



AUSTRALIAN BANKERS' ASSOCIATION INC.

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28 November 2007

Ms Michele Bullock  
Head of Payments Policy  
Reserve Bank of Australia  
GPO Box 3947  
SYDNEY NSW 2001

Dear Michele

### **ATM Reform: Progress Report 1 – November 2007**

The purpose of this letter is to provide the RBA with a quarterly progress report on the development of the ATM Access Code and implementation of the direct charging reforms, ahead of the Payments Systems Board (PSB) meeting on 30 November 2007.

In the RBA's media release of 31 August 2007 ("Media Release"), the PSB asked both APCA and the ABA to provide quarterly progress reports. Instead of preparing separate reports covering the same subject, a joint progress report from both APCA and the ABA has been prepared.

We report as follows:

#### **APCA Project Initiation and Governance**

- 1 In late May 2007 APCA management commenced work on the development of the ATM Access Code. A project to develop the ATM Access Code was formally initiated on 12 July 2007.
- 2 Two groups have been formed to assist with this work:
  - (a) an ATM Steering Committee, comprising representatives of CECS Members that are Issuers and/or ATM Acquirers. The Steering Committee is intended to represent those institutions that will be eligible and, if the reforms are to succeed, required to sign up to the Access Code on commencement<sup>1</sup>; and
  - (b) an ATM Working Group, comprising representatives of interested parties that are unlikely to be directly bound by the Access Code (principally smaller

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<sup>1</sup> We will revisit the composition of the Steering Committee and Working Group, once the Access Code's eligibility criteria have been finalized. It may be that some institutions become eligible or ineligible for participation on the Steering Committee at this point.

Issuers and ATM Acquires that are not CECS Members and third party deployers).

- 3 In order to further facilitate consideration of the impacts on institutions that will not be required to sign up to the Access Code on commencement, we have also recently invited the Working Group to nominate 2 of their members to the Steering Committee, with the same voting rights as other Steering Committee members.

#### **Access Code Development**

- 4 A Term Sheet covering the main terms of the Access Code has been prepared and substantively agreed by the industry. Our legal advisors have been instructed to prepare an initial draft of the Access Code on the basis of this Term Sheet, to be delivered to APCA on 30 November 2007. The first draft of the Access Code will then be provided to the Steering Committee and the Working Group for review and comment thru December and early January.
- 5 In sum, the Access Code will give institutions that meet the eligibility criteria the right to:
  - (a) establish direct physical connections to those institutions that are directly connected members of the ATM network; and
  - (b) directly clear and settle with those institutions that are direct participants in the ATM network, in accordance with multi-lateral terms which will replace the existing bilateral agreements and provide, and specify the requirements, for direct charging.

#### **Interchange Fees**

- 6 As you know (and as suggested in the Media Release) APCA has been exploring an interchange fee regime that can be implemented without RBA designation (or authorization by the ACCC). We believe, based on legal advice, that a regime that explicitly prohibits interchange fees, subject to specified exceptions, would require designation (or ACCC authorization) to ensure compliance with competition laws.
- 7 However, a regime that allows interchange fees only under certain conditions, including prior agreement amongst participants and appropriate disclosure of arrangements, could be implemented without designation. This would allow the use of interchange fees within sub-networks, and would also provide some commercial freedom to encourage competitive innovation in ATM services. We are currently working on such a regime and hope to be able to report further to you on this prior to the PSB meeting on 30 November 2007.

#### **Business Rules and Technical Specification**

- 8 We have developed and agreed the business requirements for direct charging, apart from 3 issues relating to:
  - (a) balance inquiries;
  - (b) the detail of an aspect of the screen disclosure requirements; and
  - (c) the applicability and consistency of the card scheme rules.

We hope to resolve these issues shortly.

- 9 We have also commenced work on the required message formats and will shortly conduct a workshop to be attended by both the members of the Steering Committee and Working Group to develop the technical specifications that are required to deliver the business requirements.

### **Timing / Project Plan**

- 10 Since 31 August 2007, considerable work has been done on a project plan for the implementation of these reforms. In sum the project plan provides for:
- (a) the ATM Access Code terms to be agreed and the attendant legal framework, to bind participants to its terms, to be established by 1 August 2008; and
  - (b) delivery of an agreed direct charging technical specification (based on agreed business requirements) by 1 February 2008;

Whilst these timeframes are achievable they are challenging and necessarily involve some uncertainty.

- 11 On delivery of the technical specification (10(b) above) participants need to:
- (a) develop and test the required software changes for devices, Deployer/ Acquirer systems and Issuer systems; and
  - (b) roll out direct charging software across their device fleets.
- 12 The timeframes to complete these tasks cannot be set until delivery of the technical specification, which participants require to determine precisely what device and system changes need to be made. They are also complicated by factors such as the following:
- (a) at this stage there is still some uncertainty around the treatment of Balance Inquiries, if they are to be subject to direct charging then this increases the complexity of the developments to Deployer / Acquirer and Issuer systems (the conversion of a not for value transaction to a for value transaction is complicated);
  - (b) the software changes for devices and in some cases Deployer / Acquirer and Issuer systems need to be developed by third party service providers;
  - (c) testing of the software changes for devices, Deployer/ Acquirer systems and Issuer systems needs to be performed on a proprietary and system wide basis, in particular bilateral testing needs to be performed across all interchange links (including in some cases switch systems);
  - (d) a number of institutions and third party service providers have IT change freeze periods over the Christmas / New Year period;
  - (e) for a significant proportion of Australia's 25,600 ATMs, software changes need to be made by physically "touching" them using a limited number of third party technicians;
  - (f) implementation of direct charging during the Christmas / New Year peak ATM use period is undesirable because it would maximize the disruption to cardholders; and

(g) generally there is a preference for direct charging to take effect on a particular date (as opposed to being introduced gradually), in order to avoid a confusing cardholder experience. However this can only occur when every participant is ready.

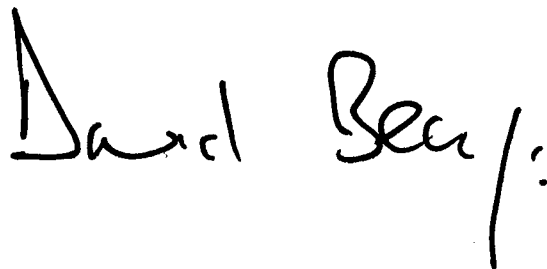
- 13 Whilst the industry is committed to implementing the direct charging reforms as soon as possible, it must also ensure that this is done in a manner that does not compromise the efficiency and integrity of the ATM system, minimizes cardholder disruption and simplifies the cardholder experience (particularly during the initial stages). Unfortunately these considerations and factors such as those described in 12 above mean that implementation of the reforms cannot occur on or before 1 January 2009.
- 14 As stated above, on delivery of the technical specification the timeframes to complete the tasks in 11 above will be set. However, at a recent meeting of the ABA Council, recognizing technical implementation difficulties, it was agreed that ABA members would implement ATM reform (including direct charging) no later than 3 March 2009. This was described as a hard deadline.
- 15 We are conscious that this more detailed advice on timing diverges somewhat from earlier indications. This is regrettable, but unavoidable: the real time-frames have only emerged as the scope of technical works required to implement the agreed solution have become clearer.

Please let us know if you require any further information in respect of these matters. We would be happy to meet with you prior to the PSB meeting on 30 November 2007 to provide additional information.

Yours sincerely



**Chris Hamilton**



**David Bell**