Responses of Mr. Bill Sheedy, Senior Advisor to the CEO, Visa Inc.,
to Questions for the Record in the November 19, 2024,
Hearing of the Senate Committee on the Judiciary

December 10, 2024

The Honorable Richard Durbin

Question 1: During the Committee's November 19 hearing, you contradicted the statement of Visa's then-Vice Chairman and Chief Financial Officer Vasant Prabhu, who said during a January 27, 2022, earnings call, "[T]o the extent that there's inflation, driving up ticket size, clearly, it's beneficial to [Visa]…So net-net, I mean we are a beneficiary of inflation." You testified that "I don't believe that inflation is good for our business or anyone's business."

a. Are senior executives of public companies under any obligation to be accurate and truthful when making statements during an earnings call?

b. Are senior executives at Visa accurate and truthful when they make statements during earnings calls?

c. What was inaccurate about Mr. Prabhu's statement that "net-net" Visa is "a beneficiary of inflation"?

d. During an April 27, 2022, earnings call, Visa's then-CEO, Al Kelly, stated, "I'd say, net-net, historically, inflation has been positive for us." Was Mr. Kelly's statement accurate and truthful? If not, why not?

Visa is committed to speaking accurately and truthfully about the company's business. In my testimony, I noted that Visa's success depends on our ability to bring together consumers and merchants to complete transactions. In many ways, inflation can work against consumers' and merchants' ability to transact because it can erode households' purchasing power. Extended periods of high inflation have been marked by declining revenues and lower transaction volume for merchants, particularly in discretionary categories of spending. In addition, governmental efforts to combat inflation, such as rising central bank interest rates, can cause further negative effects in the economy, including higher consumer interest rates on credit cards, which can further depress consumers' ability to transact. As a result, high and persistent inflation is not good for the economy, and it is not good for Visa's business. We do best when the overall economy is strong and healthy.

In the hearing, I also noted that I was not familiar with the overall context of the statements you referenced. Following the hearing, I have had an opportunity to review the transcripts of the exchanges cited in your question. Although I cannot speak for Mr. Prabhu or Mr. Kelly, as I read the transcripts, I believe they were referring to the financial effect of inflation on average transaction size. I also see that Mr. Kelly spoke about the financial puts and takes of inflation and the uncertainties that inflation can create. Finally, on our earnings call in July 2022, Mr. Kelly spoke more broadly on the topic of inflation and the negative effects excessive and long-term inflation can have on the consumer, the overall economy, and consequently Visa's business.

Question 2: With how many merchants does Visa negotiate credit card interchange fee rates for transactions in the United States? What is this number as a percentage of all merchants who accept Visa credit cards in the United States?

To clarify, interchange is a fee between banks. It is generally paid by a merchant's financial institution (i.e., the acquirer) to a cardholder's financial institution (i.e., the issuer), and the reverse is true for certain other transactions like ATM. Merchants do not pay interchange. Merchants pay what is commonly referred to as a merchant discount rate, which they negotiate with their acquiring institution. Merchant discount rate pricing structures can vary widely based on specific merchant business needs, from simple rates for smaller businesses that do not change based on payment type or brand, to more complex structures that may reflect the cost of interchange fees, the cost of transaction processing, terminal rental and customer service fees, and other costs or fees charged by an acquirer.

Visa generally does not have direct relationships with merchants. Accordingly, in the vast majority of cases, Visa is only able to offer incentives and reductions to merchants indirectly through their acquirers, including in 2022, when we reduced credit interchange fees for more than 90% of small businesses in the United States.

Question 3: Will Visa increase credit card interchange fee rates for any merchants or types of transactions in the United States during calendar year 2025? If so, which classes of merchants or categories of transactions will be affected?

As discussed in the hearing, Visa sets the individual applicable rates with the goal of promoting commerce and delivering efficiency in the payments system. The Visa payment network is dynamic and constantly evolving and requires us to regularly assess and adjust interchange rates across a wide array of businesses and transaction types in an effort to promote consumers' and merchants' ability to transact safely and securely. Visa has no incentive to set these rates at levels that are too high or too low. Our goal is to foster balance, security, and stability across the payments ecosystem so that consumers and merchants can successfully and securely complete sales. At this time, the only planned changes that Visa has announced relate to an optional program that allows participating acquirers to receive lower interchange rates on small business and commercial products transactions for delivering accurate transaction data. This program becomes effective in April 2025.

