



May 12, 2024

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: Regulation II Debit Card Interchange Fees and Routing

Dear Secretary Misback:

On behalf of the beverage retailer members of American Beverage Licensees (“ABL”), we appreciate the opportunity to provide comments in response to the Federal Reserve System Board of Governor’s (Board’s) “Debit Card Interchange Fees and Routing” Notice of Proposed Rulemaking (NPRM).¹ ABL is a trade association representing the retail tier of the U.S. alcohol industry. Its members include thousands of bars, taverns, and package liquor stores that sell beer, wine, and spirits in states across the country. As an important cog in the hospitality industry, direct retail beverage alcohol sales in the United States create more than 2.03 million well-paying jobs and generate over \$27.9 billion in federal taxes and \$20.0 billion in state and local taxes.

We are pleased that the Board is staying true to its mandate called for by Regulation II wherein the Board establishes “standards for assessing whether the amount of any interchange fee received by a debit card issuer is reasonable and proportional to the cost incurred by the issuer with respect to the transaction.” In addition, we agree with the Board’s disposition that it is appropriate to review fees relating to fraud losses and fraud prevention.

ABL agrees with the Board that now is the time for the regulated debit rate to be reduced to reflect issuer costs more accurately. However, the proposed rule – which suggests a base rate that is reduced by less than a third from the current rate – does not go far enough to reflect the decline in base component costs and be “reasonable and proportional.” When considering that the “average per-transaction ACS costs, excluding issuer fraud losses, among covered issuers were \$0.039 in 2021, approximately half of the 2009 value [of \$0.077],” according to the Board’s 2021 Debit Card Issuer Survey², a reduction of much greater than less than a third is warranted.

For example, and as laid out in the white paper *Considerations for the Federal Reserve Board's Proposed Rule for Debit Interchange*, “One scenario that would represent a significant improvement over the current proposal would be to implement a \$0.06 base rate. In aggregate, this would result in a 35% overall margin which is reasonable in comparison to financial institution margins. Over half of High-Volume Issuers would receive full cost reimbursement and some of the first quartile Mid-Volume Issuers would likely receive full cost reimbursement. The average impacts on Issuers not receiving full cost reimbursement appear immaterial.”

¹ <https://www.govinfo.gov/content/pkg/FR-2023-11-14/pdf/2023-24034.pdf>

² https://www.federalreserve.gov/paymentsystems/files/debitfees_costs_2021.pdf



And, as has been pointed out by others, “The 14.4-cent rate would give banks average profit margins of 270 percent. That is nine times the 30 percent average profit margins³ large banks make on their businesses overall, which is the highest profit margin of any industry in the United States.”⁴

With banks’ costs steadily falling, and the same rate remaining in place since 2011, banks have reaped the profits while debit card swipe fees cost merchants and their customers \$36.3 billion in 2023, according to the Nilson Report.⁵ Credit and debit card swipe fees together totaled a record \$172.05 billion in 2023 and have more than doubled over the past decade. The fees are most merchants’ highest operating cost after labor, driving up consumer prices by over \$1,100 a year for the average family.⁶

Finally, the Board should go beyond its proposal to reduce the fraud loss component of Regulation II by eliminating the fraud loss component altogether considering the decline of fraud losses absorbed by covered issuers with the adoption of EMV chip technology. Similarly, the Board should not increase the “fraud-prevention adjustment” component from the current rate of 1 cent per transaction to 1.3 cents per transaction, instead taking this opportunity to lower the rate below 1 cent while engaging in more robust confirmation of issuers’ efforts to combat fraud in debit transactions.

As it weighs public comments on debit card interchange fees, ABL urges the Board to adopt a final rule that uses proper methodology to reduce regulated debit rate to a level that is truly “reasonable and proportional”; eliminate outdated fraud loss component; and resist the urge to increase fraud-prevention adjustment rates.

Thank you for your time and the consideration.

Sincerely,

A handwritten signature in black ink that reads 'John D. Bodnovich'. The signature is written in a cursive, flowing style.

John D. Bodnovich
Executive Director
American Beverage Licensees

³ https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/margin.html

⁴ <https://merchantspaymentscoalition.com/merchants-tell-fed-debit-card-swipe-fees-should-be-competitive>

⁵ <https://nilsonreport.com/newsletters/1259/>

⁶ <https://cmspi.com/credit-card-competition-act-could-result-in-annual-savings-upward-of-16-4-billion/>