BEST BUY

September 30, 2011

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

RE: Docket No. R-1404 and RIN No. 7100 AD 63

Submitted via e-mail to regs.comments@federalreserve.gov

Dear Madame Secretary:

On behalf of Best Buy Co., Inc. (NYSE: BBY) we appreciate the opportunity to submit our comments on the proposed interim final rule on provisions of Regulation II (Debit Card Interchange Fees and Routing) adopted in accordance with Section 920(a)(5) of the Electronic Fund Transfer Act (EFTA). We provided our thoughts in February on the proposed rule implementing the statute. In our opinion, the final rule issued in June with this proposed interim final rule deviated significantly from the statute and weakened the positive impact of these reforms.

Best Buy Co., Inc. is a leading multi-channel global retailer and developer of technology products and services. Every day our employees - 180,000 strong - are committed to help deliver the technology solutions which enable people to access knowledge, ideas and information which are required as part of their digital lives.

A Key Role and Player

We believe our role and experiences in the US payment system are significant to consumer spending, businesses and economic activity. Our customers use debit and credit cards millions of times each month and in the last two years we have experienced over 20 debit card rate increases in the U.S.

Our Position:

In response to the proposed interim final rule we would like to share the following:

- **Statutory authority**

  We strongly support enactment of the bipartisan legislation creating the new Section 1075 of Dodd-Frank (Public Law 111-203, 124 Statute 1376) in 2010. Unfortunately, we believe the final regulations promulgated by the Federal Reserve veer significantly from the statute. Especially where the law says:

  "(5) ADJUSTMENTS TO INTERCHANGE TRANSACTION FEES FOR FRAUD PREVENTION COSTS.—

  "(A) ADJUSTMENTS.—The Board may allow for an adjustment to the fee amount received or charged by an issuer under paragraph 25 (2), if—

  "(i) such adjustment is reasonably necessary to make allowance for costs incurred by the issuer in preventing fraud in relation to electronic debit transactions involving that issuer; and

  "(ii) the issuer complies with the fraud-related standards established by the Board under subparagraph (B), which standards shall-

  "(I) be designed to ensure that any fraud-related adjustment of the issuer is limited to the amount described in clause (i) and takes into account any fraud-related reimbursements (Including amounts from charge-backs) received from consumers, merchants, or payment card networks in relation to electronic debit transactions involving the issuer; and

  "(II) require issuers to take effective steps to reduce the occurrence of, and costs from, fraud in relation to electronic debit transactions, including through the development and implementation of cost-effective fraud prevention technology.

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- **Two Key Components**
  We understand and support the statute which mandates that an adjustment be allowed for an issuer upon the fulfillment of two requirements: 1) The adjustment is reasonably necessary to make allowance for costs incurred by the issuer in preventing fraud in relation to electronic debit transactions involving that issuer; and 2) The issuer complies with the fraud-related standards established by the Board.

- **Ruling Non-Compliant with the letter, if not the spirit, of the law**
  We believe that the Board has not complied with the two key requirements above having adjusted the interchange fee prior to an issuer complying with the Board's published standards and process.

- **No Business Case for Increase**
  We do not believe an increase in the debit interchange fee at this time is justified. We believe that financial institutions are more than sufficiently compensated by the Board's final rule capping the interchange fee at $0.21 per transaction plus the 5 basis points multiplied by the value of the transaction.

- **Rule making which Incents Payment Security and Fraud Reduction**
  As you are aware, total industry-wide fraud losses are estimated at $1.34 billion; $1.11 billion of which are signature debit card transactions and $181 million are PIN debit card transactions. We believe the Federal Reserve's regulations should be promoting more secure payment methods, types and channels and not continue to ncentivize banks to profit from a less secure payment system. As it stands currently the issuer has very little incentive to invest in new fraud prevention tools since they are being more than compensated by the ad valorem component of the final rule for the interchange fee let alone the additional $0.01 per debit transaction by the interim final rule.

- **Recommendations:**

  We would like to recommend the following which we believe to be a more equitable approach which will help make the U.S. payment systems for debit card transactions more secure and help consumers.

  - **We believe the Federal Reserve should issue guidance which details the steps issuers need to take to further reduce fraud** by encouraging wider issuance and acceptance of debit transactions that are more secure than the current Mag-stripe based technologies.

  - **The Federal Reserve should be the institution that establishes the guidelines under the statute**. Per the statute and in the public interest, the Federal Reserve should not allow or delegate the responsibility of establishing the fraud prevention guidelines to the payment brands as there is a readily apparent conflict of interest. Certainly, the payment brands should have a role in managing compliance to the guidelines but not establishing them. Our concern is the proposed interim final rule would allow the payment brands to establish the rules and manage compliance.

  - **We ask the Board to reconsider the $0.01 increase at this time**. For the reasons we have detailed above we believe that it is premature to allow for an adjustment to the debit interchange fee and conveys an inappropriate message at the onset of these reforms. At a minimum if you are to allow the additional $0.01 to card issuers for fraud prevention, we believe it should only apply to PIN-based covered debit transactions.

Thank you for considering our views and we would be happy to discuss these important payment systems issues and how they impact our customers and company at any time. We appreciate your public service.

Sincerely
Dee O'Malley
Director, Financial Services