



THE KROGER CO.

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December 12, 2013

To: Federal Reserve Financial Services

The Kroger Co. (Kroger) appreciates the opportunity to respond to the request by the Federal Reserve Banks (Bank) to comment on the "Payment System Improvement-Public Consultation Paper," published September 10, 2013. Kroger is one of the world's largest retailers, with annual sales approaching \$100 billion. Kroger operates more than 4,700 locations, under more than two dozen banner names and multiple formats of grocery, multi-department stores, supermarket fuel, pharmacy, convenience stores and jewelry stores.

The "Payment System Improvement-Public Consultation Paper" identified gaps and opportunities within the U.S. payment system in the light of technology changes for consumer payments in the U.S. and other countries. It also identified five desired outcomes, a timeline in which to achieve those outcomes and a series of questions related to the desired outcomes. As we provide comments here, we are open to additional dialogue and offer our support for the work to be done by the Bank that will bring the U.S. payment system in alignment with those of other countries.

In general, we agree with the gaps/opportunities and desired outcomes identified, with one exception. We believe that the Bank should shorten the time line to achieve the desired outcomes to 3-5 years, rather than the proposed ten years. The growing mobile and internet commerce ecosystem is so dynamic, and is becoming so much a part of everyday commerce that taking ten years to achieve the desired outcomes you have outlined could make them outdated, or certainly far less effective, by the time they are in effect.

The initial work done by the Federal Reserve Bank preparing this paper and requesting feedback from all stakeholders is a significant step to creating a more secure and equitable payment system for all stakeholders. We believe the Bank is the right organization to lead this discussion and effort for change. Because the Bank is not a merchant or consumer, we recommend the Bank's approach be to seek feedback from all stakeholders as part of this effort, with the view of incorporating this feedback into an updated payment system. From a merchant's perspective, there are several issues we believe the Bank should understand fully as it evaluates payment system improvements. These include certain rules promulgated by each of the card brands, the privacy of consumer data and the cost associated with maintaining that privacy, and the many, complex cost structures employed by card brand networks and card issuing financial institutions. We strongly encourage the Bank to create an advisory board made up of all stakeholders - consumers, merchants, issuing banks and card companies to assess each of these issues and others.



Kroger believes that the Bank can and should play a leading role in building a more reliable and secure payment system, the responsibility for which is balanced among all stakeholders. The security parameters of today's electronic payments are determined by the major card brand networks, Visa, MasterCard, American Express and Discover through the Payment Card Industry Data Security Standards, and as such, the responsibility for executing and maintaining these parameters is not apportioned equitably among all of the stakeholders. This creates unnecessarily higher cost and prevents the innovation that would create a more secure, lower cost payments system that benefits consumers, merchants and financial institutions alike and creates more confidence in the payments system. In addition, reliable backup systems are a must in the future state of real time electronic payments. There are numerous examples today of network outages affecting debit cards, credit cards and most recently government benefit cards. These outages affect consumer shopping and confidence in the payment system.

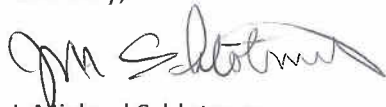
The current electronic payments system, while operable, is flawed with delays of card and card holder authorization and settlement, high transaction costs and large amounts of fraudulent activity, all of which contribute to more expensive transaction costs. The creation of a ubiquitous near-real-time electronic solution that has the security of the parties' bank accounts, a real time authorization of good funds and settlement of those funds, and a validation of the parties' identities in a cost effective manner is a benefit for all stakeholders.

Also, although not a specific gap, opportunity, or desired outcome outlined in the Bank's paper, we believe that extending the Bank's hours of operation to include Saturdays and Sundays would support and enhance the goal of achieving a near-real-time payment system. Consumers have shifted their shopping behaviors to end of week and weekend days, and more and more businesses operate 24 hours a day, 7 days a week. However, the overall banking system, originally built when many businesses were closed one or both weekend days, still does not reflect the flow of current day business, and is not operable for posting and settlement on the weekend. This forces large amounts money to be available on Monday, Tuesday or Wednesday of the following week. By opening the banking system at all levels, on all days, the increased flow of funds would have a positive societal impact to spur economic growth and more global competitiveness.

For example, many retailers maintain revolving credit facilities to help supplement their working capital needs during periods of funds flow volatility and over weekends. Because retailers do not have access to funds from their sales on Friday, Saturday or Sunday until the following Monday, Tuesday or Wednesday, the capacity under their credit facilities is higher than it would need to be if they had access to all of these funds the same day or the following day. Retailers' ability to potentially lower the capacity of their revolving credit facilities because of near-real-time access to sales dollars could create opportunities for financial institutions to make that capacity available to other businesses that currently do not have access to that source of liquidity.

In summary, a secure, reliable, cost driven near-real-time electronic payments system with immediate settlement seven days a week enables the U.S. consumers, merchants and financial institutions to be strong participants in the global economy. We encourage the Bank to continue to push these issues forward. Whether through oversight to ensure competitive balance, compliance with new guidelines, or as a catalyst to spur more timely innovation, we believe the Bank, because of its unique, objective position, can be the most effective facilitator to ensuring a timely, balanced, innovative and ubiquitous electronic payments solution is developed in the U.S. Kroger will avail ourselves to assist the Bank in this opportunity.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Michael Schlotman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

J. Michael Schlotman

Senior Vice President and Chief Financial Officer