

From: Delhaize America, Ronald C Hodge  
Subject: Reg I I - Debit card Interchange

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Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing  
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February 21, 2011 Submitted Electronically Ms. Jennifer J. Johnson, Secretary Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue, NW Washington, DC 20551 Re: Regulation II - Debit Card Interchange Fees and Routing [Docket No. R-1404] Dear Ms. Johnson As the Chief Executive Officer of Delhaize America, I would like to thank the Federal Reserve Board and its staff for the thoughtful approach it has taken in proposing rules for the implementation of the Durbin Amendment to the Dodd-Frank Wall Street Reform Act, and I appreciate the opportunity to comment on some of the provisions. Delhaize America owns and operates more than 1,600 supermarkets in 16 eastern states under its banners Food Lion, Bloom, Bottom Dollar, Harvey's, Hannaford Supermarkets and Sweetbay. We employ approximately 109,000 full-time and part-time associates. Each day, our stores compete to attract and retain customers based on the quality and price of our products, and the services and value we offer. Approximately 33% of our transactions are paid for using debit cards. As the number of debit transactions has increased over the years, rational economics would dictate that the cost per transaction should decrease. But this is not the case. Rather, debit fees have increased exponentially because the interchange fees and routing rules associated with these cards are determined by the card networks in an environment where the primary incentive is to raise interchange as a means of attracting issuing banks. There is no market force that compels the debit networks and issuing banks to compete for a merchant's debit business based on the quality or price of the product, or the services or value offered. Merchants must pay the established interchange fees without the ability to negotiate or otherwise participate in a competitive market. Clearly the system is broken and we support the need for rules that will bring competition to the debit card environment.

Delhaize America is a member of the Food Marketing Institute and as such, supports the comments that it has submitted to the Federal Reserve Board

regarding the Durbin Amendment. Additionally, we would like to comment as follows:

- With respect to Reasonable and Proportional Interchange Transaction Fees (Section 235.3), we support the Board's Alternative 1, providing both a safe harbor as well as a cap for debit interchange fees. However, we encourage the Board to move closer to the \$.04 weighted average cost of debit, rather than the \$.07 proposed, as the safe harbor amount. The proposed rules provide issuing banks the opportunity to charge more than the safe harbor by substantiating their costs. Therefore, the safe harbor should not provide too much cushion for issuers whose costs are below the weighted average.
- With respect to the Limitations on Payment Card Routing Restrictions (Section 235.7) we strongly support the proposed Alternative 2 which requires two unaffiliated networks for each type of authorization; PIN, signature or other. We believe that this reflects Congress' intent, as well as recognizes the fact that true competition comes from choice. That competition will only be achieved through the merchant's ability to choose from more than one network for each authorization.
- We are concerned that as the rules pertaining to the Durbin Amendment are put in to practice, card issuers and their networks will quickly develop products intended to circumvent the law. As part of its Prohibition on Circumvention or Evasion (Section 235.6), we strongly urge the Board to develop broad and robust rules and enforcement provisions, with significant sanctions for those who try to circumvent the spirit and intent of the law.
- With respect to the Fraud Prevention Adjustment (Section 235.4), we support the approach proposed by the Merchants Payments Coalition in their comments to the Board. Clearly the adjustment should be limited to technologies that improve security beyond that currently available with PIN debit transactions. We applaud the board for proposing rules and interchange fees that apply equally to PIN and signature debit transactions. The fraud prone signature debit product should not be perpetuated nor subsidized through higher interchange fees charged to merchants. The issuing banks and their networks would like to give the impression that once a merchant obtains a debit authorization, payment for the transaction is guaranteed. This is simply not the case. We incur significant chargebacks from issuing banks for fraudulent transactions, almost exclusively on signature debit cards. The board has made great progress in proposing the rules needed to implement the Durbin Amendment. I realize that additional time may be needed to develop and implement the Fraud Prevention Adjustment, but I encourage the Board to continue the rule making process and produce a final set of rules by April 21, 2011. There is no reason to delay the implementation of all of the other Durbin Amendment provisions over this one issue that by definition has a longer time line attached to it. As a company, we look forward to participating in a debit card system where all parties; issuing banks, debit networks, merchants and customers are driven by the competitive forces that will cause us to be our best. I thank the Federal Reserve Board for its efforts in achieving that result. Sincerely Ronald C. Hodge Chief Executive Officer Delhaize America