

8 August 2008

Ms Michele Bullock
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Dear Michele

ATM Reform: Progress Report 4 – August 2008

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 15 August 2008.

In the RBA's media release of 31 August 2007, the PSB asked both APCA and the ABA to provide quarterly progress reports. As such, a joint progress report from both APCA and the ABA was prepared in November 2007. However given that APCA has had carriage of the elements of the reforms progressed this quarter, this progress report has not been prepared with the ABA, although we have provided them with a copy of this letter.

We report as follows:

Access Code Development

- 1 Draft #3 of the ATM Access Code and Draft #2 of the Constitution of the Access Company, which will be established to administer the ATM Access Code (Draft #3 of the Code Documents), will be finalized shortly. Draft #3 of the Code Documents will incorporate changes that:
 - (a) make them simpler to read and understand; and
 - (b) reflect comments made by the RBA and industry participants.
- 2 We are hopeful that Draft #3 of the Code Documents will be close to final and that therefore only minor variations (if any) will be required before they are ready for adoption by the initial members of the Access Company. Draft #3 of the Code Documents will be provided to the RBA once they have been finalized.
- 3 In our last progress report we stated that we had put on hold, for the time being, our plans to release public exposure drafts of the Code Documents because we had not yet settled on a preferred means of ensuring compliance with the *Trade Practices Act* (TPA). As you know a number of options with respect to the TPA are still under consideration.
- 4 Once this issue is resolved, which we expect to occur shortly, we will be in a position to finalize our plans to release public exposure drafts of the Code Documents. Clearly if either the RBA or ACCC is to undertake public consultation it would make sense for us to release public exposure drafts of the Code Documents as part of that process.

Business Rules and Technical Specification

- 5 As stated in our last report the Business Rules and Technical Specification have been completed and codified in amendments to the CECS Manual. Two drafts of the CECS Manual amendments were reviewed by industry participants and the CECS Management Committee approved the final version of the amendments on 7 August 2008.

Industry Project Plan and Testing

- 6 Subject to the comments below, all industry participants are currently reporting that they are on track to meet the 3 March 2009 implementation date.
- 7 APCA's industry testing program which includes testing timeframes, allocated test partners, standard test cases and scripts with expected results is also nearly finalized. Current planning provides for the bulk of the industry end-to-end testing to be conducted during November, December and January.

International Card Schemes

- 8 MasterCard has confirmed that it will amend its rules to allow direct charging of domestic MasterCard transactions. However it has said that, at present, it is unlikely that it will be able to complete the development required to enable it to process directly charged transactions by 3 March 2009.
- 9 Visa has not yet confirmed that it will amend its rules to allow direct charging of Visa transactions nor its position with regards to a zero interchange fee for domestic ATM Visa transactions, but has stated that:
 - (a) it does not need to do any development to enable it to process transactions that have been subject to a direct charge; and
 - (b) the relevant VisaNet specifications that would apply (if allowed) will be circulated in August 2008 to assist ATM Acquirers and Issuers to plan.
- 10 Therefore at this point, it is not certain (and perhaps unlikely) that Issuers and Acquires will be able to implement direct charging for Visa and MasterCard ATM transactions by 3 March 2009.
- 11 In each case the volume of domestic transactions that the above has the potential to effect is small. Based on the data we have, less than 1% of domestic ATM transactions are currently processed by MasterCard and Visa. However for some, generally smaller, institutions the impact maybe greater because all or a significant portion of their ATM transactions have to be processed via MasterCard or Visa.

Transition Arrangements

- 12 As stated in our last report, to accommodate those ATMs that cannot have their software updated remotely or ahead of time (approximately 2,500 out of 26,000), there will be a transition period during which Acquirers will be allowed to direct charge at devices of this kind by:
 - (a) meeting the disclosure requirements via external signage; and
 - (b) having host systems insert the fee into the message that is sent to the Issuer.
- 13 The specifications for the external signage and other related requirements have now been finalized and are included in the CECS Manual amendments referred to in 5 above. ASIC have approved these specifications.

Public Communications

14 A draft communications plan has been prepared with the assistance of a public relations firm. The plan will be considered by the ATM Access Steering Committee shortly. Implementation of the plan will commence as soon as it has been approved. We will be in touch shortly to discuss the possibility of the RBA playing a role within the communications plan.

Conclusion

15 Substantial progress has been made since the last report. Whilst there is still a great deal to be done, we continue to target and work toward an implementation date of 3 March 2009.

Yours sincerely



Chris Hamilton
CHIEF EXECUTIVE OFFICER