



## Regulation II – Network Exclusivity and Routing Restrictions

The Federal Reserve Board issued a final rule, Regulation II, establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements as well as routing restrictions. Although effective on October 1, 2011, the regulation contained additional staggered deadlines. The network exclusivity and routing restrictions are effective April 1, 2012.

Alert Date:	March 19, 2012
Status:	Regulation - effective October 1, 2011 Routing Restriction – effective October 1, 2011 Network Exclusivity – effective October 1, 2011 for payment card networks Network Exclusivity – effective April 1, 2012 for issuers
Links:	<a href="#">Regulation II Final Rule</a>

Pursuant to Dodd-Frank, the Federal Reserve Board has issued Regulation II implementing debit card interchange fees and routing. Among its many provisions, the final rule prohibits all issuers of debit cards and networks from restricting the number of networks over which electronic debit transactions may be processed to less than two unaffiliated networks. In addition, an issuer is prohibited from inhibiting any merchant from directing the routing of the electronic debit transaction through any network that may process the transaction. Unlike the interchange fee provision, no financial institutions are exempt from the network exclusivity and routing provisions.

### Prohibition on network exclusivity

Section 235.7(a) prohibits a debit card issuer from restricting the number of payment card networks through which a debit card transaction may be processed to less than two unaffiliated payment card networks. In order to comply with this provision all an issuer has to do is offer not less than two unaffiliated payment card networks, even if they are for the same authentication method. The regulation does not require that the issuers offer multiple unaffiliated signature and multiple unaffiliated PIN debit card choices on the card. However, ATM only networks do not count toward the number of unaffiliated networks enabled on the card.

It is important to keep in mind that the unaffiliated networks do not need to have national capabilities. Issuers are permitted to have networks that do not restrict their operations to a limited geographic area, specific merchant or particular type of merchant or transaction, as long as the network is prepared to process the transactions based on projected transaction volume or was willing to expand its coverage due to merchant demand.

### Prohibition on merchant routing restrictions

Section 235.7(b) prohibits an issuer or payment card network from curtailing the ability of a merchant to direct the routing of electronic debit transaction for processing over any payment card network that may process such transactions. This does not mean that a merchant can process an electronic debit transaction over any network of their choosing. Rather, the prohibition applies solely to the payment card networks enabled to process transactions for a particular debit card. However, an issuer or payment card network is allowed to offer payments or incentives to merchants to encourage the use of a particular network.

The regulation includes examples of prohibited restrictions. Issuers or payment card networks are prohibited from establishing a required network for merchants to route transactions through. However, if the merchant has not indicated a routing preference, the issuer or payment card network is allowed to establish a default network for routing. Also, merchants cannot be prohibited from “steering” customers to use either a signature or a pin in order to authenticate the transaction.

## Recommendations for Next Steps

1. Verify the number of networks enabled on your debit cards and their affiliation with each other.
2. If you do not have at least two networks enabled, then contact at least two unaffiliated payment networks and verify whether or not the network has rules or policies to restrict operation of the network to a limited geographical area, specific merchant, or particular type of merchant or transaction and whether or not the network can process the transactions that can reasonably be expected to be routed to it.
3. Enable at least two unaffiliated networks on each debit card.

4. Ensure that there are no restrictions on merchants with regards to the network used to process an electronic debit transaction.