



Visa International  
Level 42, AMP Centre  
50 Bridge Street  
Sydney NSW 2000  
Australia  
A.R.B.N. 007 507 511

www.visa.com.au  
t +61 2 9253 8800  
f +61 2 9253 8801

Visa International Service Association  
(Incorporated in Delaware, U.S.A.  
Reg'd in Victoria as a foreign company)  
A.B.N. 70 007 507 511  
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31 January 2007

Dr John Veale  
Head of Payments Policy Department  
Reserve Bank of Australia  
GPO Box 3947  
SYDNEY NSW 2001

Dear John,

## **RE: CREDIT CARD INTERCHANGE FEES**

The Reserve Bank of Australia (RBA), through its media release on 11 December 2006, has sought views from interested parties on whether particular aspects of the credit card interchange standard (Standard) has the potential to distort competition between the card schemes and has flagged its intention to include this in its planned 2007/2008 review. The RBA is also seeking views as to whether this issue should be examined sooner and whether the RBA should make changes to the current credit and debit Standards to influence the level of competition that currently exists between Visa and MasterCard.

We believe that there is insufficient evidence to suggest that implementation of the Standards on 1 November 2006 has led to any negative outcomes affecting competition between the two regulated card schemes. We do remain of the view, however, that the RBA's continued exclusion of the three party closed-loop card schemes from the RBA regulations poses a more serious concern from a competition perspective and this requires immediate attention and action.

We are also concerned that the RBA is considering altering the current Standard in an attempt to drive out competition and prejudice card schemes acting proactively to innovate and compete between themselves. Cardholders and merchants reasonably expect a consumer payment system to operate in a dynamic and evolving environment and interchange is an important mechanism that facilitates product development and acceptance expansion between card schemes and with alternate payment products.

In our view, each competitor is unique and should be able to develop independent strategies that promote different products and transaction types. Forcing any form of alignment of product definitions through the creation of further benchmarks or common weightings between schemes or with products would inhibit competition between card schemes by restricting their ability to innovate in the face of changing market conditions.

We're also concerned that, in a period where the RBA is about to commence a two year review of its standards, that it is considering changes to the fundamental mechanisms prior to this very important and much needed activity.

In the 2006 review, with a desire to develop the Visa system in the area of bill payments, micro-payments and premium cards, our members have adopted a range of interchange rates designed to deliver positive results for cardholders and merchants in these respective areas. This has led to comparatively lower levels of interchange fees for government and utility bill payments, whilst a higher level of interchange fee has been agreed to encourage the development of the micro-payment and premium segments.

The current Standards have been implemented with a three year benchmark in mind. We trust that this approach chosen by the RBA after its extensive consultation with industry in Australia is not ignored. If the purpose of the RBA's request is to introduce regulations whereby the actual weighted average of interchange fees is monitored on a more frequent basis and the current three year interval between compliance dates is reduced, consideration should also be given to the compliance burden that this would place on all stakeholders.

Compliance to the credit and debit Standards already represents significant cost to Visa and its member financial institutions. Our preparation for the 1 November 2006 changes began 12 months ago and the cost to Visa and its members represented a considerable investment.

Competition between card schemes is an important and complex feature of the payment system and manifests itself in various ways, including the setting of interchange fees. We do not believe the Reserve Bank should be attempting to develop further rules or changes to its Standards to stifle competition.

Yours sincerely,

A handwritten signature in black ink that reads "Bruce Mansfield," followed by a comma. The signature is written in a cursive style.

Bruce Mansfield  
Executive Vice President  
Australia and New Zealand