

Standard

The Setting of Interchange Fees in the EFTPOS System

Objective

The objective of this Standard is to ensure that the setting of interchange fees in the designated EFTPOS payment system promotes:

(i) efficiency; and

(ii) competition

in the Australian payments system.

Amended and restated standard

1. This Standard is an amended and restated Standard of that gazetted on 27 April 2006 and amended on 8 December 2008.

Application

2. This Standard is determined under Section 18 of the *Payment Systems (Regulation) Act 1998*.
3. This Standard applies to the payment system operated within Australia known as the EFTPOS system, which was designated as a payment system on 9 September 2004 and referred to below as the EFTPOS system.

4. In this Standard:

an ‘acquirer’ is a participant in the EFTPOS system that provides services to a merchant to allow that merchant to accept a debit card;

a ‘bilateral interchange fee’ is an interchange fee that is agreed between two participants in the EFTPOS system for payment solely between those participants in relation to EFTPOS transactions;

‘cash out’ means the provision of cash to a cardholder by a merchant, as a result of a debit card transaction at the merchant;

‘debit card’ means a card issued by a participant in the EFTPOS system that allows the cardholder to make payments to merchants for goods or services and/or obtain cash out using the EFTPOS system by accessing a deposit account held at an authorised deposit-taking institution;

‘debit card transaction’ or ‘transaction’ means a transaction in Australia using the EFTPOS system;

‘financial year’ is the 12-month period ending 30 June;

an ‘interchange fee’ is a wholesale fee payable between an issuer and an acquirer or self-acquirer, directly or indirectly, in relation to a debit card transaction in the EFTPOS system;

an ‘issuer’ is a participant in the EFTPOS system that issues debit cards to its customers;

‘merchant’ means a merchant in Australia that accepts a debit card for payment for goods or services and/or that provides cash out;

a ‘multilateral interchange fee’ is an interchange fee that is determined by EFTPOS Payments Australia Limited to apply to transactions in the EFTPOS system between members of that system in the absence of a bilateral interchange fee agreement;

‘nominated EFTPOS acquirers’ are those acquirers and self-acquirers determined by the Reserve Bank of Australia, selected in order of their share of the number of transactions, who comprise the minimum number of such acquirers or self-acquirers required to account for at least 90 per cent of the number of transactions acquired in the EFTPOS system in the ‘reference year’;

‘reference year’ is the financial year prior to the relevant year;

‘relevant year’ is the financial year in which the bilateral interchange fee benchmark is calculated;

a ‘self-acquirer’ is a participant in the EFTPOS system that is a merchant that sends transactions directly to issuers rather than through an acquirer and takes on the responsibilities usually undertaken by an acquirer;

terms defined in the *Payment Systems (Regulation) Act 1998* have the same meaning in this Standard.

5. Each participant in the EFTPOS system must do all things necessary on its part to ensure compliance with this Standard.
6. If any part of this Standard is invalid, the Standard is ineffective only to the extent of such part without invalidating the remaining parts of this Standard.
7. This Standard is to be interpreted:
 - in accordance with its objective; and
 - by looking beyond form to substance.
8. This amended and restated Standard comes into force on 1 January 2010.

Bilateral interchange fees

9. A bilateral interchange fee paid on any transaction, other than a transaction which includes a cash out component, must be paid to the acquirer and be no more than the bilateral interchange fee benchmark applying in accordance with paragraph 15 and no less than the minimum fee specified in paragraph 16.

