CREDIT CARD BENCHMARK CALCULATION

The Standard *The Setting of Wholesale (‘Interchange’) Fees in the Designated Credit Card Schemes* sets out the process for determining a common benchmark for interchange fees in the MasterCard and Visa credit card schemes.

The common benchmark was calculated as follows:

1. Each of the two schemes identified the credit card issuers that were to provide the cost data needed to calculate the benchmark (‘nominated scheme participants’ or ‘NSPs’). Both MasterCard and Visa nominated seven issuers, accounting for around 95 per cent of the value of transactions in each case in the 2005/06 financial year — in excess of the 90 per cent minimum required by the Standard. Each NSP provided data on eligible costs incurred in 2005/06, as well as the value of transactions over the same period.

2. For each scheme, an independent expert reviewed the scheme’s NSPs’ data and calculated a ‘cost-based measure’ by dividing the NSPs’ eligible costs by the total value of the NSPs’ transactions.

3. The Reserve Bank then calculated the common benchmark as a weighted average of the two schemes’ cost-based measures. The weights were the shares of each scheme in the total value of credit card transactions in the 2005/06 financial year (i.e. including all issuers regardless of whether or not they were an NSP for either scheme). The result of this calculation is a weighted average of 0.50 per cent.

Accordingly, the common benchmark to apply for the three years from 1 November 2006 is 0.50 per cent.

The weighted average of a scheme’s credit card interchange fees must not exceed the common benchmark on 1 November 2006 or on any date in the subsequent three years on which the scheme introduces, varies or removes a credit card interchange fee.