



FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

April 3, 1995

DALLAS, TEXAS
75265-5906

Notice 95-37

TO: The Chief Executive Officer of each member bank and others concerned in the Eleventh Federal Reserve District

SUBJECT

**Final Rule to Regulation E
(Electronic Fund Transfers)**

DETAILS

The Board of Governors of the Federal Reserve System has issued a final rule to Regulation E (Electronic Fund Transfers) to give financial institutions more flexibility in identifying consumer accounts on receipts at automated teller machines (ATMs).

The final rule, effective April 24, 1995, will no longer require that terminal receipts uniquely identify the consumer's account or card. This change will allow institutions to truncate the number on the receipt and help protect consumers and financial institutions against fraudulent fund withdrawals.

In some fraud schemes, criminals manufacture counterfeit ATM cards using valid account numbers from receipts discarded by consumers at ATMs. They then withdraw funds by using the personal identification number that, without the consumer's knowledge, they have observed the consumer enter at the ATM. The amendments to Regulation E are designed to address these problems.

ATTACHMENT

A copy of the Board's notice (Federal Reserve System Docket No. R-0859) is attached.

MORE INFORMATION

For more information, please contact Eugene Coy at (214) 922-6201. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

Robert D. McTeer, Jr.

FEDERAL RESERVE SYSTEM

12 CFR Part 205

[Regulation E; Docket No. R- 0859]

Electronic Fund Transfers

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is publishing a final rule amending Regulation E (Electronic Fund Transfers). The amendment eliminates the requirement that an electronic terminal receipt disclose a number or code that uniquely identifies the consumer, the consumer's account, or the access device. This requirement posed a significant security risk to consumers and financial institutions by making information accessible to criminals that could be used to make fraudulent fund withdrawals. To address this problem, the Board adopted an interim rule effective December 1, 1994. The Board also sought comments on the interim rule and will amend the rule to address the comments received.

EFFECTIVE DATE: April 24, 1995

FOR FURTHER INFORMATION CONTACT: Jane Jensen Gell, Staff Attorney, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551, at (202) 452-2412 or (202) 452-3667. For the hearing impaired only, contact Dorothea Thompson, Telecommunications Device for the Deaf (TDD), at (202) 452-3544.

SUPPLEMENTARY INFORMATION:

I. Background

The Board's Regulation E implements the Electronic Fund Transfer Act (EFTA). The EFTA provides a basic framework establishing the rights, liabilities, and responsibilities of participants in electronic fund transfer (EFT) systems. Types of transfers covered by the act and regulation include transfers initiated through an automated teller machine (ATM), point-of-sale terminal, automated clearinghouse, telephone bill-payment system, or home banking program. Regulation E establishes restrictions on the unsolicited issuance of ATM cards and other access devices; requires disclosure of terms and conditions of an EFT service; calls for documentation of EFTs through terminal receipts and periodic account statements; provides limitations on consumer liability for unauthorized transfers; and establishes procedures for error resolution.

II. Summary of Amendment

In December 1994, the Board adopted an interim rule amending Regulation E (59 FR 61787, December 2, 1994). Comment was solicited on making the rule final; approximately 65 comments were received. All commenters strongly supported the Board's proposal.¹ Commenters believed that the change would not significantly reduce the level of information provided to consumers regarding their ATM transactions and would continue to provide enough information for the consumer (and the financial institution) to identify the transaction.

Based on the comments received and further analysis, the Board is adopting final amendments to Regulation E. Under the final rule, the card or account number identification on the receipt no longer has to be "unique" among the institution's customers and need not exceed four digits or letters. The number or code still has to distinguish the consumer's account(s) from other accounts of the same consumer at the institution, and to distinguish the access device from other access devices of the same consumer at the institution.

Section 205.9 -- Documentation of Transfers

Paragraph (a) -- Receipts at electronic terminals

Under the EFTA, when a consumer initiates a transfer at an electronic terminal, the financial institution must make a written receipt available to the consumer, identifying the consumer's account with the financial institution from which or to which funds are transferred. Under the regulation, institutions can comply with this identification requirement by including a number or code on the receipt that identifies the access device used to initiate the transfer, the consumer initiating the transaction, or the consumer's account(s). The Board specified that the number or code should be "unique" to ensure that the method used on the receipt adequately identifies the consumer.

Over the years, many financial institutions met this requirement for unique identification by disclosing consumers' card or account numbers on the receipt, and doing so did not appear to represent a security risk. Recently, the requirement for a unique identification has resulted in serious and widespread ATM fraud carried out by individuals who observe--and often videotape--a consumer entering a personal identification number (PIN) on the ATM keypad. These persons retrieve terminal receipts that have been discarded at ATM locations to obtain the account or ATM card number. Using the combination of PIN and number, they then manufacture a counterfeit ATM card and use the card to withdraw funds from the consumer's account.

