

The Operation of the Interchange Standards: Conclusions Paper

May 2019

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1. Executive Summary

On 28 February the Bank published a Consultation Paper on the operation of its interchange standards (the Standards).¹ The Consultation Paper described areas where the operation of the Standards in relation to the 'net compensation' requirement could be improved without changing the purpose or intent of the Standards, and set out seven proposals to address these. The Paper also included a proposal on transitional arrangements, were the Standards to be varied as proposed. Appendix A to the Consultation Paper set out draft variations to the Standards to illustrate how the Bank would implement the proposals.

The Bank consulted on these eight proposals:

Proposal 1: The Bank's Standards No. 1 and No. 2 of 2016 would be modified to require an accrual approach to be used to allocate Issuer Receipts and Issuer Payments to, or between, reporting periods in a manner consistent with the purpose and intent of the Standards, such that in determining net compensation certifying entities have more scope to draw on information from financial accounts prepared in line with generally accepted Australian accounting principles. Compliance would not be permitted on a cash or quasi-cash basis.

Proposal 2: Clarify that 'Issuer Payments' are those payments made by issuers in relation to core services of a scheme.

Proposal 3: Remove references to 'Acquirer' from the definition of 'Issuer Payments' in the Standards.

Proposal 4: Clarify the Standards with the effect that where there is a price at which the supplier is regularly supplying relevant property or services, any discount or deduction from that price that meets the incentive test is a benefit to be included in Issuer Receipts.

Proposal 5: Clarify the Standards with the effect that where property or services are supplied and there is not a price at which the supplier is regularly supplying the relevant property or services, the benefit to be included in Issuer Receipts, subject to the incentive test, is the amount by which the fair value of the property or services exceeds what is paid for the property or services (and if nothing is paid, then the full fair value is to be included).

Proposal 6: Clarify that the types of entity that an issuer can receive an Issuer Receipt from include associated entities of scheme administrators, drawing on the definition of Associated Entity in the *Corporations Act 2001*.

Proposal 7: The Bank's Standards No. 1 and No. 2 of 2016 would be modified, such that for scheme-issuer arrangements where one entity sponsors another for a card-issuing arrangement, it is only the sponsoring issuer that is required to comply with the net compensation provisions.²

1 Standard No. 1 of 2016 and Standard No. 2 of 2016.

2 To give effect to Proposal 6, the draft variations of the standards introduced the terms Direct Issuer Participant, Indirect Issuer Participant, and Sponsor, and revised the definition of Issuer. Correspondingly, the terms Issuer Receipts and Issuer Payments were replaced by the terms Direct Issuer Participant Payment and Direct Issuer Participant Receipt. For ease of reference, this Conclusions Paper retains usage of the terms Issuer Payments and Issuer Receipts. It also refers to Direct Issuer Participants as issuers, except where using the defined term would aid clarity.

Proposal 8: Provide transition arrangements that allow, for the reporting period ending 30 June 2019 only, an issuer to choose whether to comply fully with the current Standard or fully with the revised Standard. The issuer must notify the scheme of their choice, and the scheme must report on the same basis as the issuer for each scheme-issuer agreement. In the event that an issuer fails to notify the scheme of its choice by the date specified in the varied Standard, the issuer will be deemed to have elected to comply with the current Standard and a scheme must report compliance with the current Standard for that scheme-issuer arrangement for the reporting period ending 30 June 2019. Thereafter, issuers and schemes must comply with the revised Standard only. **Alternative:** For the reporting period ending 30 June 2019, schemes and issuers must comply fully with the current Standards. Thereafter, schemes and issuers must comply with the revised Standards.

Stakeholders were generally supportive of the proposed changes, and appreciated the Bank's efforts to clarify the operation of the Standards. A small number of respondents objected to a few of the proposals in their entirety. Some respondents queried how some aspects of the proposed variations – such as the use of fair value – would operate in practice. Most respondents made suggestions on how the implementation of the proposals could be improved. Of particular note, many respondents commented on the drafting of the definition of 'Core Services' (a definition that is required to give effect to Proposal 2). Many considered it too restrictive, although there was no consensus on what services were considered core across respondents. The Bank actively engaged with stakeholders on the definition throughout the consultation period, and circulated a revised definition in late April for further comment. The definition the Bank has adopted reflects the considerable input provided by schemes, issuers and aggregators on this issue. To assess the operation of the definition of Core Service and the varied definition of Issue Payments, the Bank may request, from time to time, that an entity provide the Bank with a list of the fees it has included in its calculation of Issuer Payments and the services provided for those fees. The Bank expects to make this request to schemes and to a sample of issuers when they certify their compliance in relation to the varied standard for the first time.

