



May 10, 2024

Ms. Ann. E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th St. and Constitution Ave., NW
Washington, D.C. 20551

Re: Comments on Debit Card Interchange Fees and Routing notice of proposed rulemaking (NPRM; Docket No. R-1818, RIN 7100-AG67)

Dear Ms. Misback:

On behalf of Wakefern Food Corp., I am writing to share our concerns on the Debit Card Interchange Fees and Routing notice of proposed rulemaking (NPRM; Docket No. R-1818, RIN 7100-AG67).

This is the first rulemaking update the Federal Reserve Board has proposed since Regulation II was created in 2011, and I want to thank the Board for taking steps to lower the debit regulated rate cap and establish an every-other-year cycle of updates. While a modification in the cap and establishing a regular cycle of updates is welcome, the proposed new rate is still not “reasonable and proportional” as required under the law. This comment letter includes specific recommendations for policy modifications.

As a retailer-owned cooperative, Wakefern is comprised of nearly 50 families who independently own and operate 370 retail supermarkets under the ShopRite, Price Rite Marketplace, The Fresh Grocer, Di Bruno Bros., Fairway Market, Gourmet Garage and Dearborn Market banners in nine northeastern states.

Competition in the grocery sector is fierce, and grocers typically operate on a razor thin 1.5 to 2% profit margin. As customers have progressively increased their use of credit and debit cards over time, our operations costs have been squeezed. A “reasonable and proportional” debit rate is keenly 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 retailers for the same debit payments has never been adjusted until this proposed rulemaking.

To ensure that the debit regulated rate 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.

As outlined in comments below, we recommend the following policy modifications to the Regulation II NPRM.

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 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. 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.
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 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.

We would like to thank the Federal Reserve Board again for initiating the rulemaking to lower the debit regulated rate cap and establish an every-other-year cycle of updates under Regulation II. 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." It is particularly important that the Federal Reserve Board modify these fee component methodologies *before* the methodologies are used for every-other-year rate updates.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Stynes". The signature is written in a cursive, flowing style.

President
Wakefern Food Corp.