



**pulse**  
INTERNATIONAL

PULSE INTERNATIONAL PTY LTD  
Level 5  
504 Pacific Highway  
St Leonards  
NSW 2065  
Australia

Phone: (61 2) 9906 0600  
Fax: (61 2) 9906 0611

15 March 2007

Dr Philip Lowe  
Assistant Governor (Financial System)  
Reserve Bank of Australia  
65 Martin Place  
Sydney NSW 2000

Dear Dr Lowe

### **ATM Industry Reform**

Thank you for your invitation (5 March 2007) to Pulse International to be represented at a meeting to discuss ATM industry reform. While Pulse will be represented at the meeting, I also thought it worthwhile to put some of our views forward on the ABA's reform proposals in advance of the meeting.

There are three components to the ABA's proposals. In order, they cover a proposed reference to APCA to develop an ATM access code, transparency of interchange fees and direct charging. Pulse's views on each of these components are as follows.

Pulse supports APCA being asked to construct an ATM access code along the lines of the EFTPOS access code. We agree with the ABA that the AISG framework is unsuitable because it would allow existing participants to opt in or out at will and therefore would be potentially ineffective in facilitating access.

In supporting the development of an ATM code along the lines of the EFTPOS code, Pulse does not believe that all of the restrictions in the EFTPOS code should be mirrored in the ATM code. In particular, there would seem no good basis for requiring a new ATM acquirer to be a prudentially supervised ADI as is required of an EFTPOS acquirer. An ATM acquirer brings no settlement risk to the system. For that matter, of course, neither does an EFTPOS acquirer (provided credit EFTPOS does not loom relatively large in its operations) and the development of an ATM code may afford the opportunity to fine-tune the EFTPOS code.

We are also of the view that the development of an ATM code should be done in close consultation with ATM deployers and switches, which stand outside of APCA's membership, in similar fashion as occurred in the process of APCA developing the EFTPOS code.

On interchange fees, Pulse's view is that a common fee structure across the industry would facilitate new entry. Looking at the position of new acquirers, the commercial reality is that major issuers have no incentive other than to offer new, and almost by

definition relatively small acquirers, relatively low interchange fees. While the ABA's proposal to introduce transparency into the existing array of interchange fees is worthwhile and has our support, it will not, we believe, materially alter the competitive disadvantage faced by new entrants, whether they are acquirers or issuers.

There is nothing intrinsically amiss in existing participants applying purely commercial criteria in setting interchange fees, but if the objective is to encourage new competition by putting potential new acquirers and new issuers on a level playing field with existing participants, interchange fees need be standardised across the industry. If interchange fees are left to the marketplace the likelihood of new entry occurring is remote and this would remain the case if direct charging, covered below, were to be introduced.

On direct charging, Pulse has a somewhat different view to that of the ABA. We do not think that direct charging should be left simply as an option that may be introduced in a piecemeal fashion by bilateral agreement, in the absence of the development of an agreed industry-wide framework. To be clear, we do not object to direct charging being left to bilateral agreements but only on condition that an industry framework is in place within which such bilateral agreements can be struck. This industry framework could perhaps be developed by APCA and also considered within the Reserve Bank's 2007/08 review of payment system reform prior to its implementation. Such an industry framework might, among other things, set boundaries around the imposition of direct charging and the way this would work with interchange fees. For example, in the United Kingdom we understand that the Link scheme rules give acquirers a choice of either direct charging or an interchange fee but not both and that where an interchange fee applies it is based on a common structure.

Any piecemeal and uncontrolled introduction of direct charging could well damage the industry's reputation, particularly if direct charges reached relatively high levels at certain locations or were combined with interchange fees, resulting in cardholders facing both a direct charge and a foreign ATM fee. Under an industry wide framework attention could be given in advance as to how direct charging and interchange fees would work together to avoid the impression of double dipping. Consideration could also be given to the desirability of community consultation before any introduction of direct charging. An industry wide framework would also allow the industry to make any accommodating procedural and system changes and would lessen the potential of particular third-party ATM deployers becoming hostage to the preparedness of their acquirer(s) to form bilateral agreements to direct charge.

Finally, and in summary, the development of an ATM access code would shape the ATM network not only as an interlinked set of proprietary networks, which it is now, but also to some extent at least as a whole-industry network. The purpose of this would be to facilitate access and by doing that to increase competition and efficiency and ultimately produce public benefit. In these circumstances, care will need to be taken to ensure that requirements on new entrants are reasonable taking into account the character of their intended operations and that they face a level playing field, in part by standardising interchange fees. Our view also is the introduction of direct charging, outside of an industry agreed framework, might well produce results that would not sit well with reforms designed to produce public benefit.

We are not claiming confidentiality for this letter and are comfortable about the Reserve Bank making it available to other participants at the forthcoming meeting or more generally available on the Bank's web site.

Yours sincerely  
**Pulse International Pty Ltd**



Kim Stewart  
Divisional Manager - ATMs

Cc. Michele Bullock  
Head of Payments Policy Department  
Reserve Bank