



# **ATM Industry Steering Group**

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Project Scope

## **Direct Charging for Domestic Foreign Automatic Teller Machine (ATM) Transactions in Australia**

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## Executive Summary

The business model proposed for Direct Charging improves transparency and enhances competition around Foreign ATM Fees by setting the bilaterally agreed interchange fees paid between the ATM Acquirer, Card Issuer and ATM Operator to zero.

This document provides insight to the quantum of work and industry co-operation required to implement direct charging in Australia while maintaining the integrity of the Australian Payments System. It also considers both other industry security initiatives that are currently receiving substantial attention among industry participants, and assumes a co-ordinated industry approach to implementation.

The way forward for project participants is to commence their internal system design process, followed by industry-wide testing and implementation phases to industry agreed dates, as outlined in [Section 3](#) of this document.

[Section 4](#) provides the detailed business requirements and a high level timeline for the proposed model, including key deliverable dates. These dates are summarised in the following table:

No	Deliverable	Date
1	Agree high level implementation timeframes	Complete
2	Review business requirements in light of research results.	Complete
3	Circulate draft requirements document for industry approval.	Complete
4	Provide business requirements to APCA	Complete
5	RBA consultation begins	July 2004
6	RBA consultation concludes	(tbd)
7	Regulatory decision.	September 2004 (tbd)
8	Design / Build / Test (average case)	+81 weeks
9	Amend interchange agreements	Parallel activity
10	Implementation	+4 weeks

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# 1 Document Purpose

The purpose of this document is to provide an overview of business requirements and identification of the technical issues that bear consideration for the implementation of Direct Charging across the Australian domestic ATM network.

## 1.1 Document Scope

The scope of the project is to develop, test and implement Direct Charging for domestic ATM transactions. This involves the following broad scope areas.

In Scope	Out of Scope
ATM Operator Direct Fee disclosure standards	Card Issuer Transaction Fee disclosure standards
Declined Transaction treatment	Individual Card Issuer/ATM Operator implementation.
Value Transaction treatment	Individual Card Issuer/ATM Operator agreements.
Purchase Transaction treatment	Individual Card Issuer/ATM Operator compliance.
Non-Value Transaction treatment	Individual Card Issuer/ATM Operator Pricing.
Partial Transaction treatment	Industry customer research, consultation and communication plan.
Message Standards	Direct charging of international card transactions.
Industry implementation approach	Transactions occurring within aggregated intra-networks.
Industry implementation timeframes	
Industry (Cardholder Access) Agreements	
Industry QA/Testing Standards	

The timing of regulatory consultation and determination, and any amendments arising therewith may affect the scope.

Note: Real-time on-screen disclosure is not possible for the Card Issuer Transaction Fee. Account product features, such as fee-free transactions, home loan packages and/or minimum account balances, all impact this fee differently. In many cases this fee is based on future activity of the Cardholder and not calculated until the end of the statement period.

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## 1.2 Assumptions

The following assumptions have been made in relation to the implementation of Direct Charging.

No	Assumption
1	The disclosure requirements for the Card Issuer Transaction Fee will be the same as currently exist as described in the <a href="#">EFT Code of Conduct</a> .
2	Agreements will still need to exist between ISOs and their transaction ATM Acquirers covering all relevant aspects of those arrangements.
3	Card Issuers will still need to use the existing ATM fee mechanism for international ATM transactions.
4	A Project Steering Committee will engage APCA to adopt the requirements, and oversee the testing and implementation in order to ensure that timeframes and minimum disclosure requirements are being met.
5	Card Issuer business responses (ie absorption, rebating etc) to ATM Operator Direct Fees are a proprietary consideration, and not specifically constrained by this scope.
6	Individual institutions have engaged and provided feedback based on consultation with the necessary internal departments, including EFT Dispute Resolution, Card Scheme liaison, Legal and Compliance, and Product etc
7	The material in this document is not intended to be and should not be relied on as a substitute for professional advice. Individual implementation plans should be internally evaluated by each respective organisation with regard to meeting legal, taxation, regulatory, compliance and other standards and requirements.

## 1.3 Issues

The following issues have been identified in relation to the implementation of a Direct Charging project.