To help protect consumers and financial institutions against this fraud, the Board adopted an interim rule effective December 1, 1994. The interim rule eliminated the requirement that an electronic terminal receipt uniquely identify the consumer's account or

¹ Commenters included 39 financial institutions, six trade associations, five Federal Reserve Banks, and two law firms. No consumer groups commented on the interim rule.

card. This change has allowed institutions to truncate the number printed on the receipt so that it will not contain enough information for a criminal to duplicate the card.

The Board believes that the change does not substantially diminish consumer protections. The purpose of the receipt requirement is to allow consumers to verify transactions. Under the final rule, the receipt still provides sufficient information to allow the consumer to identify transfers: the date of the transfer; the amount of the transfer; the type of transfer and type of account; the location of the terminal; and the identification of any third party to or from which funds are transferred. Using this information, a consumer can match each transaction on the periodic statement with the receipt received at the time the transaction took place. In addition, a consumer has the necessary information to identify and resolve errors in documentation. Commenters agreed, noting that the amendment would not adversely effect their ability to comply with the error resolution procedures of Regulation E.

Standards for truncation

Numerous commenters asked the Board to provide specific guidance to establish truncation standards for card number suppression. Several commenters requested that either the regulation or the Official Staff Commentary should provide a "safe harbor" for institutions, allowing them to truncate the identifying information on terminal receipts to as few as four digits or letters. An industry trade association, along with the major ATM networks, has developed and proposed a 4-digit standard for the industry. Although the account number printed on the receipt would be truncated under this standard, the necessary information to support research and reconciliation would be retained in the system. Commenters believed that a 4-digit standard would deter fraud and still provide sufficient identification.

Commenters strongly supported establishing a standard at the network level. They believed that this standard would assure that cardholders are provided the same level of account protection at any network ATM they use. In addition, commenters noted that a financial institution could provide the same level of account protection to cardholders from other institutions who use their ATMs. Other commenters, while not opposing the proposed standard, asked the Board to provide flexibility for financial institutions to develop their own receipt identification methodology. The Board is amending the regulation to provide that institutions are in compliance with the terminal receipt account identification requirement when account numbers are truncated to four digits. This would create a safe harbor for compliance, allow for the establishment of an industry standard, and also allow an institution to develop its own requirements.

The Board believes that the ATM fraud addressed by the rule is a serious problem that, absent Board action, would have continued to the detriment of consumers and financial institutions. The final rule reduces fraud without compromising consumers' ability to document their electronic fund transfers and provides specific guidance concerning compliance.

This amendment to Regulation E supersedes a proposed change under the regulatory review project that was published for comment earlier this year (59 FR 10684, March 7, 1994).

III. Regulatory flexibility analysis. The Board's Office of the Secretary has prepared an economic impact statement on the amendment to Regulation E. A copy of the analysis may be obtained from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, at (202) 452-3245.

IV. Paperwork Reduction Act. In accordance with section 3507 of the Paperwork Reduction Act of 1980 (44 U.S.C. Ch. 35; 5 CFR 1320.13), the information collection has been reviewed by the Board under the authority delegated to the Board by the Office of Management and Budget after consideration of the comments received during the public comment period. The third party disclosure in this revision of Regulation E is in 12 CFR 205.9. Information is required as confirmation of transactions consumers perform at electronic terminals. The revision allows institutions to truncate the identifying number or code on receipts, thus deterring fraud. The revision is not estimated to change the amount of annual burden associated with Regulation E for state member banks, which is 543,363 hours.

List of Subjects in 12 CFR Part 205

Consumer protection, Electronic fund transfers, Federal Reserve System, Reporting and recordkeeping requirements.

Accordingly, the interim rule amending 12 CFR part 205 which was published at 59 FR 61787 (December 2, 1994) is adopted as a final rule with the following changes.

PART 205 -- ELECTRONIC FUND TRANSFERS (REGULATION E)

1. The authority citation for part 205 continues to read as follows:

Authority: 12 U.S.C. 1693.

2. Section 205.9 is amended by revising paragraph (a)(4), to read as follows:

§ 205.9 Documentation of transfers

(a) * * *

(4) A number or code that identifies the consumer initiating the transfer, the consumer's account(s), or the access device used to initiate the transfer. The number or code need not exceed four digits or letters to comply with the requirements of this paragraph.

* * * * *

By order of the Board of Governors of the Federal Reserve System, March 16, 1995.

(signed) William W. Wiles

William W. Wiles,
Secretary of the Board.