VISA DEBIT BENCHMARK CALCULATION

The Standard *The Setting of Interchange Fees in the Visa Debit Payment System* sets out the process for calculating the benchmark for interchange fees in the Visa Debit system.

The Visa Debit benchmark was calculated as follows:

1. Visa and MasterCard provided the Reserve Bank with data on the number and value of debit transactions for each scheme in the 2005/06 financial year, and the Bank computed the average value of scheme debit transactions (both MasterCard and Visa). For 2005/06 the average value of a scheme debit transaction was $80.

2. Using data supplied under the credit card interchange Standard *The Setting of Wholesale (‘Interchange’) Fees in the Designated Credit Card Schemes*, the Reserve Bank calculated a cost base for each scheme by dividing the scheme’s nominated scheme participants’ (NSPs) eligible costs of processing and authorising credit card transactions by the total value of those NSPs’ credit card transactions. The Bank then calculated the weighted average of those cost bases. The weights were the shares of each scheme in the total value of credit card transactions for the 2005/06 financial year. For 2005/06 the weighted-average cost base was 0.15 per cent of the value of transactions.

3. Finally, the Reserve Bank calculated the benchmark by multiplying the weighted-average cost base for 2005/06 by the average value of scheme debit transactions (both MasterCard and Visa) in 2005/06. The result was 12 cents per transaction.

Accordingly, a benchmark of 12 cents per transaction will apply for the three years from 1 November 2006.

The weighted average of Visa Debit interchange fees must not exceed the benchmark on 1 November 2006 or on any date in the subsequent three years on which a Visa Debit interchange fee is introduced, varied or removed.

MasterCard has provided an undertaking to the Reserve Bank with the effect that the weighted average of MasterCard Debit interchange fees will not exceed the same benchmark on 1 November 2006 or on any date in the subsequent three years on which a MasterCard Debit interchange fee is introduced, varied or removed.