The Bank has decided to adopt the seven proposals to vary the Standards and the first option for transitional arrangements. A summary of the Bank's conclusions is provided in Section 11. In response to stakeholder feedback and to improve the clarity and operation of the variations, some changes have been made to the draft variations published in the Consultation Paper. Appendix A sets out how the Standards will read once they have been amended to incorporate the final variations. Documents setting out (i) the changes relative to the variations proposed in the Consultation Paper and (ii) the changes relative to the current Standards, have been published on the Bank's website.³ Appendix B contains commentary on the application of accruals accounting to the calculation of net compensation.

In reaching these conclusions regarding variations to the Standards, the Bank notes it will be commencing a comprehensive review of its card payments regulation in 2020. Based on engagement with stakeholders, that review is likely to include consideration of:

- the level and transparency of scheme and processing fees
- brand and affinity partner arrangements

and the conduct of payment system participants in relation to these issues.

³ See Comparison of the Standards (as amended) to the version proposed in the Consultation Paper (<https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/comparison-of-standards-to-version-in-consultation-papers-2019-05-31.pdf>) and Variations to Standards No. 1 and No. 2 of 2016 (<https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/variations-to-standards-no-1-and-2-of-2016-2019-05-31.pdf>).

2. Introduction

2.1 Background to the consultation

In 2015–16, the Bank conducted a review of its card payments regulation, which concluded with new Standards relating to interchange fees and merchant pricing in designated card schemes.⁴ The interchange standards introduced new requirements relating to the payment of ‘net compensation’ to issuers. These requirements were designed to prevent the caps placed on interchange fees being circumvented by arrangements involving non-interchange payments or other incentives being provided by schemes to issuers (see Box A).

Under the Standards, schemes and issuers in designated schemes are required to certify to the Bank annually that they have complied with the net compensation provision. The initial certifications were provided to the Bank in August 2018. This initial certification process indicated that the new Standards were working as intended from a broad policy perspective. However, it also suggested that there were some issues with the interpretation of the net compensation provision that might benefit from clarification, and areas where some potential minor variations to the Standards might be beneficial.

Accordingly, the Bank sought informal views from stakeholders on the operation of the net compensation requirement. On 28 February, the Bank published a Consultation Paper on the Operation of the Interchange Standards.⁵ The Consultation Paper described the issues where stakeholders have sought clarification and guidance or suggested changes to the Standards, and set out the Bank’s proposed options to address them. It also set out draft variations to the Standards to illustrate how the Bank proposed to implement these changes. The Bank invited interested parties to make submissions in writing on the Consultation Paper and draft variations to the Standards by 28 March.

Box A: Interchange Fees, Issuer Incentives and Net Compensation

Debit and credit cards are the most frequently used non-cash payment instruments in Australia. The four largest banks are the main issuers of these cards although there is also issuance by a number of other financial institutions, both Australian and foreign-owned. Currently, around 85 per cent of the value of transactions in the credit and charge card market are processed through the international ‘four-party’ (Mastercard and Visa) networks and around 15 per cent through the ‘three-party’ (American Express and Diners Club) networks. All debit and prepaid card transactions are processed through four-party schemes (Debit MasterCard, eftpos and Visa Debit).

4 See [‘Review of Card Payments Regulation – Conclusions’](#), Reserve Bank of Australia, Sydney, May 2016.

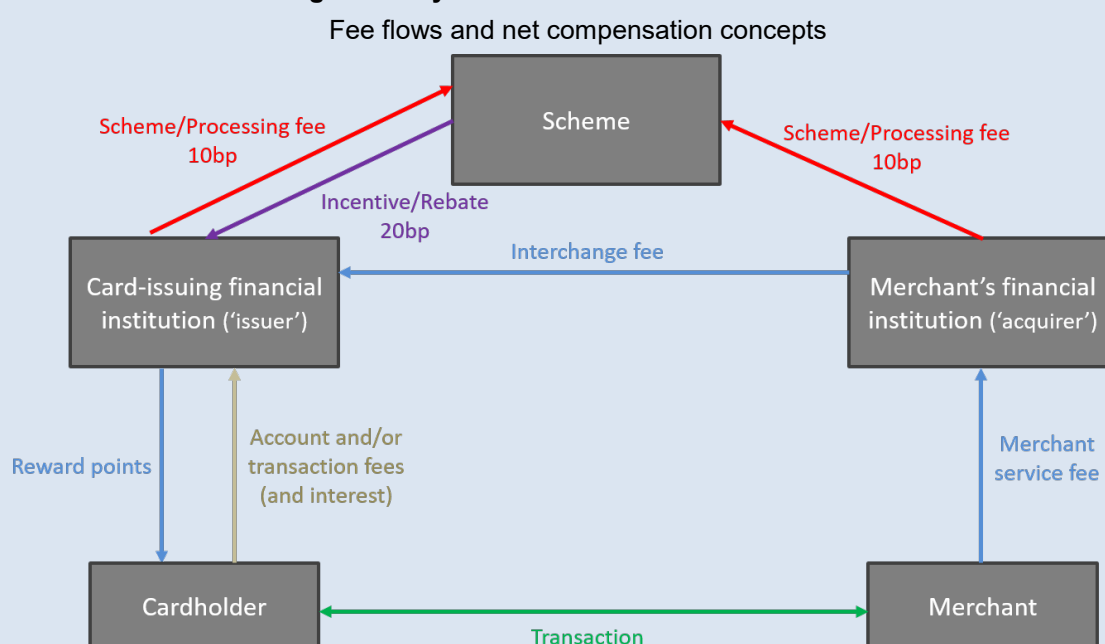
5 See [‘The Operation of the Interchange Standards: Consultation Paper’](#), Reserve Bank of Australia, Sydney, February 2019.

