TARGET

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By Email

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

Re: Debit Card Interchange Fees and Routing (Docket No. R-1404)

Target Corporation welcomes the opportunity to respond to the Federal Reserve Board of Governors' proposed rule on debit card interchange fees and network routing. We appreciate the thoughtful consideration and thorough research the Fed has undertaken to issue the proposed rule and we encourage the Fed to finalize the rule and establish an effective date within the timeframe set forth in the Dodd-Frank Act.

Target is an upscale discounter that provides high-quality, on-trend merchandise at attractive prices in clean, spacious and guest-friendly stores. Today, Target operates nearly 1,750 stores in 49 states, in addition to an online business, Target.com. We are one of the few merchants who own our own banks; Target National Bank in Sioux Falls, South Dakota is a limited-purpose credit card bank, and Target Bank in Salt Lake City, Utah is an ILC that issues commercial credit cards and prepaid debit cards. Both banks are members of Visa. Target's mission is to make Target the preferred shopping destination for our guests by delivering outstanding value, continuous innovation and an exceptional guest experience by consistently fulfilling our "Expect More. Pay Less." brand promise.

Target pays hundreds of millions of dollars in interchange fees annually; it is one of our highest single expense categories. These disproportionately high expenses are a result of the broken interchange market. Target is in a unique position as a large retailer and credit card issuer, and we feel we have a deep and balanced understanding of the interchange issue. As a member of the Retail Industry Leaders Association (RILA), Target has provided expertise and input into the materials submitted by the Merchants Payments Coalition (MPC) and the comment letters of both RILA and the MPC, and we support the recommendations of those organizations. In addition, we offer the following comments on the Fed proposal:

Section 235.3 – Reasonable and Proportional Interchange Transaction Fees

Target strongly prefers Alternative 1, which establishes both a safe harbor and a cap, because the flexible structure is better designed to reflect the variability in individual issuers' costs. However, we feel the proposed safe harbor of 7 cents and cap of 12 cents are too high. They should be much closer to the 4 cent weighted average per-transaction cost of authorization, clearing and settlement that was revealed in response to the Fed's survey of issuers.

Section 235.4 – Fraud Prevention Adjustment

Target supports including a fraud prevention adjustment that motivates issuers to implement paradigm-shifting fraud-reducing technologies, provided the reimbursement is only assessed to merchants who choose to employ the technology. The issuer's initial capital investment should be considered when the Board determines a maximum per transaction reimbursement, and no subsequent fines, penalties or fraud costs should be passed along to the merchants who opt to implement the technology.

Sections 235.6 & 235.7 – Prohibition on Circumvention or Evasion & Limitations on Payment Card Restrictions

With regard to network exclusivity, Target believes that Alternative B, calling for two unaffiliated networks for each type of authorization method on the card – signature, PIN or other – is the more effective proposal, and it can and should be implemented by April 2012. In the interim, the limited relief provided by Alternative A should be adopted, to be effective within three months after the Board issues final rules.

The proposed regulations should also include a cap on network fees charged to merchants until Alternative B on network exclusivity is fully implemented. Debit fees have continued to increase since the passage of the Dodd-Frank fee reforms in July 2010, so we feel a cap is necessary to keep them from increasing further before the reforms are implemented. In addition, a general anti-circumvention provision should be included to prevent introduction of a substitute for the interchange fee which would have the effect of compensating an issuer for its involvement in an electronic debit transaction. The provision should also ensure monitoring and enforcement.

We also believe Alternative B will lead to greater competition in the market by opening the door to additional signature debit networks.

Based on our experience on both sides of the issue, we firmly believe the rules as proposed by the Federal Reserve will prove beneficial to the economy and to the consumer. Given the competitive nature of retail, whatever the benefits might turn out to be to us and to our principal competitors, those benefits are highly likely to accrue directly to the consumer. Any delay in the implementation of these rules is a delay in the relief to the economy and the consumer at a time when it is sorely needed.

Target would be happy to answer further questions and to provide additional information about our many years of experience in the payment card marketplace. Please feel free to contact me at Terry.Scully@Target.com. Thank you for your consideration.

Terry Scully

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