No	Issue	Type (eg Legal)
1	Balance enquiries may now require posting to HOST systems as a value transaction in order to pass on the ATM Operator Direct Fee.	Technical
2	Reversals will be required for non-successful (timed out) non-value transactions, such as balance enquiries.	Technical
3	A minimum 6-month lead-time is required to properly develop and implement the necessary communications (as per the <a href="#">EFT Code of Conduct</a> requirements) to advise Cardholders of the change to fee structures.	Regulatory / Implementation
4	Development and implementation windows are not readily available due to the work being undertaken to meet already-existing industry mandates (ie 3DES and Remote Key Distribution).  This issue is compounded by the necessity to for testing to be scheduled occur between all bilateral interchange and settlement parties.	Resourcing / Implementation

No	Issue	Type (eg Legal)
6	Card scheme rules do not currently allow direct charging on their international transactions.	Compliance.

## 1.4 Risks

The following risks have been identified in relation to the implementation of Direct Charging.

No	Risk	Type (eg Legal)
1	If the scope changes significantly as a result of the Regulatory consultation and determination then the entire feasibility of the reform and implementation process would need to be reviewed.  Depending upon the nature of the change, the review would potentially need to re-examine the implementation complexity and development costs.	Scope / Implementation
2	Potential increase in the number and time it takes to resolve disputed transactions resulting from ATM Operator Direct Fees.	Regulatory
3	Potential Trade Practices and regulatory issues should a Card Issuer choose to absorb the ATM Operator Direct Fee prior to it appearing on their account statement.	Regulatory

**Note** There may be additional Risks to those logged above that are of a strategic nature (ie. institutional, internal or reputation).

These additional Risks will be maintained on a register by the Project Steering Committee, and circulated to the appointed project managers in each institution on a regular basis during the project, for attention within their respective institutions.

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## 2 Proposed Model – Direct Charging

### 2.1 ATM Operators

Under Direct Charging, an ATM Operator will be permitted by the ATM Acquirer to levy a direct charge on the Cardholder for successful transactions conducted at its ATMs. The size of this charge would be determined by the ATM Operator and would reflect the cost of providing the service plus a margin for economic return. The direct charge, once accepted by the Cardholder, would be included in the transaction message forwarded to the Card Issuer for authorisation. The Card Issuer, at its discretion, can elect to pass on the charge to the customer's account or absorb the charge.

Any direct charge must be disclosed in accordance with the various regulatory requirements, including the [EFT Code of Conduct](#). In particular, all ATM Operators will satisfy the Code insofar as it requires an ATM Operator to disclose an on-screen message to the user, at a time that enables the user to cancel the EFT transaction without cost to the user, the amount of any fee charged for the use of its equipment, which will be directly passed on to the user.

Card Issuers also need to adhere to the relevant regulatory requirements with respect to the manner in which they choose to present the ATM Operator Direct Fee to their Cardholders (ie notification, disclosure, rebates, absorption etc).

### 2.2 Card Issuers

Direct Charging removes the need for a Card Issuer to compensate the ATM Operator for providing ATM services.

It also provides Card Issuers with the ability to:

- Absorb (eg at time of transaction) or rebate the ATM Operator Direct Fees incurred by their Cardholders, and
- Charge a Card Issuer Transaction Fee for utilising the ATM channel, which reflects cost and a margin for economic return. Card Issuers will ensure charges are transparent and obvious to ATM users.

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## 3 Project Development

This business requirements document details the functional requirements necessary to implement Direct Charging across the domestic ATM Network.

Following the regulatory outcome, the next step for the project is for participants to undertake an internal system design of the solutions necessary (be they technical, operational or otherwise) that will implement these requirements. After the design phase, project participants will undertake development effort followed by a testing phase. The testing phase will cover both internal testing by members and industry-wide testing based on an industry-wide test strategy. This phase of the project should be centrally managed by an industry body (eg APCA).

The testing phase will be followed by the required contractual amendments and settlement implementation, allowing participants to implement and charge the ATM Operator Direct Fee based on internal prioritisation.