Question 4: How does Visa provide notice to merchants when it changes credit card interchange fee rates? Does Visa believe that providing notice of changes to credit card interchange fee rates to merchants is important?

Yes, Visa believes that notice and transparency of any changes to fees or other aspects of our business is important to communicate in advance to stakeholders in the Visa payment system. As a result, Visa announces interchange changes via notices posted to its online portal, to which issuers, acquirers, and processors have full access. The notices include an overview of the changes, key dates, rates, and other instructions related to implementation. Visa believes providing notice of changes to interchange fees is very important. Accordingly, these notices are posted well in advance of the effective date to ensure participants on the Visa network have sufficient notice to plan for the upcoming changes, update their systems, and in the case of acquiring institutions and processors, we expect them to inform their merchant customers promptly of all developments on the Visa network that may affect them, including interchange changes.

The Honorable Amy Klobuchar

At the hearing I asked you if Visa Inc. uses algorithms to process data derived from issuing banks. Can you elaborate on how you use algorithms and if you use algorithms to process or understand information from credit card issuers to set or recommend interchange fees?

As noted in the hearing, I am most familiar with Visa's use of algorithms to combat fraud, address cybersecurity risks, and confront other threats to consumers' and merchants' financial security. Following the hearing, I have had an opportunity to inquire about Visa's use of algorithms in setting interchange rates and confirmed that Visa does not use algorithms to set interchange rates. Visa sets interchange rates based on a multitude of factors intended to, among others, support a broad competitive landscape that drives issuance and acceptance – which has resulted in Visa being accepted in more merchant locations; support innovation including leading-edge anti-fraud and security technologies; and ensure access to credit for customers, which in turn increases their spending power and benefits merchants and the overall economy.

The Honorable Charles E. Grassley

Question 1: Through Dodd Frank, Congress passed debit card competition mandates similar to those included in the Credit Card Competition Act. Recently, we've seen cases filed by both the DOJ and the Federal Trade Commission enforcing these competition requirements, however, I've also heard concerns that the caps limited benefits for consumers. How should the implementation of the original Durbin Amendment inform today's discussions about the credit card market?

Question 2: The original Durbin Amendment required both dual routing as well as direct caps on debit card fees. Would the debit card market be different today if Dodd Frank required only dual routing?

Responding to both questions together, although the requirements of the Durbin Amendment in the Dodd-Frank legislation are different in some respects from the restrictions proposed in the Credit Card Competition Act, the nation's experience following implementation of the Durbin Amendment is instructive of the risks associated with the Credit Card Competition Act. First, several studies have found that merchants did not pass to consumers the savings they were awarded by the Durbin Amendment, and indeed many merchants raised prices on consumers. Second, consumers experienced significant harms as a result of the Durbin Amendment, including, the loss of free checking accounts for low income and vulnerable households and the elimination of consumer rewards on regulated debit transactions.

The changes proposed by the Credit Card Competition Act present similar risks to consumers. Most significantly, the Credit Card Competition Act would empower a merchant to override a consumer's spending decision. Each time a consumer pulls out a Visa card, the consumer is making a decision about the network, features, and protections that will accompany the consumer’s money on the way to the merchant. For example, by choosing to complete a transaction over the Visa network, a consumer is making a specific and deliberate choice to adopt the benefits inherent in the Visa payment system. These can include substantial and material benefits, such as Visa’s fraud protections and guarantees for disputed charges, vehicle rental liability protections, rewards programs that provide tangible benefits or direct cash back to the consumer, payment timing and instantaneous credit for large purchases that are inherent in the credit card system, and many more. The Credit Card Competition Act would permit every merchant to override each consumer’s choice about the treatment of the consumer’s money and how they pay. A merchant could decide, for example, to route a transaction over a network that provides none of the fraud guarantees, liability protections, or benefits that are available if the payment were handled over the consumer’s chosen network. Alarmingly, the Credit Card Competition Act would allow a merchant to do this unilaterally, without the consumer’s consent or even knowledge. In fact, we believe many merchants will likely make routing decisions seeking the lowest marginal cost for themselves, without regard to the consumer and payment system security. At Visa, we believe that consumers should decide how their money is spent, and merchants should not have the unilateral ability to override every consumer’s decision about the network, benefits, and protections associated with the consumer’s chosen payment method.