



23<sup>rd</sup> August 2005

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

Dear Dr Veale

I refer to the Reserve Bank of Australia's (RBA) Media release of 20<sup>th</sup> July 2005; specifically the section headed "Draft Revised Standard for the Setting of Interchange Fees". AMPF welcomes the opportunity to contribute to this discussion and sets out, below, matters for consideration.

AMPF agrees with the RBA that the interchange rates should be set as a standard common benchmark. However, AMPF believe that it is in the public interest to promote efficiency and competition by setting the standard at the *lowest cost provider*. A move to the lowest cost provider would promote efficiency and innovation.

A weighted average method as proposed has the potential for a high cost participant to excessively affect the outcome. The AMPF does **not** support the argument that the lowest cost provider will not drive efficiency, as there is an incentive to drive efficiency for all participants after the benchmark has been set. Both the higher cost and lower cost participants will have an incentive to reduce their costs below the benchmark.

The AMPF notes that one of the arguments against the lowest interchange being adopted was that product development would be hampered. The international card schemes new products that have been launched, have exploited the interchange revenue with little justification for the level of interchange for these products; prepaid cards and even Visa Debit card, although not a new product, are examples of the exploitation of the interchange revenue.

The RBA proposed Standard No.3 released for public comment on 24<sup>th</sup> February 2005, put forward a methodology that sets the benchmark for debit card interchange at the lowest ratio. Notwithstanding that the AMPF does not agree with the designation and with the introduction of a standard for debit card interchange setting, the AMPF would request that consistency be maintained across the standards. If the low cost is selected for one standard, the lowest cost should be selected for all standards.

For completeness, AMPF would like to take this opportunity to respond to the "Draft Access Regime for Visa Debit" released on 20<sup>th</sup> July 2005 and the AMPF supports the proposed access regime.

AMPF looks forward to continuing its active participation in regard to these issues, and related matters. We would be more than happy to discuss these views with you in more depth if you require.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Zimmerman', is written in a cursive style.

Russell Zimmerman

Chair of the AMPF