

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 Associated Food Stores LLC, I write to comment on the Debit Card Interchange Fees and Routing notice of proposed rulemaking (NPRM; Docket No. R-1818, RIN 7100-AG67)...

First, let me thank you and the Federal Reserve Board for beginning this rulemaking process to lower the debit regulated rate cap and put in place an ongoing process for updating every other year under Regulation II. While the rulemaking update has taken a long time to get in place it is a step in the right direction. The willingness of the board to listen to the request for rulemaking is appreciated. That being said, more needs to be done. Even though the proposed changes do reduce the debit regulated rate, the new rate is still not “reasonable and proportional” as required by law from our perspective.

I am writing this letter on behalf of Associated Food Stores and the over 450 independent retailers that we support. These retailers represent the hub of many small towns along with the metropolitan areas in the intermountain area. They are the end points of providing SNAP and WIC services to the many families and individuals who benefit from those services. These same retailers provide employment for thousands of individuals throughout the area and are essential in making affordable food sources available in their communities. As customers continue to use debit cards for payments at an ever increasing rate, retailer expenses for processing those payments continue to grow in an unchecked manner.

As mentioned earlier, we appreciate that the Federal Reserve Board is taking steps to reduce the debit regulated rate and implement a process to update this every other year. However, we do not feel that the proposed cap and processes defined to set automatic updates will result in “reasonable and proportional” rates as required by law and demonstrated by Federal Reserve data. As grocers we operate on very thin margins and negotiate prices on every product and service that we provide and use. This is all done in order to provide our customers with the best products and prices available. During the current inflationary times we work hard to make sure that we are doing all that we can to avoid passing the inflationary production costs on to our customers.

Competition in the grocery business is fierce and the battle for market share helps to keep prices down. As the continued trend of the increased usage of credit and debit cards for purchases moves forward our operational costs have continued to increase. Credit and debit card processing fees are the second highest expense in grocery stores, and thus the rates paid are critical. Since the rates were originally set in 2011 the banks’ costs to process payments have dramatically decreased. During that same period the regulated capped rate charges to retailers for the same debit payments have never changed. The law makes it clear that as card networks collectively set interchange debit rates charged to retailers those rates must be “reasonable and proportional” in relation to the cost incurred by the issuers and must be adjusted as the cost to banks decrease. As noted in the comments below, and those filed by the FMI – The Food Industry Association we believe the following adjustments should be made.

1. There are three fee components that comprise the regulated rate – the base component, *ad valorem* fraud loss component, and fraud prevention adjustment – and to comply with the law, the Board must modify its methodologies for setting each of these components. 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. 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 than being systematically awarded to all issuers.
4. The 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 once again for initiating the rulemaking to lower the debit regulated rate cap and establish a review and adjustment process. Retailers and ultimately our customers have been paying processing rates that significantly exceed banks’ costs for processing these transactions for too long. While the proposed rule is a step forward, we adamantly request that the final rule include the suggested recommendations to the components and methodologies to conform to the laws requirement of being “reasonable and proportional”. Thank you for considering the recommendations noted above and detailed in the letter filing by FMI – The Food Industry Association.

Wade Judd  
Sr. VP of Technology/CIO  
Associated Food Stores  
Salt Lake City, Utah 84119