In four-party schemes, interchange fees are wholesale fees paid by the merchant’s financial institution (the acquirer) to the cardholder’s financial institution (the issuer) when a cardholder undertakes a transaction. While there may be a useful role for interchange fees when a card network is first established, the case for significant interchange fees in mature card systems is much less clear.⁶ Where merchants typically accept most or all types of cards, and where cardholders hold one type of card or have a preferred card, competition between schemes tends to result in increases in interchange fees, which are incorporated into higher fees charged to merchants.

Accordingly, to improve efficiency in the payments system, the Bank established regulatory standards in relation to interchange fees in the early to mid 2000s. These have had the effect of reducing the average level of interchange fees in the international four-party systems and prevented the significant upward movement in interchange fees that has occurred in other markets.

In 2016, the Bank introduced new requirements relating to the payment of ‘net compensation’ to issuers. These requirements were designed to prevent the caps placed on interchange fees being circumvented by arrangements involving non-interchange payments or other incentives being provided by schemes to issuers.

Figure 1: Stylised Flows in a Card Transaction



The key concept underlying the ‘net compensation’ provision is that while caps on interchange fees can limit amounts paid between acquirers and issuers, participants in a payments network can recreate interchange-like flows through the operation of scheme fees and rebates (and other non-rebate incentives). Issuers and acquirers generally pay fees to schemes for the services that the schemes provide. Schemes sometimes provide discounts and rebates on these fees, particularly to issuers, and they may make various payments to issuers which may be to encourage issuance of that scheme’s cards, or to establish card issuance exclusivity arrangements. Where acquirers and issuers pay fees to schemes and the scheme provides to the issuer rebates or other incentives of more than the amount of fees paid by the issuer, the net result is a value flow from acquirer to issuer which is economically equivalent to interchange fees (Figure 1). In the example provided in Figure 1, an interchange-like flow of 10 basis points (bp) occurs between the acquirer and the issuer, comprising a 10 bp scheme fee paid by both parties and a 20 bp rebate paid by the scheme to the issuer. The Standards implement a restriction on net compensation by establishing two defined concepts: Issuer Receipts and Issuer Payments, and stipulate that the former cannot be larger than the latter.

⁶ For further discussion see [‘Review of Card Payments Regulation – Conclusions’](#), Reserve Bank of Australia, Sydney, May 2016, pp.7-9.

2.2 Consultation Process

The Consultation Paper was published on the Bank's website on 28 February. Notification of the publication was sent to the 38 entities that had contacted the Bank regarding their compliance with any of the Bank's card payments regulations (that is, the interchange standards, as well as Standard No. 3 of 2016 that covers scheme rules relating to merchant pricing for credit, debit and prepaid cards, and the card system Access Regimes). This group included a mix of schemes and issuers, with the latter including direct issuers, aggregators (also known as scheme sponsors) and downstream issuing entities.

The Bank received ten written submissions in response to the Consultation Paper. Submissions were received from schemes, banks⁷ and one aggregator.⁸ All non-confidential submissions have been published on the Bank's website. The Bank also met with nine stakeholders.

In response to stakeholder feedback, the Bank drafted a revised definition of 'Core Service' (previously Core Services). As discussed in the Consultation Paper, the Bank proposed to clarify that 'Issuer Payments' are those payments made by issuers in relation to core services of a scheme. In forming the revised definition of Core Service the Bank drew on both the input provided in written submissions and meetings, and on additional information and perspectives a number of stakeholders provided in April at the Bank's request. The Bank circulated the revised definition of Core Service to stakeholders on 30 April and invited feedback by 3 May.⁹ The short timeframe for feedback on this revised definition reflected that it dealt with a specific issue on which stakeholders had already provided feedback, as well as the Bank's intention to take a proposal to the May meeting of the Payments System Board. Nine stakeholders provided their views on the revised definition; these included views from schemes, banks and aggregators.

The Bank also sought input from Accounting Standards experts.

7 All responding banks are both issuers and acquirers in the Australian market.

8 Four were received after the requested submission date of 28 March.

9 The revised definition of core service was circulated to entities that had contacted the Bank regarding their compliance with any of the Bank's payment cards regulations.

