

6 September 2001

Mr Ian Macfarlane  
Governor  
Reserve Bank of Australia  
65 Martin Place  
SYDNEY NSW 2000

Dear Governor

We refer to your letter of 25 June 2001 and our response of 17 August 2001 concerning the Visa Debit (or Visa Payment) card issued by our institutions. As outlined in our letter we have prepared a discussion paper (attached) which will assist in determining interchange arrangements for Visa Debit.

We understand that the Reserve Bank will shortly provide guidance on appropriate interchange framework methodology for credit cards. We believe that consistent interchange methodology can then be applied across all card-based payment products and the inherent differences in the cost structures of these products will result in different efficient pricing envelopes for each card-based payment product.

On this basis, we are ready to prepare for a voluntary review of Visa Debit interchange arrangements that respects the following principles (as contained in the conclusion of the attached discussion paper):

- Visa Debit is a unique card product that requires its own assessment of interchange fees but an assessment that is consistent with other card-based payment products
- A review of Visa Debit interchange can not be conducted in isolation of the overall review of interchange arrangements of all card products, including credit cards and EFTPOS
- A review of Visa Debit interchange fees must be based on an interchange cost methodology that is supported by sound economic principles and consistently applied across all card-based payment products
- A review of Visa Debit must take into account potential impact on all constituents, including the smaller institutions that issue this product and cardholders
- A transition period is required to avoid unnecessary and undue economic hardship to the financial institutions and, in many cases, the customers that are their owners.

If you are agreeable, we propose that an appropriate next step would be a joint meeting between the Reserve Bank and our institutions, where we could discuss the way forward in greater detail.

At that meeting we would be particularly interested to receive your formal views on the timing of debit card interchange reform and its relationship to the reform of credit card interchange arrangements. We reinforce our strong view that these issues must be progressed simultaneously to avoid further disadvantage to smaller financial institutions and their customers.

Yours sincerely

[ORIGINAL SIGNED]

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CEO  
**CUSCAL**

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Don Gregg  
General Manager, Electronic Solutions & Service  
**St George Bank**

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