Meeting Between Federal Reserve Board Staff and Representatives of the Merchant Advisory Group (MAG)

July 7, 2015

Participants: Louise Roseman, Jeffrey Marquardt, Susan Foley, David Mills, Samantha Pelosi, Mark Manuszak, Krzysztof Wozniak, Jessica Stahl, Aaron Rosenbaum, Stephanie Martin, and Clinton Chen (Federal Reserve Board)

Elizabeth Garner, Mark Horwedel (MAG); Gavin Waugh (The Wendy’s Company); Maria Driscoll, Jared Culotta (Wawa, Inc.); Gina Powers (Dunkin’ Brands); John Gilmore, Connie Hayes, Matt Lathrop (Yum Brands); Maureen Elworthy, Elizabeth Chace-Marino (Ahold); Sonia Jain (Redbox Automated Retail)

Summary: Representatives of the MAG met with Federal Reserve Board staff to discuss their concerns regarding the increase in interchange fees for low-value debit card transactions since Regulation II took effect. Representatives of the MAG also discussed the Regulation II network exclusivity/routing provisions.
Facts At A Glance:

- ~$702B sales and 1MM locations
- 4% of the GDP
- 14MM employees
- 1.7MM new jobs by 2025
- 10% of the workforce
- 90% of owners have < 50 employees
  - 70% are single unit operators

QSR: A Small Ticket Segment of Food Service

We estimate that ~70% of QSR brands are “Small Ticket” merchants with an average transaction size of < $12.

Source: www.technomic.net and www.npd.com
Other Small Ticket Industries

Convenience Stores
$35B Sales*
152K Employees
41K Businesses

Parking & Garages
$11B Sales
150K Employees
9K Businesses

Vending/DVD/Game
$11B Sales
113K Employees
29K Businesses

$57B in Sales, 415K Employees, and 79K Businesses

*In-store only sales. Excludes gas.

Source: http://www.ibisworld.com/industry/
Franchisees: A Common Attribute of Small Ticket

45 – 54
Median Age of FZ Owners
- < 12% are Under 34
- 28% are +55

FZs are:
- 28% Female
- 72% Male

84% of female franchisees are single unit operators.
80% of male franchisees are single unit operators.

 Median Age of FZ Owners
- 28% are +55

Medians - $50K - $75K
- $54,408 avg for Women
- $73,261 avg for Men

89% of franchisees earn < $150K

Average Weekly Hrs. Worked


The franchise model promotes small business, entrepreneurship and chasing the American Dream…
Regulated Debit and Small Ticket
Debit Transactions in the United States

Debit has experienced explosive growth in the 21st Century...

And issuer profit margins remain exceptionally strong even after the Reg. Rate was implemented…

Card Costs At Various Small Ticket Transaction Amounts

Key Takeaways:
• Heavy shifts in fixed costs from $.04 to $.22 created a material increase in overall debit costs for Small Ticket.
• Small Ticket debit costs for both debit and credit were significantly lower before Reg. II.

Source: www.burlingtonbankcard.com/interchange-plus-pricing/
# U.S. Regulated Debit vs Other Developed Markets

<table>
<thead>
<tr>
<th>Market</th>
<th>Debit Rates</th>
<th>Cost / Trans&lt;sup&gt;3&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>🇺🇸 U.S.</td>
<td>Before: $.04 + 155 bps&lt;sup&gt;1&lt;/sup&gt;</td>
<td>$.1697</td>
</tr>
<tr>
<td></td>
<td>After: $.22 + 5 bps&lt;sup&gt;1&lt;/sup&gt;</td>
<td>$.2242</td>
</tr>
<tr>
<td>🇪🇺 EU</td>
<td>$.07 or 20 bps&lt;sup&gt;2&lt;/sup&gt;</td>
<td>$.0167</td>
</tr>
<tr>
<td>🇨🇦 Canada</td>
<td>&lt; $.01</td>
<td>&lt; $.0100</td>
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</tbody>
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1 Debit rate before Reg II was $.04 + 155 bps vs. debit rate after Reg II was $.22 + 5 bps.
2 The EU regulated rate is based on a current proposal and is the lesser of $.07 or 20 bps.
3 Assumes a Small Ticket average of $8.37 per transaction.

Other markets are more competitive for Small Ticket merchants to conduct business...
All merchant categories continue to invest in new security… Will lower fraud costs be passed on through lower rates?