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Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing

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The proposed regulation inspires a few questions: -How does drastically cutting a low-risk source of banking revenue square with the Federal Reserve's duty to ensure the safety and stability of the banking system? -Can merchants be reasonably expected to make detectable price cuts in response to a universal reduction in the cost of one type of transaction? If the answer is 'yes,' explain the Australian experience. -How does suddenly and drastically cutting the profits on debit cards encourage competition and innovation in alternative-payment technologies? Wouldn't potential innovators assume that any competing system, once established and successful, would be subject to similar price controls? If so, why develop such a system? -If reducing the cost of debit-card transactions in order to reduce consumer prices is a proper goal of federal regulation, why not impose price controls on other business expenses? Debit-card fees increase in some proportion to revenues; wouldn't price controls on fixed costs be even more beneficial? Every business service is subject to the same analysis the Fed performed on debit-card interchange fees; why not cut the profitability of advertising, insurance, printing, leasing, utilities, communication, shipping, maintenance, etc. by as much as 80%? -If debit-card fees are such a drag on commerce, why not devise an alternative medium of exchange issued by the government? Some kind of bearer note printed in a universally recognizable and difficult-to-replicate fashion; these notes would be accepted for all transactions without interchange fees and circulated until too worn for reuse. I propose calling this medium of exchange "cash." Merchants who wished to avoid onerous interchange fees could instead steer customers to using "cash." There are obvious drawbacks, and some merchants might prefer to accept debit cards anyway in order to maximize sales. Come to think of it, isn't that why merchants accept credit and debit cards in the first place, because they maximize sales? Thank you for your time. --J. Scott Edwards