



19601 North 27th Avenue • Phoenix, Arizona 85027 • 623•580•6100

May 27, 2011

Mr. John C. Williams
President and Chief Executive Officer
Federal Reserve Bank of San Francisco, 12th District
101 Market Street
San Francisco, CA 94105

Re: Debit Card Fee Reform Implementation

Dear President Williams:

As the President and CEO of PetSmart, Inc. ("PetSmart"), I would like to share our perspective on the debit card interchange swipe fee issue that is currently before the Federal Reserve.

PetSmart is the largest specialty pet retailer of services and solutions for the lifetime needs of pets. The company employs approximately 47,000 associates and operates more than 1,120 pet stores in the United States, 178 in-store PetSmart PetsHotel(R) cat and dog boarding facilities, and is a leading online provider of pet supplies and pet care information (<http://www.petsmart.com>). The 12th District is home to more than 240 of our stores, our corporate headquarters and two distribution centers, employing over 11,270 associates. Since 1994, PetSmart Charities, Inc., an independent 501(c)(3) non-profit animal welfare organization and the largest funder of animal welfare efforts in North America, has provided more than \$134 million in grants and programs benefiting animal welfare organizations. Through its in-store pet adoption partnership with PetSmart Charities(R), PetSmart has helped save the lives of more than 4.4 million pets.

As you well know, last year Congress passed financial regulatory reform known as the Dodd-Frank Act. Dodd-Frank included the Durbin Amendment, which arose as a response to the broken debit card marketplace. The dominance of Visa and MasterCard created an environment where, to the detriment of Main Street businesses, fees continued to increase, regardless of market forces. Dodd-Frank provided the Federal Reserve Board the authority to impose limits on debit card interchange fees that are reasonable and proportional to the cost incurred by the card issuer with respect to the transaction. The rules establishing those limits are to take effect July 21, 2011, and thus it is important for both merchants and banks to know the specifics of the rules in advance of the deadline so that we can properly implement the reforms.

The current swipe fee system also puts community banks at a competitive disadvantage to the mega banks. Congress recognized this disadvantage, and thus exempted banks with less than \$10 billion in assets from the debit card fee provisions of the Durbin Amendment. RILA estimates this exemption protects about 99% of the nation's banks, and PetSmart fully supports the exemption.

There is a push in Congress to delay implementation of the Durbin Amendment. Montana Senator Jon Tester introduced legislation earlier this year that would delay implementation for two years. Senator Tester was apparently unable to garner support among his colleagues in the Senate, so he and his co-sponsor, Senator Bob Corker, announced a "compromise" on May 18 that limits the overall implementation delay from 24 months to 15 months. The compromise plan would take away the Federal Reserve's sole authority over the rule-making and potentially create new and as yet unknown oversight issues.

The compromise language, which has not been publicly released, would create a multi-agency group consisting of the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the National Credit Union Administration. The group would be given six months to study the issues, six months to write new regulations, and then three more months before the rules would be implemented.

Current debit card fees hurt both consumers and merchants. The Federal Reserve has estimated that every month of delay costs consumers about \$1 billion in added charges. Consumers pay higher prices due to the increased fees, and those paying with cash and check are forced to subsidize the credit and debit card consumers' bank card fees without receiving any of the benefits.

RILA and NRF both point out that small and large merchants alike will continue to be negatively impacted by delaying the implementation of debit card swipe fee reform. For large merchants like PetSmart, the costs of debit and credit card fees are significant, and further delays will add to those costs.

Federal Reserve Chairman Ben Bernanke in Congressional testimony earlier this month stated that the Federal Reserve has sufficient information to complete its rulemaking. Thus, there is no legitimate reason for Congress to insist on delaying implementation in order to conduct flawed studies that do not address debit card fee reform's affect on the economy as a whole, or what is best for payment systems as a whole.

Any study that would be conducted prior to the reforms taking effect would require the included agencies to speculate on what might happen. Any future studies should take place after the reforms have had time to be implemented. Further, we can look to other nations' debit card systems to see how other systems work. Seven of the eight countries with the highest per capita debit card usage have no debit swipe fees at all. In Europe, Visa and MasterCard have voluntarily agreed to lower debit card swipe fees to a level lower than what the Federal Reserve has proposed in the United States.

We recognize that there are strongly-held views on both sides of the swipe fee issue, but we believe the best way to honor the interests of all is to follow through on the Congressionally-approved implementation of the new debit fees. Accordingly, PetSmart respectfully urges the Federal Reserve to release a final rule establishing reasonable and proportionate debit card swipe fees quickly in order to allow time for implementation by July 21, 2011.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert F. Moran". The signature is written in black ink and is positioned above the printed name.

Robert F. Moran
President and CEO
PetSmart, Inc.