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## 4 Business Requirements

### 4.1 Card Issuer Transaction Fee

The Card Issuer Transaction Fee must be disclosed to the Cardholder as per the existing [EFT Code of Conduct](#) requirements.

There is no requirement to display the Card Issuer Transaction Fee at the ATM, on the receipt, or during the transaction sequence.

Note: As a step toward improved fee disclosure (as described by ASIC in their [Guide to Good Transaction Fee Disclosure](#)) a static message will be incorporated into the screen flow to alert Cardholders that they may also be charged a fee by their Card Issuer in addition to the ATM Operator Direct Fee.

### 4.2 ATM Operator Direct Fee

The ATM Operator must disclose to the Cardholder on the ATM screen (at a time in the transaction sequence and in a manner which enables them to consciously choose to cancel the transaction without incurring any cost) the amount of the ATM Operator Direct Fee to be charged for the transaction. That fee will be directly passed on to the Card Issuer, and ultimately on to the Cardholder's account (unless absorbed or rebated by the Card Issuer).

The ATM Operator may compliment this disclosure through the use of signage, including decals, stickers and the like. Any ATM Operator Direct Fee displayed in this manner however must be identical to the ATM Operator Direct Fee that is displayed on screen.

In any circumstance where the ATM Operator Direct Fee displayed on the ATM screen is not identical to the ATM Operator Direct Fee displayed on any complimentary signage, the lowest of the ATM Operator Direct Fees being displayed is the one that should be charged.

#### 4.2.1 Screen disclosure

The ATM Operator Direct Fee disclosure must comply with the following minimum requirements:

- State that a fee will be charged if the transaction is continued.
- Display the amount of the fee that will be charged (note that only displaying that a percent of the transaction value will be charged is not acceptable).
- State who will receive the fee ("ATM Operator" is acceptable).
- State that the Card Issuer may also charge a fee.
- Indication (buttons) or instructions (press "cancel" etc) of how to **both** opt-out or continue with the transaction.

Eg:

If you continue, you will be charged  
\$X.XX  
for this transaction  
by the ATM Operator

Your card issuer may also  
charge you a fee for using this ATM.

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## 4.2.2 Transaction sequence

The ATM Operator may disclose the ATM Operator Direct Fee at any stage in the transaction sequence, as long as the Cardholder is able to cancel the transaction without incurring the fee.

## 4.2.3 Transaction disclosure

If an ATM is capable of issuing a transaction record and the Cardholder has opted to have a receipt printed, the ATM Operator Direct Fee must be listed as a discrete item on the ATM receipt and not be bundled together with the transaction amount.

The ATM Operator Direct Fee should be described as "ATM Operator Fee" or similar.

## 4.2.4 GST

The ATM Operator Direct Fee is a direct charge to a cardholder at the ATM and is generally considered to be:

- **financial supply** if it is levied by an Australian authorised deposit-taking institution (providing the fee is not more than \$1,000) and therefore be input taxed and not attract GST.
- **taxable supply** if levied by an ISO and therefore attract GST.

Note that this advice should not be relied on as a substitute for professional advice. Individual implementation plans should be internally evaluated by each respective organisation with regard to meeting legal, taxation, regulatory, compliance and other standards and requirements.

## 4.3 Message format

The Standard Message Format has been amended to cater for direct charging. The changes are detailed in the CECS Manual - Part 8, APPENDIX G, Minimal Message Set, Table I1.

## 4.4 Application of the ATM Operator Direct Fee

### 4.4.1 Transaction Set

The ATM Operator Direct Fee may only be applied to the following domestic transactions:

- Successful Value Transactions (excluding Partial Transactions).
- Successful Non-Value Transactions.
- Successful Purchase Transactions (unless expressly prohibited by contractual arrangements between the ATM Acquirer and the party whose goods or services are being issued).

The ATM Operator Direct Fee may not be applied to the following transactions:

- Declined Transactions.

The ATM Operator Direct Fee must be reversed for the following transactions:

- Partial Transactions.

The ATM Operator should reverse the original transaction including any ATM Operator Direct Fee by the use of a 420 message. A new message (220) should then be passed to 'force post' the partial dispense amount.

It is the responsibility of the ATM Operator to generate the above messages.

