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VIA ELECTRONIC MAIL TO:  
regs.comments@federalreserve.gov

Ms. Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

**Re: Docket No. R-1818, RIN 7100-AG67 (Debit Card Interchange Fees and Routing)**

Ms. Misback,

On behalf of EG America, I am writing to provide comments to the Federal Reserve on its above-referenced rulemaking, concerning the regulated rate for debit card interchange fees under Regulation II and the Durbin Amendment.

As a national convenience retailer, EG America operates more than 1,500 stores across 30 states, which employ more than 18,000 team members and serve more than a million customers each day. Through those operations, we have significant exposure to the U.S. payments system and related transaction costs. Roughly 80% of our retail sales are conducted via card-based transactions. The interchange fees associated with these transactions continue to be one of our largest and fastest-growing operating expenses outside of labor, costing us approximately \$80,000 per store in 2023—an increase of more than 13% over 2022. At the same time, our own chargeback losses for card-based transaction fraud increased more than 42% year over year.

Of course, not all such transactions are subject to Regulation II and the Durbin Amendment. But for the sizeable portion that is, we have a clear interest in ensuring the regulated rate is “reasonable and proportional” to the relevant costs incurred by the debit card issuer. Every penny charged in excess thereof contravenes both the letter and spirit of the law, enriching the very largest financial institutions in the country with windfall profits at the expense of Main Street merchants and the everyday consumers who ultimately foot the bill.

The Fed can and must act to correct this. To that end, while EG America appreciates some aspects of the rule proposed here, substantially more is required to square the regulation with its enabling statute:

- **Base Component.** The proposed rule would reduce the base component of the regulated rate from 21 cents to 14.4 cents, derived from a fixed multiplier of 3.7 times the actual average cost for covered issuers. This is a move in the right direction to be sure, as the current amount is well out of date and grossly inflated. However, even the proposed 14.4 cents does not fully reflect the nearly 50% decline in issuer costs since the rate was last set more than a decade ago. Instead,

the fixed multiplier must not exceed 2.7—still a very high number—to ensure the statutory “reasonable and proportional” standard is met.

- **Ad Valorem Component.** The proposed rule would reduce the ad valorem component from 5 basis points to 4 basis points. Again, this is a welcome change, but it still fails to sufficiently account for the decreased incidence of covered issuer fraud losses. Moreover, we have seen firsthand how covered issuers are increasingly charging back debit fraud losses to merchants. These big banks should not be able to do both: requiring merchants to prepay for fraud losses through interchange, then to repay for those same losses when the fraud is incurred. For this reason, the ad valorem component should be eliminated entirely, except where a covered issuer can demonstrate that they are bearing disproportionately greater fraud costs compared to merchants.
- **Fraud Prevention Adjustment.** The proposed rule would increase the fraud prevention adjustment from 1 cent to 1.3 cents per transaction. Similar to the ad valorem component, this increase should not be adopted except on an issuer-by-issuer basis, and only where each issuer has demonstrated that they are actually implementing effective fraud prevention measures. For example, with fraud decreasing for single-message (PIN-authorized) debit transactions while increasing for dual-message (signature-authorized) debit transactions, a covered issuer that steers transactions away from the former and towards the latter should not automatically benefit from any fraud prevention adjustment—let alone from an increased rate.

Subject to the foregoing, EG America supports the proposal to update the regulated rate biannually in the future, especially where it has never once been updated since Regulation II was first promulgated. That said, the Fed must take meaningful steps to monitor and validate the cost data submitted by covered issuers, to ensure they are not inflating, misrepresenting, or impermissibly expanding the universe of allowable costs.

Thank you for the opportunity to comment on this matter of critical importance for our business and our customers.

Respectfully submitted,



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