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29 January 2007

Dr John Veale
Head of Payment Policy
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

Your ref: Media Release No. 2006-013 dated 11/12/2006

Dear Dr Veale

Credit Card Interchange Fees

We refer to your Media Release No. 2006-13 dated 11 December 2006; specifically the section headed Credit Card Interchange Fees. Under this section the Bank calls for submissions on the following 2 issues:

- Whether the specific compliance issue raised regarding the interchange benchmark should be examined as part of the 2007/08 review or sooner and;
- Views on how the compliance aspects of the interchange standard might be altered to address concerns about the impact of the standard on competition between the schemes.

In response to your invitation, we provide below our comments.

Philosophically, we do not disagree with the original position reached by the Bank in consultation with the industry. That is, the schemes ought to be allowed to set their own interchange categories and fees provided that the weighted average fee remains below the appropriate benchmark, as checked every three years. The concern we have is more with regards to the downstream effect of paying a significantly higher interchange fee on a certain category of transactions, where the category may currently only have a low volume of transactions. In this instance, as transaction volumes shift in response to issuers seeking to take advantage of significantly higher rates (particularly in consumer card portfolios), a scheme's weighted average interchange rate could be non-compliant with the benchmark and remain so until the next test window. While the situation described relates to activity within a scheme, the same activity could also occur between schemes.

On this basis, given the potential for dysfunctional behaviour, we consider this issue worthy of consideration outside of the scheduled 2007/08 review.

Minimising the opportunity for this, in our opinion, is not a significant piece of work. Rather, we believe the only change required would be a shortening of the interval between test windows. We believe that a twelve-month window would remove the incentive from issuers to make short-term changes that would prove unsustainable. To the extent that issuer behaviour can be influenced away from short term gains, we believe the opportunity to arbitrage between schemes will also be minimised.

Should you require any further information or wish to discuss any comment made in this letter, please do not hesitate to contact me on (07) 3258 4250.

Yours faithfully

Manuel Garcia
Chief Executive Officer