3. Accounting Basis

3.1 Issue for consultation and proposed options

The Bank consulted on changing the accounting basis by which net compensation is calculated, from a 'quasi-cash' approach¹⁰ to an accruals approach. The alternative option was to maintain the status quo. The primary objective of the proposal was to reduce compliance costs by allowing regulated entities greater scope to draw more directly on their financial accounts prepared in line with generally accepted Australian accounting principles when calculating their net compensation position.¹¹ The proposal specified that the accruals methodology used for determining compliance must allocate benefits to, or between, reporting periods in a manner consistent with the purpose and intent of the Standards.

In broad terms, cash accounting recognises benefits when they are paid or received, whereas accrual accounting recognises benefits when they are earned or accrued, regardless of whether they have actually been paid or received. One potential drawback of an accruals approach is that it introduces greater variability in the way benefits can be recognised. The Australian Accounting Standards Board (AASB) Accounting Standards¹² provide an appropriate starting point for determining how to allocate benefits to reporting periods for the purpose of calculating net compensation.¹³ The proposal noted that an entity's decision to change from one accruals treatment to another from one reporting period to the next could have the purpose or effect of avoiding the Standards. For this reason, the Bank proposed that entities not be able to do this without prior written permission from the Bank.¹⁴ More generally, it noted that guidance may be required to provide clarity over which accruals treatments are consistent (or inconsistent) with the purpose and intent of the Standards.

3.2 Stakeholder views

Stakeholder feedback indicated widespread support for the move to an accruals approach for determining net compensation. Almost all respondents indicated that a shift to an accruals approach would reduce their compliance costs. No entities expected a material increase in compliance costs from this change.

10 The current standards are consistent with Issuer Receipts and Issuer Payments (the two components of net compensation) being calculated on a cash basis, with an exception for Benefits that span more than one reporting period, for example a lump-sum 'signing bonus' paid to an Issuer for entering into a contract with the scheme. In this case, subparagraph 5.2(e) of the current standards allows such a Benefit to be allocated across the relevant reporting periods based on the number of months in each reporting period, subject to some further conditions. This quasi-cash approach was originally chosen as it was viewed as being both straightforward and broadly consistent with the nature of benefits typically provided by schemes to issuers.

11 Conceptually, an accruals approach could also improve the operation of the Standards as it allows for the net compensation calculation for each reporting period to be less affected by (potentially arbitrary) delays or advances in the timing of when cash payments are paid or received.

12 Known as the Australian Accounting Standards (AAS).

13 AASB Accounting Standards (Tier 1) adopts the International Financial Reporting Standards (IFRS).

14 In addition, for the avoidance of doubt, the Bank proposed to clarify in the Standards that an amount treated as an Issuer Payment in one reporting period cannot be included as such in a subsequent period, and that incentives that meet the definition of an Issuer Receipt must be included in a reporting period that occurs during the life of the contract.

Many respondents considered the accruals accounting treatments allowable under the Australian Accounting Standards (AAS) to closely, or completely, align with the purpose and intent of the interchange standards. However, one entity raised concerns that there might be an AASB allowable accounting treatment for upfront incentive payments that is inconsistent with the purpose and intent of the Standards. Several entities requested further clarification on how the proposed accruals approach would operate in practice. This included, in some cases, a request for specific guidance on: which accruals treatments the Bank views as being consistent (or inconsistent) with the purpose and intent of the Standards; and whether entities should apply a consistent accounting approach across Issuer Receipts, Issuer Payments, and different scheme-issuer agreements for Benefits that are of a similar nature to each other. One stakeholder raised the idea of drawing on financial accounting prepared using US Generally Accepted Accounting Principles (GAAP) rather than AAS (or equivalent). Its rationale was that it has a US-based parent and prepares its financial accounts on a US GAAP basis, so the use of these accounts would reduce compliance burden. It indicated that it had not found any differences material to the calculation of net compensation from using US GAAP versus AAS.

A few entities opined that schemes and issuers should not always be required to seek permission from the Bank to change from one accruals methodology to another – for example, in situations where the change in methodology is a result of a change to an AAS. However, these stakeholders agreed that changes to accounting standards are known well in advance of their implementation date, and that there is unlikely to be any practical difficulty seeking permission from the Bank in this circumstance.

Two entities proposed alternative bases for determining net compensation compliance. These were: (1) that the compliance requirement be assessed on net compensation over the life of a contract, rather than over annual reporting periods, such that an entity could use either a cash or an accruals approach and reach the same determination on their compliance status; and, (2) that compliance should be determined on a fully-cash basis over a two-year rolling period, which should be retrospectively applied to the commencement of the Standards in 2016. The rationale for the latter suggestion was to remove the ability for entities to allocate large upfront payments over more than two periods. This entity was concerned that the ability to allocate upfront payment over numerous periods created an un-level playing field between schemes with differing ability to provide large upfront payments (and relatedly, the ability to enter into longer-duration contracts).

