macy's inc

February 22, 2011

SENT BY ELECTRONIC MAIL

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Subject: Docket No. R-1404 (Debit Card Interchange Fees and Routing); RIN 7100-AD63

Dear Ms. Johnson and Members of the Board:

I am writing on behalf of Macy's, Inc. with respect to the Federal Reserve Board's Proposed Rule on Debit Card Interchange Fees and Routing. Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act is an important step in providing Americans the protections that Congress intended, and we appreciate the opportunity to comment.

1. Debit Card Interchange Fees

The Board has proposed to allow the largest debit card issuers (those with $10 billion or more in assets) to calculate their "average variable cost" for authorizing, clearing and settling a debit transaction, with an interchange fee cap of 12 cents per transaction. Alternatively, these largest issuers could elect a "safe harbor" fee of 7 cents per debit card transaction. Many debit card issuers offer checking accounts in conjunction with their cards and clear checks at par; that is, they do not charge a fee to pay the check. Debit card transactions involve similar processing and there is little economic justification for subjecting them to a fee. Nonetheless, the Board has found that the actual cost of processing a debit card transaction is 7 cents, and we endorse limiting the interchange fee to 7 rather than 12 cents. In turn, any "safe harbor" claimed without the necessity of showing actual costs should be limited to 4 cents per debit card transaction.

Debit card interchange fees have risen dramatically. The costs that Macy's incurs to accept debit cards are fairly typical for similarly-situated retailers. In just the past five years, the debit card interchange fees that we pay have increased at a rate more than three times the growth rate of our debit card sales. As Senator Durbin has noted, 80% of debit card interchange fees are collected by just ten banks. This shift of resources to large banks hurts American retailers, who employ one in five U.S. workers. Every dollar that retailers pay in anti-competitive debit card interchange fees is not available to help create jobs and opportunity in this industry so crucial to the American economy.

2. Routing of Debit Card Transactions

We endorse the end of exclusive network arrangements because we believe that opening these arrangements to competition will benefit both merchants and consumers on all debit card transactions regardless of how they are initiated (*e.g.*, signature, PIN). We simply do not agree that the "preferred pricing for using affiliated networks" claimed by some banks is better for consumers than the pricing that would result from fair and open competition.

We prefer the second network routing option for debit card transactions. Under this option, a debit card would be required to have at least two unaffiliated payment card networks for processing an electronic debit transaction for each method of authorization available to the cardholder, *e.g.*, a debit card that can be used for both signature and PIN debit transactions would be required to offer at least two unaffiliated signature debit payment card networks and at least two unaffiliated PIN debit networks. This option provides maximum flexibility for merchants to seek the least expensive and most efficient means of routing these transactions.

3. Smaller Debit Card Issuers

It is not surprising that the financial industry opposes efforts to open the marketplace. They contend, among other arguments, that the exemption for smaller issuers (those with less than $10 billion in assets), which would allow them to impose higher debit card interchange fees than those that the Board has proposed, would create a cost disadvantage, thus forcing them to abandon debit card issuance. In fact, the marketplace already is adapting, and Visa has proposed a two-tier rate structure that would authorize higher debit card interchange fees for smaller issuers than those that the Board has proposed for the largest issuers.

In the same vein, the financial industry also argues that merchants will discriminate against higher fee debit cards in favor of lower fee debit cards. We do not agree because retailing is a highly competitive business, with market concentrations nowhere near those in banking. Given this keen competition, we are well aware that our customers expect quick and efficient experiences at the point of sale, and often will abandon a purchase if their initial method of tender is rejected. Retailers would risk alienating customers and losing business by refusing to accept or discouraging the use of some or all smaller issuers' debit cards. Accordingly, the largest debit card issuers' contention simply does not withstand scrutiny.

* * * * * * * * * *

We appreciate the opportunity to comment on the Board's Proposed Rule on Debit Card Interchange Fees and Routing. Thank you for your consideration.

Very truly yours,

/s/ Dennis J. Broderick

Dennis J. Broderick
Executive Vice President, General Counsel and Secretary