

The Setting of Interchange Fees in the Visa Debit Payment System

Objective

The objective of this Standard is to ensure that the setting of interchange fees in the designated Visa Debit payment system promotes:

- (i) efficiency; and*
- (ii) competition*

in the Australian payments system.

Application

1. This Standard is determined under Section 18 of the *Payment Systems (Regulation) Act 1998*.
2. This Standard applies to the payment system operated within Australia known as Visa Debit, which was designated as a payment system on 23 February 2004.
3. In this Standard:
 - an ‘acquirer’ is a participant in the Visa Debit system in Australia that provides services to a merchant to allow that merchant to accept a Visa Debit card;
 - ‘credit card transaction’ has the same meaning as in the Standard *The setting of wholesale (‘interchange’) fees in the designated credit card schemes*;
 - ‘financial year’ is the 12-month period ending 30 June;
 - an ‘issuer’ is a participant in the Visa Debit system in Australia that issues Visa Debit cards to its customers;
 - ‘merchant’ means a merchant in Australia that accepts a Visa Debit card for payment for goods or services;
 - ‘reference year’ is the financial year prior to the relevant year;
 - ‘relevant year’ is the financial year in which the benchmark must be calculated;
 - ‘Visa Debit card’ means a card issued by a participant in the Visa Debit payment system, under the rules of the Scheme, that allows the cardholder to make payments to merchants for goods or services by accessing a deposit account held at an authorised deposit-taking institution;
 - ‘Visa Debit card transaction’ means a transaction in Australia between a Visa Debit cardholder and a merchant involving the purchase of goods or services using a Visa Debit card (net of credits, reversals and chargebacks);terms defined in the *Payment Systems (Regulation) Act 1998* have the same meaning in this Standard.
4. This Standard refers to wholesale fees, known as ‘interchange’ fees, which are payable between an issuer and an acquirer, directly or indirectly, in relation to a Visa Debit card transaction.
5. Each participant in the Visa Debit system must do all things necessary on its part to ensure compliance with this Standard.
6. If any part of this Standard is invalid, the Standard is ineffective only to the extent of such part without invalidating the remaining parts of this Standard.
7. This Standard is to be interpreted:
 - in accordance with its objective; and
 - by looking beyond form to substance.
8. This Standard comes into force on the date on which it is published in the Gazette.

Information

9. The administrator of the Visa Debit system must provide to the Reserve Bank of Australia data on the number and value of Visa Debit card transactions in Australia in the reference year, if such data are available. In the event that such data are

unavailable, the administrator must provide information on the number and value of Visa Debit card transactions in Australia that were processed by the Visa system in the reference year.

Interchange fees

10. From 1 November 2006, on each of the dates specified in paragraph 11, the weighted average of interchange fees implemented in the Visa Debit system in Australia must not exceed the benchmark calculated in accordance with paragraphs 13 and 14 below.
11. For the purposes of paragraph 10, the dates are:
 - (i) 1 November 2006 and 1 November of each third year thereafter; and
 - (ii) the date any interchange fee is introduced, varied or removed in the Visa Debit system.
12. For the purposes of paragraph 10, the weighted average of interchange fees is to be expressed as a number of cents per transaction. It is to be calculated by dividing the total interchange revenue that would have been payable had the interchange fees implemented on the dates specified in paragraph 11 been applicable in the previous financial year, by the number of transactions in that year.

Methodology

13. The benchmark is to be calculated by the Reserve Bank of Australia using data for the reference year supplied by the credit card schemes designated by the Reserve Bank of Australia and to which the Standard *The setting of wholesale ('interchange') fees in the designated credit card schemes* applies.
14. The benchmark is to be calculated as follows:
 - a. A cost base will be calculated for each designated credit card scheme by dividing the costs of processing and authorisation described in paragraphs 13(i) and 13(iii) of the Standard *The setting of wholesale ('interchange') fees in the designated credit card schemes* in the reference year by the total value of credit card transactions in the reference year.
 - b. A weighted average of the cost bases in the designated credit card schemes will be calculated. The weights to be used are the shares of the value of credit card transactions of each designated credit card scheme in the value of total credit card transactions in the designated credit card schemes in the reference year.
 - c. This weighted average will be multiplied by the average value of all scheme debit transactions (both MasterCard and Visa) in the reference year, calculated using the data provided to the Reserve Bank of Australia in accordance with paragraph 9, to yield a benchmark expressed as a number of cents per transaction.
15. The Reserve Bank of Australia will calculate the benchmark by 30 September of the relevant year and publish it on its website.

Initial and subsequent benchmarks

16. For the initial benchmark the relevant financial year is 2006/07.
17. The benchmark is to be re-calculated in the financial year 2009/10 and every three years thereafter.
18. The Reserve Bank of Australia may at any time, by notification on its website, waive or suspend the requirement to re-calculate the benchmark, in which case the benchmark in force at that time will continue to apply.

Transparency

19. The administrator of the Visa Debit system must publish the interchange fees applying to Visa Debit transactions on its website.
20. The administrator of the Visa Debit system must certify in writing to the Reserve Bank of Australia, on or before 30 November each year, that interchange fees in the Visa Debit system complied with this Standard over the prior twelve months ending 31 October.