



May 10, 2024

Federal Reserve Board of Governors
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

RE: Docket No. R-1818, RIN 7100-AG-67

Dear Governors:

We are writing as members of the leadership of FMI – The Food Industry Association¹ to comment on the notice of proposed rulemaking (NPRM) regarding Debit Card Interchange Fees and Routing, Regulation II. Grocers and other main street merchants serving every community around the country appreciate that the Board has taken a step to revise the debit regulated rate and establish a process for every other year rate adjustments.

We appreciate that you heeded the request in FMI's December 22, 2022, petition² to initiate a public rulemaking to adjust the debit regulated rate. We welcome this opportunity to recommend policy modifications to the NPRM on behalf of grocery customers and food retailers.

The grocery industry is among the most competitive in our economy. Grocers negotiate prices on every product they sell and every service they use with vendors and operate on razor thin profit margins – about 1-2% on average. Grocers are doing everything possible to avoid passing inflationary costs onto shoppers. Competition in the grocery sector is fierce, and the battle for market share helps keep prices down for shoppers.

As more grocery customers have progressively increased their use of credit and debit cards over this time, our operations costs have been squeezed. A "reasonable and proportional" debit regulated rate is keenly important to the slim-margined grocery industry in keeping consumer prices low and accessibility to food in underserved communities.

Since the current Regulation II rate went into effect in 2011, banks' costs to process payments have gone down dramatically, while the regulated capped rates charged to merchants for the same debit payments have never been adjusted until this NPRM. As the law makes clear,

¹ As the food industry association, FMI works with and on behalf of the entire industry to advance a safer, healthier and more efficient consumer food supply chain. FMI brings together a wide range of members across the value chain — from retailers that sell to consumers, to producers that supply food and other products, as well as the wide variety of companies providing critical services — to amplify the collective work of the industry. www.FMI.org

² <https://www.federalreserve.gov/regreform/rr-commpublic/trade-association-letter-20221222.pdf>



collectively set debit rates charged to merchants must be “reasonable and proportional” in relation to the costs incurred by the card issuers and must be adjusted as the costs to banks fall.

The three components that comprise the rate – base component, *ad valorem* loss fee component, fraud prevention adjustment – and the methodologies must be modified before every other year rate adjustments are set, and 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.

- The NPRM's proposed rate does not reflect the nearly 50% actual decline in issuer costs. The formula for calculating the base interchange fee component must have a fixed multiplier of no higher than 2.7.
- The proposed four basis point *ad valorem* fee is not sufficiently “reasonable and proportional” given the reduced number of covered issuer fraud losses, and the component should be awarded on an issuer-by-issuer basis.
- 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 than being systematically awarded to all issuers.
- The NPRM's proposal for every other year rate adjustments should include the above methodology changes. The Federal Reserve Board should also implement oversight and auditing of reported data to ensure that issuer costs are not misrepresented or inflated.

Thank you again for initiating the debit regulated rate rulemaking. It is imperative for our customers and our ability to continue to provide access to safe and affordable food in communities across our nation that a final rule establishes a “reasonable and proportional” level and methodologies for regular adjustments.

Sincerely,

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