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Dr John Veale
Head of Payments Policy
Reserve Bank of Australia
65 Martin Place
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Dear Dr Veale

PAYMENTS SYSTEM REFORM

The "Reform of the EFTPOS and Visa Debit Systems in Australia - a Consultation Document (February 2005)" publication, and accompanying Media Release of 24 February 2005, addressed:

- EFTPOS and Visa Debit systems (and set out draft standards in relation to proposed reforms to these systems);
- The non regulation of American Express and Diners Club; and
- Aspects relating to the setting of credit card interchange fees.

This letter sets out the Commonwealth Bank's views in relation to the first dot point above only; we have separately written (8 April 2005) in relation to the setting of credit card interchange fees.

The Commonwealth Bank (the Bank) appreciates this opportunity to again contribute to discussion in relation to EFTPOS and Visa Debit. As you are aware, the Bank has been an active supporter of reform in this area for a number of years, with our previous submissions available for public scrutiny on the Reserve Bank web site. We understand that this letter may also be published on the Reserve Bank web site.

The above mentioned Consultation Document and Media Release, sought submissions on three draft standards. These are addressed in turn below.

Draft Standard No 3 - The Setting of Interchange Fees in the EFTPOS Payment System

The Bank has previously, and publicly, supported a move to zero EFTPOS interchange fees, while at the same time seeking to ensure maintenance of a framework for the levy of fees to fund one-off EFTPOS infrastructure developments where there are misalignments between the bearer of the project cost and the benefactor of the developments. The likely impact of such reform on end market pricing of EFTPOS services to consumers and businesses, has also previously been noted.

This draft Standard No 3 proposes a small per transaction payment to the merchant's bank (the acquirer), with the size of that payment being bi-laterally negotiated, but capped at a level determined according to a narrow range of eligible acquirer costs calculated on an industry wide basis.

The Bank supports this approach, but notes:

- The range of eligible acquirer costs is narrow, with EFTPOS related acquisition, telecommunication, terminal, and servicing costs excluded from the calculation.
- The proposal to base the cost determination on lowest eligible costs will unreasonably distort the fee calculation exercise

Draft Standard No 4 - The Setting of Interchange Fees in the Visa Debit Payment System

The Bank does not presently issue Visa Debit cards to our customers and has previously indicated support for interchange fee neutrality between proprietary debit and scheme debit.

Draft Standard No 4 proposes determination of Visa Debit interchange fees on the basis of eligible costs as used in the credit card interchange standards, adjusted to exclude costs relating to fraud and the interest free period.

To the extent that Draft Standard No 4 represents a move toward neutrality (as represented by Draft Standard No 3), the Bank endorses this approach, but notes that costs, as proposed, are based on all credit card issuer costs (as per existing Standard No 1) - which would thus include the Bank, despite the fact that the Bank doesn't issue Visa Debit cards.

Draft Standard No 5 - The "honour all cards" rules in the Visa Debit and Visa credit card systems and the "no surcharge" rule in the Visa Debit system

Draft Standard No 5 envisages disallowing the requirement for a merchant to accept Visa Debit transactions if they also accept Visa credit card transactions. It also foreshadows the abolition of the current restriction on surcharging at point of sale. Inherent in these proposals is the separate identification (visually and electronically) of Visa Debit transactions.

The surcharging element of this draft standard is consistent with previous credit card reforms - the Bank supports this approach. The proposed changes to the honour-all-cards rule is also consistent with overseas developments and is endorsed.

We note however that there is considerable work involved in separately identifying (electronically and visually) Visa debit cards - the impact of this issue in terms of systems development, card re-issues, training, and other aspects should not be underestimated.

The Bank also wishes to take this opportunity to again endorse the work underway at the Australian Payments Clearing Association in relation to implementation of a voluntary, industry based, EFTPOS Access Regime. Meaningful progress is being made in relation to this issue, and Reserve Bank imposition of an Access Regime (the possibility of which is mooted in the 24 February 2005 Media Release) would be premature.

The Bank looks forward to continuing its active participation in regard to matters relating to Payments System Reform. We remain willing to meet at any time to discuss these issues and to this end, we request you contact the writer directly.

Yours sincerely

(Signed)

Stuart Woodward
General Manager
Acquiring and Alliance Management