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#### **4.4.2 Fee Variation**

The ATM Operator is free to vary the amount of ATM Operator Direct Fee and the fee may fluctuate according to several factors, including but not limited to:

- ATM location.
- Time.
- Date.
- Transaction type (within the Transaction Set detailed above).
- Transaction value.
- Card BIN.

The ATM Operator may not vary the ATM Operator Direct Fee between the time it has been disclosed to the Cardholder (and duly accepted by them choosing to continue with the transaction) and the completion of the transaction.

#### **4.4.3 Daily withdrawal Limit**

Card Issuers may decide to include or not include ATM Operator Direct Fees when calculating their Cardholder's daily withdrawal limit.

### **4.5 ATM Operator Direct Fee processing and settlement**

#### **4.5.1 Processing**

Card Issuers may decide to process ATM Operator Direct Fees either online or in batch.

#### **4.5.2 Settlement**

ATM Operator Direct Fees are to be included in the daily settlement figures, however they must be separately identified.

Daily settlement is to continue under the existing arrangements whereby value is reconciled and exchanged between financial institutions, nominated settlement entities, schemes, and switches that have an interchange or settlement relationship.

Where the Card Issuer chooses to process the ATM Operator Direct Fees in batch, any shortfall between the accumulated ATM Operator Direct Fees and the funds in the Cardholder's account must be borne and managed by the Card Issuer, and not impact the daily settlement figures.

### **4.6 Implementation**

Implementation will need to occur in three distinct phases in order to facilitate the following:

- Uniform reduction of bilateral interchange fees to \$0.00, while retaining the bi-lateral interchange structure as a potential fallback mechanism.
- Flexibility for each institution to develop their own timeframe for activation of an ATM Operator Direct Fee following Phase 2, although it is expected that the financial imperative of recouping ongoing costs will encourage ATM Operators to implement on or close to the chosen date.

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#### **4.6.1 Phase 1 - Testing**

All institutions with valid interchange agreements are required to successfully test with all their interchange partners to ensure that they can both transmit and receive messages which carry value in the Bits which have been allocated for the ATM Operator Direct Fee (Refer to [Appendix 4](#)), and that all required processing, reporting, and settlement activities can be completed and properly reconciled.

This testing must be completed by the end of the Systems Integration Testing period that is identified in the timeline in [4.6.4](#).

#### **4.6.2 Phase 2 – Interchange fee amendment & Daily Settlement**

All bi-lateral interchange fees need to be amended to \$0.00.

While the necessary contractual amendments can be drawn up at any time, they must have an effective date that coincides with the end of the Implementation Planning period that is identified in the timeline in [4.6.4](#).

This date also represents the date from which any ATM Operator Direct Fees received by Card Issuers must be incorporated into daily settlement totals.

#### **4.6.3 Phase 3 – ATM Operator Direct Fee activation**

While the necessary development work can occur at any time, the ATM Operator Direct Fee cannot be activated prior to the effective date of Phase 2.



## 5 Appendices

### 5.1 Appendix 1 - Participants

#### Implementation Working Group Participants

Adelaide Bank Limited  
Australia and New Zealand Banking Group Limited  
Australian Settlements Ltd  
Bank of Queensland  
Cashcard Australia Limited  
Commonwealth Bank of Australia  
Credit Union Services Corporation (Australia) Limited  
Heritage Building Society Limited  
HSBC Bank Australia Limited  
National Australia Bank Limited  
Pulse International Pty Limited  
St. George Bank Limited  
Suncorp-Metway Limited  
Westpac Banking Corporation