Bilateral interchange fee benchmark

10. The interchange fee benchmark for bilateral interchange fees in the EFTPOS system is to be calculated by the Reserve Bank of Australia as follows:
 - (i) for each of the nominated EFTPOS acquirers, the aggregate value of its eligible costs in the reference year is to be divided by the number of its debit card transactions in the reference year. The outcome is to be expressed as a number of cents per transaction;
 - (ii) the interchange fee benchmark is to be calculated by the Reserve Bank of Australia as the aggregate value of eligible costs in the reference year of the three nominated EFTPOS acquirers with the lowest outcome as calculated in paragraph 10(i), divided by the aggregate number of transactions undertaken by the same three nominated EFTPOS acquirers in the reference year. The result is to be expressed as a number of cents per transaction, rounded to the nearest cent.
11. Eligible costs are those directly related to processing and switching EFTPOS transactions incurred by an acquirer or self-acquirer when performing the business responsibilities usually undertaken by an acquirer.
12. Data on eligible costs must be drawn from accounting records of the nominated EFTPOS acquirers, prepared in accordance with generally accepted accounting principles and Australian equivalents to International Financial Reporting Standards.
13. The data required to conduct the calculation in paragraph 10 must be provided by each nominated EFTPOS acquirer to the Reserve Bank of Australia, or its agent, by 15 August in the relevant year.
14. The Reserve Bank of Australia, or its agent, will review the data to determine if the costs included are eligible costs and the Reserve Bank of Australia will use the eligible costs to calculate the bilateral interchange fee benchmark in accordance with paragraph 10.
15. The Reserve Bank of Australia will publish the bilateral interchange fee benchmark for the EFTPOS system by 15 September in the relevant year, and, subject to paragraph 19, this benchmark will apply for three years from 1 November in the relevant year.
16. The minimum fee determined for the purposes of paragraph 9 is 80 per cent of the applicable bilateral interchange fee benchmark.

Initial and subsequent bilateral interchange fee benchmarks

17. For the initial bilateral interchange fee benchmark for the EFTPOS system the relevant year is the financial year 2006/07.
18. The bilateral interchange fee benchmark for the EFTPOS system is next to be re-calculated in the financial year 2012/13 and every three years thereafter. The requirement to re-calculate the bilateral interchange fee benchmark in 2009/10 was waived by the Reserve Bank in December 2008.
19. The Reserve Bank of Australia may at any time, by notification on its website, waive or suspend the requirement to re-calculate the bilateral interchange fee benchmark, in which case the benchmark in force at that time will continue to apply.

Multilateral interchange fees

20. On each of the dates specified in paragraph 21, the weighted average of multilateral interchange fees implemented in the EFTPOS system in Australia (excluding GST) must not exceed the multilateral interchange fee benchmark set out in paragraph 24 below.
21. For the purposes of paragraph 20, the dates are:
 - (i) 1 November of every third year after 2009; and
 - (ii) the date any multilateral interchange fee is introduced, varied or removed in the EFTPOS system.
22. For the purposes of paragraph 20, the weighted average of multilateral interchange fees is to be expressed as a number of cents per transaction. It is to be calculated by dividing the total interchange revenue that would have been payable had the interchange fees implemented on the dates specified in paragraph 21 been applicable in the previous financial year, by the number of transactions in that year.
23. For the purposes of this standard, multilateral interchange fees paid from acquirers to issuers are to be expressed as positive numbers and multilateral interchange fees paid from issuers to acquirers are to be expressed as negative numbers.

Multilateral interchange fee benchmark

24. The multilateral interchange fee benchmark for the EFTPOS system will be the same as the benchmark applying to the Visa Debit system, as varied from time to time, and which is published on the Reserve Bank's website.
25. The Reserve Bank of Australia may at any time, by notification on its website, waive or suspend the requirement to re-calculate the multilateral interchange fee benchmark, in which case the multilateral interchange fee benchmark in force at that time will continue to apply.

Transparency

26. EFTPOS Payments Australia Limited must publish any multilateral interchange fees applying to EFTPOS transactions on its website or otherwise make these fees publicly available.
27. Each acquirer and self-acquirer with a bilateral interchange agreement in the EFTPOS system must report to the Reserve Bank of Australia by 1 November each year the range of bilateral interchange fees it received in the previous financial year. The Reserve Bank of Australia will publish the industry range of bilateral interchange fees on its website.