



July 21, 2010

## **Implementation of New Debit and Credit Interchange Reforms Retailer Guidance Document**

On July 21, 2010 President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, ushering in sweeping reforms of the banking industry including significant reforms of interchange fees. The legislation directs the Federal Reserve to write regulations no later than nine months from enactment of the law to establish standards for a number of provisions in the new legislation. This N.G.A. member Special Report provides a guide for retailers to reference as new provisions take effect. Specific questions regarding implementing these changes with your front end systems should be directed to your register dealer or third-party processor.

If you have questions about the policies below you may contact Tom Wenning, Executive Vice President and General Counsel at [twenning@nationalgrocers.org](mailto:twenning@nationalgrocers.org) or 703-516-8805 or Greg Ferrara, Director of Government Affairs at [gferrara@nationalgrocers.org](mailto:gferrara@nationalgrocers.org) or 703-516-8811.

### **Effective Immediately**

#### **Transaction Minimums for Credit Card Transactions**

- Merchants are now permitted to set a minimum transaction amount up to \$10.00 for credit card transactions. Note: Transaction minimums are not permitted on debit, SNAP, or other government benefit cards.
- Federal agencies and higher education institutions are permitted to set transaction maximums as well.
- The Federal Reserve Board may issue regulations to increase the minimum dollar amount.

#### **Discounting for use of Different Forms of Payment**

- Merchants may provide a discount to the consumer for use of a different form of payment such as cash, check, debit or credit (i.e. cash v credit card, etc.) The incentive may not differentiate on the basis of the issuing bank or payment card network.
- Discount must be offered to all prospective buyers and must be clearly disclosed at the point of sale.

#### **Discounting Between Networks or Between Issuers**

- Merchants are not permitted to offer discounts to consumers for using one card network over another or between issuing banks. The "Honor All Cards" rule remains in effect.

## **Effective No Later Than April 22, 2011**

### **Debit Interchange Fees must be “Reasonable and Proportional”**

- Financial institutions with assets under \$10 billion are exempt from the Fed Rules
- The definition of a “debit card” in the statute includes “any card, or other payment code or device, issued or approved for use through a payment card network to debit an asset account (regardless of the purpose for which the account is established), whether authorization is based on signature, PIN, or other means”. It does not include paper checks.
- The Federal Reserve Board must issue regulations no later than nine (9) months from July 22, 2010 that set standards to ensure debit interchange fees are reasonable and proportional to the cost incurred by the issuer with respect to the transaction.
- The Federal Reserve must prescribe standards for assessing whether debit interchange fees are “reasonable and proportional”. The Board is required to consider a number of factors including the functional similarities between debit and checking and distinguish between incremental costs incurred by the issuer, such as the cost of authorization, settlement and clearance.
- Federal, State, or local government administered payment program cards are EXEMPT from the “reasonable and proportional” regulations. In addition, pre-paid cards are exempt from this provision. Issuing banks lose this exemption for government issued cards if consumers using the cards are charged overdraft fees or fees for their first monthly ATM withdrawal by the card issuing banks.
- The new standards will likely result in lower debit interchange fees.

### **Fraud Standards**

- An individual issuer may petition the Federal Reserve Board for an adjustment to interchange fee amounts if the adjustment is “reasonably necessary” to account for fraud prevention and if the issuer complies with Board established fraud related standards.
- The Federal Reserve Board is required to establish fraud standards for making issuer requested adjustments to debit interchange fee amounts. In issuing standards and prescribing regulations, Board SHALL consider:
  - nature/type/occurrence of fraud, extent that fraud depends on authorization of debit transaction;
  - available means to reduce fraud;
  - fraud and data security costs of all parties;
  - costs of fraud absorbed by each party; and
  - extent interchange fees have reduced or increased incentives for parties to reduce fraud and other factors Board considers appropriate.

## **Effective No Later Than July 22, 2011**

### **Debit Network Restrictions**

- The Federal Reserve Board will issue regulations within twelve months (July 22, 2011) to prohibit card networks from requiring issuing banks to restrict debit cards to a single debit network.
- This provision enhances competition by permitting merchants to route debit transactions over any network that they choose.