

August 4, 2021

PFMA comment on **Proposed Rulemaking, Docket No. R-1748, RIN 7100-AG15**

The Pennsylvania Food Merchants Association appreciates the opportunity to comment on Debit Card Interchange Fees and Routing. The cost of accepting debit cards and the growing obstacles to accessing competitive networks are impacting our retail members and their customers every day. We urge immediate enforcement action of routing competition provisions and a reduction in the regulated rate as required by law.

PFMA's members - convenience stores, supermarkets, independent grocers, wholesalers, consumer product vendors, national and regional chain stores and locally owned independent retailers of all sizes operating in Pennsylvania - rely on debit network routing options to help contain network costs. Competition among networks for their business benefits all stakeholders, including consumers.

The events of the past 18 months have changed the nature of the retail grocery industry, likely forever. Virtually overnight the shopping habits of customers fundamentally shifted, including the way they pay for groceries. Historically high online grocery sales appear to be here to stay, with debit and credit card transactions along with them. A recent consumer survey found two-thirds of American consumers buy their groceries online, and the average consumer is allocating over 20% of their grocery spend online.¹

While our members continue to adapt to this change in consumer preferences, being laid bare are the problems surrounding interchange fees and routing.

In the request for comment, the Board of Governors notes that Regulation II specifically "...prohibits an issuer or payment card network from directly or indirectly restricting the number of payment card networks on which an electronic debit transaction may be processed to fewer than two unaffiliated networks."² Unfortunately, as the Board notes, currently only 6% of online debit transactions are being processed by single-message networks - Visa's and Mastercard's competitors. This is a clear indicator that merchants are routinely not able to access a second debit network when the purchase occurs online, and it is necessary and appropriate for the Federal Reserve to take immediate action to enforce the law.

¹ U.S. Grocery Shopper Trends 2021, FMI - The Food Industry Association

² "Debit Card Interchange Fees and Routing." Federal Register 86:91 (May 13, 2021) p. 26189.



The proposed clarification recognizes the innovation in the debit space since the initial rule was finalized almost a decade ago. Specifically, the growth in online sales and the investment by the debit networks to enable PINless transactions are two examples.

PFMA strongly supports the Board moving forward with enforcing the debit routing provisions to ensure that retailers can have access to at least two unaffiliated debit networks regardless of how or where the transaction occurs and is authenticated. Furthermore, we strongly encourage the Board to act quickly to finalize the clarification, so it is in full effect before the 2021 holiday shopping season. Not only is the clarification necessary to enforce federal law, but it will also bring immediate relief to our member businesses and help them continue to provide the low prices and enhanced service customers expect and deserve.

Finally, as the Board noted, U.S. merchants, including PFMA retail members, paid \$24.38 billion in debit interchange fees in 2019.³ The current regulated rate for covered issuers is 21 cents plus five basis points with an additional penny for fraud adjustment. The rate has not been adjusted since it went into effect, even though issuer costs have reduced by half, and merchants are shouldering more of the fraud burden. These facts are obvious indicators that the regulated rate should be reduced and done so immediately. The Federal Reserve Board of Governors should act immediately to reduce the regulated rate to bring it into alignment with the statutory requirement that it is both reasonable and proportional to the issuer costs. Doing so will deliver direct relief to our members and further encourage competition in the debit market.

Thank you again for the opportunity to provide comments on the proposed clarifications. We strongly encourage the Board to act quickly on both enforcing the routing law and reducing the regulated debit rate.

³ 2019 Interchange Fee Revenue Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions, May 2021.

