the Debit Card Issuer Survey to the following terms, as indicated, with proposed new language <u>underlined</u>:

(i) "Third-party processing fees," which is a component of the amount reported in line item 3a in the Survey:

> "**Third-party processing fees:** Fees paid to unaffiliated service providers for services related to the authorization, clearance, and settlement of debit card transactions that are performed by those service providers on behalf of the debit card issuer. <u>Fees paid to unaffiliated service providers that are digital wallet operators that participate in the data flow between merchants and issuers as necessary for the authorization, clearance, and settlement of debit card transactions.</u> Service providers may <u>also</u> include payment card networks or affiliates of payment card networks to the extent that such parties provide optional services related to transaction processing. They do not include other fees charged by a payment card network for services that are required for the network processing of transactions or fees charged by an affiliated processor (i.e., a processor in the same holding company).

(ii) "Total fraud-prevention and data-security costs" which is line item 5a in the Debit Card Issuer Survey:

> "**Total fraud-prevention and data-security costs:** Costs related to activities aimed at identifying and preventing debit card fraud, costs related to the monitoring of the incidence of, reimbursements received for, and losses incurred from debit card fraud, costs related to responding to suspected and realized debit card fraud in order to prevent or limit losses, costs incurred in securing the data processing and communications infrastructure of debit card operations, and costs incurred in the development or improvement of fraud-prevention technologies.

[5] *See* 76 *Fed*. *Reg*. 79,184 (Dec. 21, 2011).

Examples include costs incurred to implement the following technologies and actions: EMV chip technology and contactless card technology; tokenization technology; machine learning and artificial intelligence used to detect patterns and anomalies in transaction data, thereby enhancing the precision of fraud detection; technologies that allow cardholders to easily enable or disable their cards, allowing cardholders to proactively prevent unauthorized transactions; technologies that allow cardholders to restrict transactions from specific geographies; technologies that identify merchants or industries known for high fraud risk; automated cardholder travel alerts and fraud alerts through text, email, or phone call; technologies for cardholder authentication, such as biometric authentication of in-person transactions and two-factor authentication for online and mobile transactions; card blocking and replacement upon detecting fraud, when a cardholder reports a lost or stolen card or as a result of a merchant breach; technologies to secure online banking platforms that can be used to access debit card information; technologies that improve the accuracy of debit card transaction information to allow cardholders to more readily identify fraud; technologies that secure communication channels used for debit card transactions; technologies that enable cardholders to easily stop recurring payments that may be the result of fraud; proactive issuer communications to educate cardholders on safe debit card practices; and reactive cardholder customer service to identify, prevent, respond and limit losses related to fraud."

(iii) "Transaction monitoring costs," which is line item 5a.1 in the Debit Card Issuer Survey:

"**Transaction monitoring costs:** Costs related to programs that monitor transactions in order to assist in the authorization process by providing information to the issuer before the issuer decides to approve or decline the transaction. These costs include the costs of neural networks and fraud-risk scoring systems, and other technologies deployed for transaction monitoring, evaluation and alerts that inform issuer responses to transaction authorization requests."

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If there are any questions regarding our comments, please do not hesitate to contact the undersigned at (914) 249-1582 or Tina.Woo@mastercard.com or our counsel at Sidley Austin LLP in this matter, Joel Feinberg, at (202) 736-8473, and Stan Boris, at (202) 736-8227.

Sincerely,

Tina Woo
Senior Managing Counsel
Regulatory Affairs

cc: Joel Feinberg, Sidley Austin LLP
Stanley Boris, Sidley Austin LLP