

2nd April, 2001

Mr I MacFarlane
Reserve Bank of Australia
65 Martin Place
SYDNEY NSW 2000

Dear Sir

THE AUSTRALIAN CREDIT CARD SYSTEM – EXERCISE OF DESIGNATION POWERS

I refer to your letter dated 21 March 2001 stating your preparedness to designate the Australian credit card system.

VISA is concerned that the Reserve Bank has failed to consult with VISA before embarking on this step and has not considered and responded to the comprehensive response to the Joint Study Report prepared by Network Economics Consulting Group Pty Limited (NECG) on behalf of VISA.

In light of VISA's concerns regarding the process the Reserve Bank has adopted to date I have instructed our solicitors to write to you formally setting out those concerns. A copy of Freehills' letter of today's date is enclosed.

VISA seeks to participate in a genuine and constructive way in a proper consultative process which it hopes will be adopted by the Reserve Bank.

VISA is willing to work with the Reserve Bank and other industry participants to explore whether there are any changes to the status quo that would advance the public interest.

VISA is concerned that the Reserve Bank has not identified an alternative model that would be imposed, through regulation, that would enhance welfare. For example, the Joint Study recognises that VISA's present membership rules ensure the financial soundness of participants and accordingly promote the legitimate goal of maintaining the financial stability of the VISA system. However, it states that less restrictive rules may also achieve that aim without attempting to identify what those rules may be.

If the Reserve Bank has concluded that there is a better system that would be more enhancing of public welfare, so that designation of the Australian credit card system would be in the public interest, VISA would like to know the details of that proposed system so that it can consider whether it can assist in the voluntary adoption of that system (with such appropriate or desirable amendments as may be agreed).

VISA intends to respond to the Reserve Bank's invitation to comment on the decision to designate the Australian credit card system in writing. However it will not be able to address the question of whether there is a better system such that designation of the current system would be in the public interest without knowing the details of the proposed regulatory alternative and without a response to the other matters raised in Freehills' letter.

We are meeting with Dr John Veale & Mr John Laker on Thursday 5th April to discuss these issues.

Yours sincerely

GORDON WHEATON
Executive Vice President