



May 23, 2011

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

Subject: Docket No. OP-1416: Notice of Intent to Apply Certain Supervisory
Guidance to Savings and Loan Holding Companies

Ladies and Gentlemen:

I am writing on behalf of Macy's, Inc. ("Macy's" or the "Company"), a grandfathered unitary savings and loan holding company ("SLHC") that will become subject to supervision by the Board of Governors of the Federal Reserve System ("Board") and the Federal Reserve Bank of Cleveland on July 21, 2011. Macy's is one of the nation's premier retailers, with fiscal 2010 sales of \$25 billion. From offices in Cincinnati and New York, the Company operates about 850 department stores in 45 states, the District of Columbia, Guam and Puerto Rico under the names Macy's and Bloomingdale's, the macys.com and bloomingdales.com websites and four Bloomingdale's Outlet stores. In addition, Macy's indirectly, through its ownership of FDS Thrift Holding Co., Inc. ("Thrift Holding"), also an SLHC, owns FDS Bank ("Bank"), a federally-chartered savings association with offices in Mason, Ohio.

The Bank is a valued element of the credit card operations that support our retail businesses. Together with Department Stores National Bank, a Citigroup subsidiary with which Macy's has a long term agreement, the Bank primarily services over 20 million active consumer credit card accounts during a typical year, while issuing a small volume of accounts to employees and corporate customers. The Bank predominantly is a service business, and does not hold risky assets. Its assets are mostly cash, federal funds and investment grade marketable securities.

The Bank is highly liquid and extremely well-capitalized with a Tier 1 leverage capital ratio of 24.80% and total risk-based capital of 73.20% at March 31, 2011. It has very limited funding needs, and is not dependent upon securitizations for funding. The Bank had only \$21.2 million of deposits at March 31, 2011.

1. Capital Adequacy

As a retailer, Macy's is engaged in a business that is fundamentally different in terms of the nature of its assets, liabilities and capital structure than a bank holding company ("BHC"). Macy's assets have significantly different risk characteristics than those of a company engaged primarily in banking operations. Our assets consist predominantly of (i) inventory of men's, women's and children's clothing, accessories, cosmetics and home furnishings, which regularly turns over within a few months (inventory turn was approximately 4.8 times in fiscal 2010), and (ii) commercial real estate represented by store locations, over half of which we own. These are commercial assets that are high quality and low risk in nature, and the risk-weighting of financial assets aspect of the Basel III capital rules is not useful in

evaluating the strength and stability of the Company's assets or the adequacy of our capital. As noted above, Macy's also does not rely to a significant extent on deposit funding. Additionally, virtually all of the Bank's deposit volume consists of affiliates' deposits.

Macy's capital consists of approximately \$5.5 billion of common equity (at January 29, 2011), \$7.1 billion of long term unsecured debt (with a weighted average maturity of 9.7 years) and approximately \$50 million of debt secured by certain of our real estate assets as of January 29, 2011. We hold no capital in the form of preferred equity, hybrid securities or other complex instruments.

The Board has requested comment regarding the potential application of Basel III capital standards to SLHCs. Basel III is intended to address complex internationally active banks and holding companies engaged primarily in banking or financial activities. See Basel Committee on Banking Supervision, Bank for International Settlement, Basel III: A global regulatory framework for more resilient banks and banking systems (Dec. 2010), at para. 47, <http://www.bis.org/publ/bcbs189.pdf> (cross-referencing the scope of Basel II); Basel Committee on Banking Supervision, Bank for International Settlement, Basel II: International Convergence of Capital Measurement and Capital Standards (June 2006), at paras. 21 and 22, <http://www.bis.org/publ/bcbs128.pdf> (scope of Basel II covers internationally active banks and holding companies of groups "predominantly engaged" in banking activities). Macy's does not have any significant international operations or exposures nor are we engaged primarily in banking activities. Our banking operations consist largely of support for the program for issuing credit cards to Macy's and Bloomingdale's shoppers and, as noted above, a modest level of card issuance; less than 1% of Macy's assets are held by FDS Bank.

In contrast, the relevant standards for evaluating the financial performance of a retailer are cash flow related, and consist of ratios of debt to EBITDA and EBITDA to interest rather than tangible capital to tangible assets or debt to tangible equity. Unlike banks and bank holding companies, we generate cash flow primarily from the sales of our inventory, not from the purchase, holding or sale of financial assets. We use this cash largely to purchase merchandise wholesale from vendors and pay for our stores' operations, including store and support staff.

Accordingly, although a ratio of tangible common equity to tangible assets may be an appropriate standard by which to evaluate traditional banking operations, it has less relevance to a retail operation that does not require the same kind of capital support. As Warren Buffett stated when he publicly voiced his doubts about the increased use of the tangible common equity ratio: "What I pay attention to is earning power. Coca-Cola has no tangible common equity. But they've got huge earning power.... And what you make money off of is customers.... You don't make money on tangible common equity." Like Coca-Cola, Macy's does not need tangible common equity to protect depositors, fund operations or generate income. Macy's does not rely on deposits to fund its operations and cannot have a "run on deposits" which would leave the company with inadequate funding. Unlike banks, Macy's, like the rest of the retail industry, focuses on operating earnings and cash flows, and not interest earned and paid on financial assets and liabilities, which are subject to market, interest rate and credit risk, because it is cash flows that allow Macy's to purchase merchandise, operate stores, meet its payroll and service its debt. Notwithstanding the recent economic turmoil, Macy's, as a mature retailer, was able to generate substantial cash flows to operate and meet its obligations throughout the worst of the crisis.

