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## RESERVE BANK OF AUSTRALIA

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31 May 2007

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

Dear Mr Bell

Thank you for your participation in the meeting of 23 May. As I indicated in my e-mail of 24 May, I thought it might be useful for the Reserve Bank to set out how it might give effect to industry-based reform along the lines proposed by the Australian Bankers' Association (the ABA).

The ABA's proposal as set out in the letter of 27 April 2007 envisages all interchange fees in the ATM system – not just those between direct connectors – being set to zero. The proposal suggests that regulatory certainty be given to this arrangement by the RBA designating the ATM system and setting the interchange fee.

As discussed at the meeting, the use of a *standard* under the *Payment Systems (Regulation) Act* (the Act) to set interchange fees to zero could be problematic, reflecting the legal requirements of a *standard*. However, given that interchange fees in bilateral systems raise important access issues, the RBA is of the view that, were the Payments System Board to be satisfied that the relevant criteria in the Act were met, the Board could impose an *access regime* on the ATM system in which interchange fees between direct participants in the ATM system were set to zero. This ability would most likely not extend to the setting of fees paid in any sub-networks that stand behind direct connectors, where those fees are common to all participants in the network and, therefore, do not raise specific access issues.

At the meeting, I indicated that the Board would consider giving regulatory certainty to industry-based reforms along the general lines proposed by the ABA. The resulting regime could allow the networks run by CUSCAL and Cashcard, and potentially other networks in the future, to operate with a common fee paid between members of the network. Alternatively, the members of these networks could agree voluntarily to eliminate fees between themselves and rely on direct charges. Whatever arrangements

are put in place, the RBA is keen to see access to all networks on fair and reasonable terms.

I hope that the above is useful in your deliberations over coming weeks. The Bank will be contacting you shortly to discuss the reform process and whether an industry consensus exists whereby the ABA proposal, if it were implemented by the RBA along the lines outlined above, can form the basis for industry reform.

Yours sincerely

A handwritten signature in black ink, reading "Philip Lowe". The signature is fluid and cursive, with the first name "Philip" and last name "Lowe" clearly distinguishable.

Philip Lowe  
Assistant Governor (Financial System)