3.3 Assessment and Conclusion

In view of the broad support from stakeholders, the Bank will proceed with the proposal to require net compensation to be calculated on an accruals basis as set out in the consultation paper (Proposal 1). Further guidance in relation to the operation of the accruals approach is likely to be helpful to stakeholders, and is provided in Box B below and Appendix B.

In relation to other issues raised in consultation:

- It seems reasonable to expect that entities should apply a consistent accounting treatment across Issuer Receipts, Issuer Payment and all of its scheme-issuer agreements. ‘Cherry-picking’ different accounting treatments for Benefits that are similar in their substance and ‘fact pattern’ may have the purpose of avoiding the Standards, in which case the anti-avoidance clause of the Standards would be relevant.
- It is reasonable to retain the proposed requirement that schemes and issuers must not change accounting methodologies from one reporting period to the next, without prior written permission from the Bank. In the Bank’s view, this requirement is necessary to prevent possible circumvention of the Standards. Moreover, most of the small number of objections to this

proposal related to the situation where a change in methodology arises from a change in an Accounting Standard. In this case, stakeholders indicated that requesting prior permission from the Bank for this reason was unlikely to be of any practical difficulty given that changes to accounting standards are consulted on and known well in advance of their implementation date.

- A requirement only that there be no net compensation over the life of an issuing contract, rather than no net compensation in each reporting period, would create the risk of substantial non-compliance being revealed only at the end of the contract period. In the intervening period, there would be the potential for this non-compliance to have had a material market impact, to the detriment of complying entities and likely increasing payment costs in the economy.
- Given the broad support for a shift to an accruals approach, the alternative proposal for compliance to be determined on a fully-cash basis over a two-year rolling period, would be unlikely to receive material support from other stakeholders. In addition, while the Bank acknowledges that schemes may differ in their ability to provide large upfront payments, the cash approach proposed may not enable the recognition of upfront payments to be adequately aligned to their economic substance.
- The Bank considers the AAS to provide an appropriate starting point for allocating benefits to reporting periods for the purpose of calculating net compensation.¹⁵ Where an entity wishes to use an accounting standard (that is not equivalent to the AAS), such as US GAAP, it should provide an additional attestation to the Bank that discloses the recognised accounting standards they have used, and that the use of these accounting standards in calculating net compensation had no material impact on their compliance status relative to if they had used AAS.

Finally, the Bank observes that it is possible that in some cases a treatment permitted under AAS may not be an appropriate treatment for the purposes of calculating net compensation.¹⁶ The Consultation Paper noted that entities need to be aware of this, and ensure the treatment used for determining net compensation is consistent with the Bank's Standards. If there is no treatment that is both consistent with AAS and consistent with the purpose and intent of the Standards, then entities would need to deviate from accounting standards when determining net compensation.¹⁷

Some minor technical revisions to the variations have been made to improve the clarity or the operation of the revised Standards as they relate to accrual accounting, and are set out in a marked-up version of the variations available on the Bank's website.¹⁸ These relate to:

- Modification of text relating to Benefits that meet the Incentive Test in (ii)(B) of the definition of Incentive Test, changing 'list, standard or usual price' to 'Regular Price'.

15 This preference for AAS (and its equivalent IFRS) is broadly consistent with the approach taken by ASIC in relation to reporting under the *Corporations Act 2001*. Under section 296 of the *Corporations Act*, financial reports must comply with accounting standards made by the AASB under section 334 of that Act. ASIC notes that IFRS, to which AAS has been equivalent since 2005, is also acceptable. ASIC guidance specifies that entities are permitted to present non-IFRS financial information prepared under the generally accepted accounting principles of another jurisdiction in their annual reports, but not in financial reports unless it is necessary to give a true and fair view of the entity's financial position and performance. Where it is necessary to use non-IFRS financial information, ASIC indicates that the information should not be presented in a misleading manner, and the basis used should be clearly described.

16 This observation reflects the fact that the purpose and intent of accounting standards may differ from the purpose and intent of Standards No. 1 and No. 2.

17 Consequently, in this circumstance entities will not be able to draw directly, and without adjustment, on their financial accounts to determine net compensation.

18 See Comparison of the Standards (as amended) to the version proposed in the Consultation Paper (<https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/comparison-of-standards-to-version-in-consultation-papers-2019-05-31.pdf>).

- Addition of the defined term 'Regular Price'.
- Modification of text relating to Fair Value to allow for both initial and subsequent measurement dates. The rationale for this modification is discussed in section 7.3.
- Inclusion of 'paid' in addition to 'payable' in 5.2(b) to reflect that in some circumstances amounts will have already have been paid.

Conclusion: Accounting Basis

Adopt Proposal 1.

The Bank's Standards No. 1 and No. 2 of 2016 will be modified to require an accrual approach to be used to allocate Issuer Receipts and Issuer Payments to, or between, reporting periods in a manner consistent with the purpose and intent of the Standards, such that in determining net compensation certifying entities have more scope to draw on information from financial accounts prepared in line with generally accepted Australian accounting principles. Compliance would not be permitted on a cash or quasi-cash basis.

