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Mr David Bell
Chief Executive Officer
Australian Bankers' Association Inc.
Level 3, 56 Pitt Street
SYDNEY NSW 2000

Dear David

ATM REFORM

Thank you for your letter dated 8 August 2007 regarding ATM reform.

The Reserve Bank welcomes the significant efforts that the Australian Bankers' Association and its members have made to finding a reform model that can secure a general industry consensus. As the Reserve Bank has indicated on previous occasions, it sees considerable benefits in the industry reaching a consensus view as to the appropriate way forward. The following points may be useful in bringing your discussions to a close.

Firstly, the Reserve Bank has no 'in principle' difficulties with new sub-networks developing in the future, provided access to such networks is available on fair and reasonable terms.

Secondly, as indicated in our letter of 31 May 2007, it is very unlikely that the *Payment Systems (Regulation) Act* would allow the Reserve Bank to establish an access regime (or set a standard) that would have the effect of setting the multilateral interchange fees within the sub-networks to zero. This means that, in the event that regulatory intervention by the Reserve Bank is required, any regulation is unlikely to set the fees in these sub-networks to zero.

Thirdly, while the ABA's letter of 27 April 2007 indicated that its preference was for the Reserve Bank to give regulatory certainty to a zero interchange fee regime through its designation powers, another possibility would be for the regime to be implemented by APCA. We have had some preliminary discussions with APCA management which suggest that a regime broadly along the lines discussed in your letter of 8 August (with the exception that multilateral interchange fees could remain in the sub-networks)

could be implemented in this way. In the Reserve Bank's view, such an industry-based approach is worthy of further exploration.

Fourthly, in the event that the ABA is able to come to an agreement on a proposal that attracts industry support, and that could be implemented by industry, the Reserve Bank would be looking for a firm commitment regarding a date by which the proposal (or key elements of it) would be operational.

As previously indicated, the next Payments System Board meeting is scheduled for Monday, 27 August. It would be helpful for the Board's deliberations if you were able to finalise the ABA's position before that meeting.

Yours sincerely



Philip Lowe
Assistant Governor (Financial System)