Joseph M. Sheridan
President and
Chief Operating Officer

June 19, 2021

Dear Board of Governors of the Federal Reserve,

Thank you for the opportunity to comment on Debit Card Interchange Fees and Routing. At Wakefern Food Corp., we are a retail cooperative representing independent grocers in the northeast. As a group of family run businesses, the cost of accepting debit cards and the growing obstacles to accessing competitive networks is impacting their business and the customers they serve every day. With this in mind, I urge the Federal Reserve Board of Governors to take immediate action to enforce the routing competition provisions and reduce the regulated rate as required by law.

Supermarkets provide a vital community service, but operate on very small profit margin of 1% to 2% a year. Wakefern relies on debit network routing options in store to help contain network costs. Networks competing for both issuing banks and my business benefit all stakeholders in the chain, most importantly consumers. In such a highly competitive industry, we leverage all savings into keeping food prices low for our customers.

The strains on our industry since early 2020 have been unprecedented and previously unimaginable. Almost overnight, we saw a seismic shift in our customers' shopping habits and the way they pay for their groceries. Customers who traditionally shopped in-store and paid for groceries using a variety of tenders suddenly moved to shopping online exclusively with debit and credit cards. Even as state and local economies reopen across the country, online grocery sales continue to remain historically high as consumers have permanently adopted this form of shopping. A recent consumer survey found that two-thirds of U.S. consumers now buy groceries online, and the average consumer is allocating over 20% of their grocery spend online.[1]

This shift in shopping habits, along with the significant investment Wakefern's Cooperative members have made to help keep our associates and customers safe, have greatly increased the cost of doing business, placing further strain on our ability to keep food prices low.

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

[1] U.S. Grocery Shopper Trends 20201, FMI - The Food Industry Association
[2] Cite fed register notice

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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.

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. I strongly support the Board moving forward with enforcing the debit routing provisions to ensure that our Cooperative retailers can have access to at least two unaffiliated debit networks regardless of how or where the transaction occurs and is authenticated. Furthermore, I 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 independent grocers and allow them to continue to provide the low prices and enhanced service their customers expect and deserve.

Finally, as the Board noted, U.S. merchants, such as Wakefern, 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 is both reasonable and proportional to the issuer costs. Doing so will deliver direct relief to Wakefern's Cooperative members and further encourage competition in the debit market.

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

Sincerely,

Joseph M. Sheridan

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

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