Box B: Applying Accrual Accounting Concepts to the Calculation of Net Compensation

The AAS provide considerable direction and guidance in relation to the preparation of financial reports on an accruals basis. Under the varied Standards, schemes and issuers will, in most cases, be able to draw more directly on their financial accounts prepared in line with the AAS. However, the interchange standards serve a different purpose from the preparation of financial accounts. Schemes and issuers must satisfy themselves that any accounting treatment used in the assessment of net compensation compliance is consistent with the scope, purpose and intent of the interchange standards. In some cases, it may be appropriate to use one accounting approach for financial reporting and another for net compensation compliance reporting. The Bank expects that entities would only deviate from the approach used for their financial reporting when such an approach is not consistent with the Standards, and not for other reasons. The Bank may query accounting treatments used for net compensation compliance purposes and require entities to demonstrate that the treatments used are consistent with the Standards.

The Bank makes the following observations about how entities should apply the following accounting concepts in the context of the net compensation provisions:

- **Identification of 'the customer':** *AASB 15 Revenue from Contracts with Customers*¹⁹ (and its equivalent IFRS 15) speaks to the identification of the customer in a transaction, which in turn influences the accounting treatment applied. In the context of the net compensation requirements, the customer should always be considered to be either the issuer or the scheme (that is, the administrator of the scheme or its associated entities), and not some other third party, such as a merchant or cardholder.
- **Materiality:** Materiality should be determined in the context of whether a payment or other Benefit is material to the entity's compliance with the net compensation requirements of the Standards (rather than if it is material for financial reporting purposes).
- **Probability threshold for recognition:** The AAS guidance sets a high threshold for recognition of 'variable consideration' as revenue. Under AASB 15 estimates of variable consideration in revenue are only included when an entity has a 'high degree of confidence' that revenue will not be reversed in a subsequent reporting period. For the purpose of calculating net compensation, it is likely to be more appropriate for an entity to apply a 'more probable than not' threshold for recognition of a Benefit it may receive. The greater the Benefit, the greater the diligence an entity should undertake assessing this probability.

¹⁹ See [AASB 15 Revenue from Contracts with Customers](#), Australian Accounting Standard Board, Melbourne, December 2018.

- **Financing component:** For some transactions, the receipt of the consideration does not match the timing of the transfer of goods or services to the customer (for example, the consideration is prepaid or is paid after the services are provided). AASB 15 provides guidance on determining whether such transactions have a significant financing component and, if so, how it should be recorded. The Bank's view is that the AASB 15 approach is unlikely to be inconsistent with the intent of the interchange standards, but notes that any materiality considerations should be made in relation to the effect on an entity's net compensation compliance position.
- **Estimates (forecasts) and true-ups:** Entities should use their most accurate estimates (forecast), rather than a conservative or aggressive, estimate. This should be a robust exercise. This is consistent with AASB 15. True-ups should be recognised in the period when actuals are known.
- **Fair Value:** In the Bank's view, Fair Value as defined in the varied interchange standards is consistent with the use of *AASB 13 Fair Value Measurement*²⁰ (or its equivalent IFRS 13), with only a small number of exceptions (for example, in relation to the first measurement date for Fair Value). Subject to any express requirement in the Standards, the Bank expects entities to take guidance from AASB 13 in determining Fair Value for the purposes of calculating Net Compensation. Considerations set out in section 7.3 of this Paper are also relevant for determining Fair Value.

The Bank notes that under AASB 13 measurement of non-financial assets must reflect the highest and best use of the asset from the perspective of market participants, and that entities must give preference to using observable inputs, and that the hypothetical transaction on which the fair value measurement is based must be between market participants that are independent of each other, but knowledgeable about the asset.

As part of a broader agreement, a scheme may provide an issuer with a fixed amount of **credits** with which it can purchase particular goods or services. In determining the Benefits to be recorded in relation to such credits, the Bank observes that it is more clearly consistent with the purpose and intent of the Standard for entities to consider all credits provided whether they are used or not, than to 'write-off' any unused credits. The expiration of credits may not necessarily change whether consideration has been received and is available to the issuer. This notwithstanding, the most appropriate treatment will depend on the specific facts and circumstances of the arrangement.

- **Restatement of financial accounts:** Entities cannot retrospectively restate their compliance status for previous reporting periods. Consistent with this, and the requirement that all Issuer Receipts and Issuer Payments must be allocated to a reporting period, an entity should not revise its net compensation position for previous reporting period, even if it has restated its financial accounts.
- **Apportionment across reporting periods:** An even (or pro-rata) approach to apportionment over relevant reporting periods is likely to be of less concern to the Bank than an apportionment that has a steep or unusual profile. Clause 5.2(e) of the varied Standards sets out how a Benefit may be apportioned over multiple reporting periods (if that Benefit relates to more than one reporting period). A pro-rata approach must be used if an allocation on that basis would fairly and reasonably align the Benefit to the activity to which the Benefit relates. If a pro-rata approach does not achieve this, then an entity must use some other approach that does. Entities are expected to be able to provide reasonable justification for their accounting treatments, including that the treatment is consistent with the purpose and intent of the interchange standards.

