

Proposal: 1818(AG67) Debit Card Interchange Fees and Routing

Description:

Comment ID: 159821

From: Albertsons Companies, Sharon McCollam

Proposal: 1818(AG67) Debit Card Interchange Fees and Routing

Subject: 1818(AG67) Debit Card Interchange Fees and Routing

Comments:

Proposal: Regulation II: Debit Card Interchange Fees and Routing [R-1818]

Document ID: R-1818

Revision: 1

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Your comment:

Ms. Ann. E. Misback

Secretary

Board of Governors of the Federal Reserve System

20th St. and Constitution Ave., NW

Washington, D.C. 20551

Dear Ms. Misback:

On behalf of Albertsons Companies, I am writing to comment on the Debit Card Interchange Fees and Routing notice of proposed rulemaking (NPRM; Docket No. R-1818, RIN 7100-AG67). We appreciate the Federal Reserve Board for initiating this rulemaking to lower the debit regulated rate cap and establish a biennial cycle of updates under Regulation II. Albertsons Companies operates nearly 2,300 stores employing over 290,000 associates in 34 states and the District of Columbia. We are a staple in millions of Americans' communities, providing lifelines for those on feeding assistance programs and pharmacy services to those most in need. Albertsons does over \$75 billion in annual sales, with approximately \$60 billion coming directly from credit and debit cards.

Every one cent of savings on debit processing costs represents about \$7 million in savings to us, allowing us to pass along those costs savings to our customers. Grocers negotiate prices on every product sold and every service from vendors and operate on razor thin profit margins. We are doing everything possible to avoid passing inflationary production costs onto shoppers. As more customers have increased their use of credit and debit cards over this time, our processing fees have also dramatically increased. A "reasonable and proportional" debit regulated rate is extremely important to the slim-margined grocery industry. Since the current debit regulated rate went into effect in 2011, banks' costs to process payments have decreased dramatically, while the regulated capped rate charged to merchants for the same debit payments has never been adjusted until this proposed

rulemaking. As the law makes clear, when card networks collectively set interchange debit rates charged to merchants on behalf of card issuers with over \$10 billion in assets, the debit rates must be "reasonable and proportional" in relation to the costs incurred by the card issuers and must be adjusted as the costs to banks decrease. To ensure that the debit regulated rate going forward is "reasonable and proportional," we request that the Federal Reserve Board modify its methodologies for the three components that comprise the rate the base component, the ad valorem fraud loss fee component, and the fraud prevention adjustment in the final rule. Further, a process for careful oversight and auditing of issuer-reported data by the Federal Reserve must be implemented to ensure that issuer costs are not misrepresented or inflated when those costs are considered for future rate adjustments. We recommend the following policy modifications to the Regulation II NPRM (as also stated by comments filled by FMI The Food Industry Association):

1. The NPRM proposes a formula that applies a fixed multiplier to covered issuers' average per-transaction base component costs to calculate the base interchange fee component. However, the NPRM's proposed multiplier of 3.7 produces a rate that does not reflect the nearly 50 percent actual decline in covered issuer base component costs. The Board should not set a fixed multiplier that is higher than 2.7 (the current multiplier used under Regulation II).
2. It is not sufficiently "reasonable and proportional" for each covered issuer to receive the proposed four basis point ad valorem fee from merchants to cover anticipated debit fraud losses, given that issuers are increasingly shifting fraud losses onto merchants and cardholders and given that issuers now bear a far smaller share of debit fraud losses than they bore in 2011. The ad valorem fraud loss fee component should instead be awarded on an issuer-by-issuer basis to issuers that are demonstrating overall fraud reduction on transactions involving their debit cards.
3. The fraud prevention adjustment must be meaningfully evaluated on an issuer-by-issuer basis, and the eligibility for both the fraud prevention adjustment and fraud loss component should be rewarded to only those covered issuers that take effective steps to reduce debit fraud rather being systematically awarded to all issuers.
4. The proposal for biennial rate adjustments should include the above methodical changes. The Federal Reserve Board should also implement oversight and auditing of reported data to ensure that issuer costs are not misrepresented or inflated.

Again, we'd like to thank the Federal Reserve Board for initiating the rulemaking to lower the debit regulated rate cap and establish a biennial cycle of updates under Regulation II. Albertsons, and ultimately our customers, have been paying a debit regulated interchange rate that significantly exceeds banks' costs for processing these transactions for far too long. While the proposed rule is a step in the right direction, we request that the final rule include our suggested revisions to the rate's components and methodologies to reflect the law's requirement of being "reasonable and proportional". We thank the Board for considering the recommendations noted above. Please do not hesitate to reach out with any questions. Regards, Sharon McCollam President and Chief Financial Officer Albertsons Companies.