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February 22, 2011

Ms. Louise L. Roseman  
Director, Division of Reserve Bank Operations and Payment Systems  
Board of Governors of the Federal Reserve System  
20th Street & Constitution Ave., NW  
Washington, DC 20551

Re: Debit Card Interchange Fees and Routing - Regulation II; Docket No. R-1404

Dear Ms. Roseman:

We respectfully write regarding the proposed rules on Debit Card Interchange Fees pursuant to Section 920 of the Electronic Fund Transfer Act (the "Act"). As leading e-commerce companies, our view is that any pricing discrimination between so-called "card-present" and "card-not-present" debit card transactions cannot be justified "as reasonable and proportional to the cost incurred" and must be eliminated.

The Act addresses this discriminatory practice in three, related ways: (1) it limits debit interchange to "the incremental cost incurred by an issuer for the role of the issuer in the authorization, clearance, or settlement of a particular electronic debit transaction;" (2) it completely separates the cost of authorizing, clearing, and settling a transaction from the cost of fraud; and (3) it requires the Board to ensure that any interchange received or charged by regulated issuers is "reasonable and proportional to the cost incurred by the issuer with respect to the transaction."

First, the functions associated with authorizing, clearing, and settling a transaction ("ACS") are substantially the same for all debit transactions and do not vary materially by merchant or type of transaction. There are no meaningful distinctions between performing these functions for different "types" of transactions.

Second, the Act's definition of ACS excludes the cost of fraud. Including any perceived or actual differences in the rate of fraud between types of transactions conflates authorization with authentication, which is not permitted by the statute. The Act is clear that any incremental fraud prevention costs borne by issuers are not to be part of the interchange fee but are to be considered only in the separate fraud adjustment rulemaking.

Third, because the incremental cost incurred by an issuer in ACS is no different for card-present and card-not-present transactions and because the costs of fraud may not be included in the debit interchange fees under the statute, an interchange system that discriminates against card-not-present transactions cannot be justified as reasonable or proportional to the actual costs incurred by an issuer.

We urge the Board to prohibit any pricing discrimination between card-present and card-not-present as required by the statute. Thank you for considering our views on this matter.

Sincerely,

Richard W. Corner, CPA  
Executive Vice President & CFO

cc: Senator Scott Brown, Congressman John Tierney and Congressman Barney Frank  
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