Finally, Thrift Holding and the Bank have consolidated assets well under \$500 million, and we believe that these are the appropriate entities to consider for purposes of applying the appropriate capital standards. These entities are not engaged in any non-bank or off-balance-sheet activity, and have no SEC-registered securities. Appendix A to the Board's Regulation Y generally does not apply on a consolidated basis to BHCs with consolidated assets of less than \$500 million. Therefore, it would be most appropriate, for capital purposes, for the Board to treat Thrift Holding and the Banks as "small entities" under its existing BHC capital guidelines.

For all of these reasons, as long recognized by the Office of Thrift Supervision, we believe that it is inappropriate to apply the Basel III capital standards to Macy's or other similarly situated grandfathered unitary SLHCs primarily engaged in retailing.

Should the Board nonetheless decide to apply the Basel III capital standards to Macy's as an SLHC, these standards should be applied only on the basis of an SLHC's financial assets rather than its commercial, non-banking assets. Moreover, although Section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires the Board to extend to SLHCs risk-based capital and leverage standards that are not quantitatively lower than those applicable to insured depository institutions on the date of enactment of the Act, the capital regulations applicable to insured depository institutions do not take into account commercial assets of the type that insured depositories simply cannot hold. Accordingly, Section 171 would not compel the Board to apply bank capital standards on the basis of non-banking assets. Rather, the Board can and should apply bank capital standards on the basis of only the banking assets of a diversified holding company. Moreover, if Basel III capital standards were to apply, we believe that the Board should institute a transition period at least as long as the up to five year periods provided under Basel III to reflect our situation and the nature of current Company debt. Any change in our long-term debt structure will be extraordinarily burdensome, since Macy's debt has none of the terms needed to qualify as capital under existing Federal Reserve requirements.

2. Consolidated Supervision

If, pursuant to Section 626 of the Dodd-Frank Act, the Board were to determine that Macy's is required to operate Thrift Holding as, or otherwise operate through, an intermediate holding company ("IHC") to hold the Company's "financial activities" (which we believe should comprise only the Bank's credit card operations), the IHC would consist of a simple, straightforward enterprise that we expect would be designated as a small, noncomplex shell SLHC. This designation for the IHC would be appropriate because (i) the Bank comprises Macy's sole external financial activity, (ii) the Bank engages primarily in credit card servicing (along with relatively small amount of credit card origination and issuance) activities and the Bank's credit card receivables, and total consolidated assets, were only \$132.0 million at March 31, 2011 and (iii) the Bank sells its receivables promptly upon origination. The Bank has a very modest deposit base and does not engage in exotic structured transactions, securitizations, commercial lending, derivatives or trading activities. In short, there is nothing complex about the Bank's operations. In such circumstances, the affiliation of a parent IHC with a large retailer should not preclude the IHC from being designated noncomplex. Those affiliate interactions also are very straightforward (the Bank services (and to a small extent originates) credit card accounts that are issued to customers of the affiliated retail divisions, and the parent company provides various support services to the Bank). While such an affiliation may not be common in the banking industry, a non-standard relationship is not necessarily a complex one.

Moreover, we believe that the Board should not apply the new financial reporting structure and schedule at the ultimate parent or IHC level until the first quarter ending at least two years after it has issued a determination as to whether a grandfathered unitary SLHC must operate an IHC. The designated SLHC should be afforded a reasonable period of time after the Board's determination to begin functioning under this new reporting structure and schedule. Assuming that the new reporting structure and schedule would apply only at the IHC level (as the IHC would be the sole SLHC within the Macy's corporate structure), we believe that as a publicly traded company, Macy's could satisfy the Board's need for information regarding Macy's financial strength and stability by providing to the Board the financial reports that we file with the SEC. No additional reporting should be required of Macy's as the IHC's parent. The IHC would report in the same manner as a small, non-SEC registered bank holding company, and Macy's would supply SEC reports separately in Forms 10-K and 10-Q to the Board as they are filed with the SEC.

Should Macy's continue to be regulated as an SLHC, we file financial reports with the SEC on a fiscal

quarterly basis. As is customary in our industry, the Company's fiscal quarters commence approximately at the beginning of February, May, August and November. (Our fiscal months are not calendar months; rather, they are based on 4 or 5 Sunday-Saturday weeks.) Retailers' fiscal years close at the end of January because a disproportionate percentage of annual sales occur during the months of November, December and January. It would be extremely burdensome for Macy's to have to file the financial reports under the new structure with the Board on a calendar quarterly basis. In essence, we would be reporting two-thirds (2/3) of a quarter's financial results one month in advance, not only to the Board but also to competitors, analysts and shareholders, while nearly all of the Company's major competitors would not face such advance reporting obligations. We also could not provide our audited results on a calendar year basis without a very costly separate audit. (Among major retailers, we believe that only Nordstrom Inc. would face the same "advance" reporting obligation.)

Finally, if Macy's continues to be regulated as an SLHC, the Board should review the holding company in terms of its interactions with FDS Bank, and should not separately attempt to regulate Macy's retail operations. Those non-financial businesses simply are not comparable to the types of financial operations the Board oversees in bank holding company structures and cannot be evaluated or operated as banking businesses. Instead, consistent with Macy's historical experience, the Board can perform its oversight function by ensuring that the Bank's relationships with its affiliates, including Macy's, continue to comply with the affiliate transaction firewalls enacted by Congress to protect insured depository institutions, without involving itself in the exercise of business judgment in Macy's retail businesses. Because the Board historically has not had oversight authority of diversified, non-financial operations, the Board should make a clear statement in this regard in order to set appropriate expectations for future examinations.

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Macy's appreciates the opportunity to offer our views on these matters.

Very truly yours,

/s/ Dennis J. Broderick

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