## 5.2 Appendix 2 - Definitions

Term	Definition
ATM Acquirer	A body corporate which, in connection with an ATM Transaction by a Cardholder, engages (either directly or indirectly) in ATM Interchange Activities with the Cardholder's Card Issuer.
ATM	An automatic teller machine being an APCA certified, self-contained, electronic device located in Australia and capable of automatically dispensing cash in response to a cash withdrawal transaction initiated by a Cardholder. Other transactions (initiated by either a debit card or a credit card) such as funds transfers, deposits and balance enquiries may also be supported. The device must accept either magnetic stripe cards or smart (chip) cards where transactions are initiated by the Cardholder keying in a Personal Identification Number (PIN). Limited service devices (known as "cash dispensers") that only allow for automated cash withdrawals are included.
ATM Operator	a body corporate or other person that has primary control over the management and operation of one or more ATMs and is either: (a) an ATM Acquirer; or (b) has a contractual relationship with an ATM Acquirer.
ATM Operator Direct Fee	A fee, set at the ATM Operator's discretion, to a Cardholder for successfully completing an ATM Transaction requested by the Cardholder through an ATM operated by the ATM Operator.
Card	Any access card that may be lawfully used to operate an ATM.
Cardholder	A customer of a Card Issuer who is issued with an ATM Card and a PIN for use with that card
ATM Declined Transaction	A transaction by use of an ATM Card where messages switched between an ATM Terminal and the Card Issuer do not result in an ATM Transaction because of: (a) PIN errors, account errors or insufficient funds; (b) unavailability of the computer systems of the Card Issuer or ATM Acquirer; or (c) any other reason not under the control of either the Card Issuer or ATM Acquirer.
Host	A processing centre such as an ATM Acquirer, an Issuer, or an intermediate network facility (Switch).
Interchange link	A communication link between two Hosts that carries transactions for domestically issued cards.
ISO	An Independent Service Organisation (i.e. a non-financial institution ATM Operator).
Card Issuer	A body corporate which issues an ATM Card and, in connection with any ATM Transaction effected using that ATM Card: (a) assumes obligations to the relevant Cardholder, which obligations are in the first instance discharged on its behalf by the ATM Acquirer; and (b) engages as a result in ATM Interchange Activities with that ATM Acquirer.

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<b>Term</b>	<b>Definition</b>
Card Issuer Transaction Fee	A fee charged by a Card Issuer to one of its own Cardholders for authorising, settling and processing an ATM Transaction conducted by one of its own Cardholders with an ATM Operator.
Non-Value Transaction	Any transaction in which cash is not dispensed from an ATM (excluding Purchase Transactions) such as an account balance.
Partial Transaction	Any transaction that results in a lesser amount of cash being dispensed from the ATM than was requested by the Cardholder.
Purchase Transaction	Any transaction in which a purchase is made from an ATM such as mobile phone recharge transaction.
Switch	A service provider that switches or routes transactions between ATM Acquirers and Card Issuers. Examples of switches are Cashcard Australia and First Data Resources Australia.
Value Transaction	Any transaction in which cash is dispensed from an ATM.

### 5.3 Appendix 3 – Supplementary Documents

#### Electronic Funds Transfer Code of Conduct

As revised by the Australian Securities & Investments Commission's EFT Working Group  
Issued 1 April 2001  
Amended 18 March 2002

[http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/eft\\_code.pdf/\\$file/eft\\_code.pdf](http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/eft_code.pdf/$file/eft_code.pdf)

#### ASIC's Guide to Good Transaction Fee Disclosure for Bank, Building Society and Credit Union Deposit and Payments Products (Transaction Accounts)

June 2002

[http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/Transaction\\_fee\\_guide.pdf/\\$file/Transaction\\_fee\\_guide.pdf](http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/Transaction_fee_guide.pdf/$file/Transaction_fee_guide.pdf)

#### CECS Manual for Consumer Electronic Clearing System (CS3)

As amended to 16 April 2004

[http://www.apca.com.au/Public/apca01\\_live.nsf/ResourceLookup/CECS\\_Manual.pdf/\\$File/CECS\\_Manual.pdf](http://www.apca.com.au/Public/apca01_live.nsf/ResourceLookup/CECS_Manual.pdf/$File/CECS_Manual.pdf)

## 5.4 Appendix 4 – Message Format

### Minimal Message Set

The final message standard is reflected in the [CECS Manual](#) (Last amended effective 1 April 2003).

The Bits that were amended to cater for direct charging of ATM Operator Direct Fees were 28, 83 and 85.

### Reference:

Consumer Electronic Clearing System (CS3) CECS MANUAL  
Part 8 – Standard Interchange Specifications  
Appendix G - Minimal Message Set (last amended effective 31 Aug 2002)  
Table I1 – Interchange Bitmap