20 See '[AASB 13 Fair Value Measurement](#)', AASB, Melbourne, August 2015.

4. Entities Receiving Issuer Payments

4.1 Issues for consultation and proposed options

Currently, the Standards refer to the possibility of Issuer Payments being able to be made to an Acquirer. The Consultation Paper proposed removing this reference to Acquirers from the Standards (Proposal 3). The ‘acquirer’ element of the original definition was intended to maintain a level playing field between four-party schemes and American Express companion card arrangements, where the role of American Express in companion card arrangements could have been interpreted as that of an acquirer. Under the proposed draft Standards the definition of Issuer Payments included payments to an associated entity of a scheme, and thus would encompass payments made to an associated entity that is an acquirer.²¹ Accordingly, the specific reference to Acquirers is no longer required.

4.2 Stakeholder views

There was broad support for this proposal. No submissions objected to the change. One respondent suggested an alternative net compensation framework that included applying the net compensation concept across the cards ‘eco-system’, such that payments to and from Acquirers, merchants and others would be captured. The objectives of this alternative framework included addressing potential cross-subsidisation across issuers and acquirers and strengthening pricing signals to merchants.

American Express noted that its companion card arrangements in Australia had come to an end. In view of this, it suggested that there is no longer any need to have American Express Companion Cards designated as a Scheme and be subject to the Bank’s credit card interchange fee standard (Standard No. 1 of 2016) or its merchant pricing standard (Standard No. 3 of 2016), and the compliance and reporting requirements therein.

4.3 Assessment and Conclusion

Given the broad support for Proposal 3 the Bank will vary the Standards to remove references to ‘Acquirer’ from the definition of ‘Issuer Payments’ and to include payments to associated entities of a scheme. The alternative framework suggested by one stakeholder goes beyond the limited scope of this consultation, though it raises issues that would be relevant for the next comprehensive review of the regulatory framework.

In relation to American Express’ submission that the designation of the American Express Companion Card Scheme can be revoked, the Bank expects to consider this issue in the context of its next comprehensive review of card payments regulation. In the interim, where a designated entity expects to have nil reports for an extended period in relation to any requirements of a standard, the Bank would expect to provide a letter to that entity waiving those reporting obligations.

²¹ Including payments to associated entities of the scheme in the definition of Issuer Payments is intended to enhance consistency across the proposed definitions of Issuer Receipts and Issuer Payments. It also clarifies that the corporate structure of the scheme and its associated entities should not affect whether a particular Benefit is an Issuer Payment or not.

Conclusion: Issuer Payments to Acquirers

Adopt Proposal 3.

Remove references to 'Acquirer' from the definition of 'Issuer Payments' in the Standards.

5. Issuer Payments as Payments for ‘Core Services’

5.1 Issues for consultation and proposed options

The net compensation provisions were introduced in 2016 as a means of ensuring that incentives to issuers could not be used to circumvent the Bank’s interchange fee caps (See Box A). The Standards implement the restriction on net compensation by establishing two defined concepts: Issuer Receipts and Issuer Payments, and stipulate that the former cannot be larger than the latter.²²

In determining their net compensation compliance certification for the first reporting period in mid 2018, some stakeholders sought clarity on what could be considered Issuer Payments under the Standards. ‘Issuer Payments’ effectively sets an upper limit for financial incentives and other benefits that can be provided to the issuer without breaching the requirement that there be no net compensation. In particular, stakeholders sought clarification on whether the Standards intended to capture, as Issuer Payments, fees for services that are not essential to the issuance or use of cards, for example, fees paid for the provision of loyalty services. Stakeholders noted that there were inconsistent views across the industry on this matter. In addition, some stakeholders noted that schemes differ in the breadth of auxiliary services they offer. A wide interpretation of Issuer Payments could, in theory, facilitate one scheme being able to offer more incentives to an issuer than another scheme with a more limited set of services.

Under the Standards, Issuer Payments are essentially the total amount of fees (or ‘Benefits’) related to cards or card transactions that are paid by an issuer to the scheme. The Standards refer to these as including ‘Scheme branding fees; processing fees; and assessment fees’. The Consultation Paper proposed to improve the clarity of the definition in a manner consistent with the original purpose and intent of the Standards by explicitly defining Issuer Payments as those payments made to schemes (or their associated entities) for ‘Core Services’ provided by the scheme (or their associated entities) to the issuer. To give effect to this proposal, the Bank would need to define Core Services.

