



Bank of Queensland
Submission to RBA
on EFTPOS Draft Standards

February 2006

Executive Summary

Bank of Queensland has provided three previous submissions to the Reserve Bank addressing the proposed EFTPOS and Visa Debit reforms¹ and we welcome the opportunity to comment on the draft standards now being proposed by the Bank covering the issues of an EFTPOS Access Regime and the setting of Interchange Fees in the EFTPOS System.

Generally, Bank of Queensland supports the approach taken by the Bank in designating the EFTPOS System to achieve a better outcome for customers using the system and to promote greater equity between participants, including the inequities resulting from the long term continuation of the negative interchange fees as well as access arrangements for potential new participants. However, Bank of Queensland remains critical of the divergence from the original objective of the Reserve Bank's Joint Study recommendations on zero EFTPOS Interchange Fees.

In relation to the draft Access Regime for the EFTPOS System, Bank of Queensland is concerned that there were key elements of the regime that were discussed and agreed between the Reserve Bank and a small sub-set of APCA members, the Access Providers, rather than with all CECS members.

¹ EFTPOS System Designation (July 2004); Submission to RBA on EFTPOS Reforms (October 2004); Submission to RBA – EFTPOS and Visa Debit Consultation Document (April 2005)

1. Draft Access Regime for the EFTPOS System

Bank of Queensland participated in the early discussions in the EFTPOS Access Working Group facilitated by Australian Payments Clearing Association (APCA), however, the subsequent discussions within APCA involved only those organisations that currently have ‘direct physical connections’ (referred to as Access Providers), a point that was acknowledged in the Consultation Document². This process alienated many existing EFTPOS participants from having effective input into the final EFTPOS Access Code, including those who engage third parties to provide these physical links (over which the participant maintains its direct bilateral interchange arrangements with other participants), as well as potential new access seekers.

It is also unfortunate that the Reserve Bank, in its role as the regulator, included in its discussions with the Access Providers key elements associated with the functions of clearing and settling rather than only access issues associated with direct connection links which are covered in the EFTPOS Access Code. Direct clearing and settling provisions are quite correctly incorporated in the Consumer Electronic Clearing System (CECS) Regulations and bind all CECS members, and not just Direct Connectors. The issues in question involved the removal of the requirements for (1) settlement to be effected through an exchange settlement account³, and (2) a volume threshold associated with a right (and obligation) for CECS members to directly clear and settle with other CECS members.

It is our contention that these were issues that all existing EFTPOS participants were entitled to debate with the RBA and not just a small subset of participants known as the “Access Providers” as these changes could have serious implications for existing EFTPOS participants, including Failure to Settle rules, which have not yet been fully explored.

We encourage the Bank to review these requirements and for the merits of these changes to be debated with all EFTPOS participants.

2. Amended Draft Interchange Fee Setting Standard

Bank of Queensland reiterates the concerns expressed in our previous submissions regarding the proposed interchange fee calculations being based on acquirer costs. We contend that by giving regulatory support for a negative interchange fee in the EFTPOS system the Bank has

² Reform of Debit Card Systems in Australia – A Consultation Document – December 2005 (page 6)

unnecessarily pandered to the sectional interests of the large retailers, rather than taking the opportunity to address the inequities faced by Issuers through the continuation of a negative interchange.

As noted in the Bank's original Joint Study, there is no basis for a negative interchange fee to apply in the EFTPOS System yet, disappointingly, the Bank will perpetuate these inequities by adopting this draft standard, albeit at a reduced rate of interchange.

We also note that the proposed inclusion of an interchange fee floor to apply to newly negotiated interchange fee, set at 80% of the interchange fee cap, will effectively tie interchange fees in a tight band and is almost to the point where the Bank is 'setting a price'.

The interchange fee floor provisions in the Interchange Fee Setting Standard are in addition to the provisions in Clauses 18 and 19 of the draft Access Regime relating to 'No discrimination'. Given the narrow range for interchange fees proposed in the draft interchange fee standard it would appear that the 'No discrimination' provisions in the draft Access Regime are an unnecessary requirement.

3. Visa Debit System

Whilst the draft standards for the Visa Debit system released in February 2005 and not subject to amendment through this latest consultation document, Bank of Queensland reiterates its objections to the proposed requirement to remove the 'Honour all Cards' rule from the Visa regulations.

We contend that the 'Honour all Cards' rule is a fundamental of the card scheme that ensures that all customers of all issuers are treated equally and that its removal introduces a dangerous precedent that could have an adverse impact on some issuers of the Visa Debit product.

Given the Reserve Bank's over protection of the treatment of potential new entrants through the regulation on interchange fee caps / floors and the 'No discrimination' requirements (as noted above) it is curious that the Reserve Bank has created a situation where existing issuers of the Visa Debit product could be exposed to discrimination from acquirers or merchants. We encourage the Reserve Bank to remove the draft standards applicable to the 'Honour all Cards' rule.

³ EFTPOS Access Code – Exposure Draft – 20 December 2005 (Section 2.1 (b))