In the Consultation Paper, the Bank set out a definition of Core Services which, broadly speaking, entailed those services that are the minimum necessary for the issuer to effectively participate in a scheme, and without which it would not be possible to be an Issuer (directly or sponsored) and which are provided to issuers in the scheme globally in exchange for scheme and other processing fees (see Box C). These services are likely to include the licensing of scheme branding, as well as transaction processing and assessment services, and basic relationship management services. As issuers may not have visibility over all services that a scheme provides to other issuers globally, this approach required schemes to notify their issuers of the services that met the ‘provided globally’ test.

This Consultation Paper version of the Core Services definition made it clear that fees or payments for tangential card-related services – such as the loyalty services example raised earlier by stakeholders – are not captured in Issuer Payments. The Bank noted that a particularly wide definition could enable

22 As noted earlier, in the proposed changes to the standards, the terms Issuer Receipts and Issuer Payments are replaced by terms ‘Direct Issuer Participant Payment’ and ‘Direct Issuer Participant Receipt’. For ease of reference, this consultation paper retains usage of the terms ‘Issuer Payments’ and ‘Issuer Receipts’.

an extensive range of payments made for bundled and optional services to be included in Issuer Payments, creating potential for substantial payment of incentives to particular issuers. The scope for this to occur could grow as schemes become involved in more parts of the payment value chain and provide a wider range of services to issuers. In view of this, and the likelihood that an increase in incentives paid will lead to an increase in merchants' costs of accepting card payments (similar to an increase in interchange fees), a wide definition of Issuer Payments is unlikely to be in the public interest or consistent with the original purpose and intent of the Standards.

In addition, in the Consultation Paper, the Bank proposed that the definition of Issuer Payments specify that only *payments* for core services can be included, rather than other forms of consideration such as rebates, refunds, allowances, discounts or deductions, as is the case in the current version of the Standards. This change is to simplify and improve the clarity of the Standard. The Bank expects that this modification is unlikely to have a material impact, given that the vast majority of, if not all, consideration for a scheme's core services is in the form of amounts paid or payable.

In response to feedback (discussed below), the Bank drafted a revised definition of Core Service (previously Core Services) for additional stakeholder consultation (see Box C). The revisions sought to address a range of concerns raised by stakeholders, and incorporate new information obtained from the consultation process (from the written submissions, stakeholder meetings and subsequent information requests). Notably, in the revised version the 'provided globally' test was removed. In addition, the revised version specified that a Core Service could only be one of a limited set of service types. It also drew on the views of some stakeholders that a service should not be considered a Core Service of the scheme (or a scheme's associate entity) if it could be provided by a third party or produced in-house by the issuer. Throughout the consultation process, the Bank actively engaged with stakeholders on the Core Service(s) definition and possible revisions.

Box C: Definitions of Core Service(s) Proposed

In the course of developing the variations to the Standards, the Bank circulated the following proposed definitions of Core Service(s) to stakeholders for their views. The definitions below are for Standard No. 1 which relates to credit card systems. If either version were adopted, an equivalent definition would be used in Standard No. 2 which relates to debit and prepaid card systems.

Consultation Paper version (circulated to stakeholders on 28 February):

Core Services means in relation to a Scheme the services provided by the administrator of the Scheme in Australia or any of its Associated Entities:

- (a) which are the minimum necessary services for a participant in the Scheme in Australia to issue, and administer transactions made using, a Device of the Scheme that can be used to make payments for goods or services by accessing a deposit account held at an authorised deposit-taking institution or a bank or other financial institution;
- (b) without which it would not be possible for a Direct Issuer Participant to be an Issuer or for another entity to be an Issuer through Sponsorship by a Direct Issuer Participant; and
- (c) which the administrator has confirmed in writing are provided to all entities participating in the Scheme globally who issue Devices of the Scheme that can be used to make payments for goods or services by accessing a deposit account held at an authorised deposit-taking institution or a bank or other financial institution irrespective of the country or countries in which they have their headquarters or carry on business;

Revised version (circulated to stakeholders on 30 April):

Core Service means, in relation to a Scheme, a service provided by the administrator of the Scheme in Australia or any of its Associated Entities that meets the requirements in the following paragraphs (a), (b) and (c):

- (a) the service is used by a participant in the Scheme in Australia in relation to Devices of the Scheme that can be used for purchasing goods or services on credit or transactions initiated using those Devices; and
- (b) without the service it would not be possible for a Direct Issuer Participant to be an Issuer or for another entity to be an Issuer through Sponsorship by a Direct Issuer Participant of the Scheme; and
- (c) one of the following:
 - (i) the service relates to the licensing of the Scheme's brands; or
 - (ii) the service relates to (and only to) one or more of the following: transaction processing, clearing and settlement (including processing, clearing and settlement of charge-back transactions); or
 - (iii) the service both:
 - (A) relates to (and only to) one or more of the following: authentication, authorisation, stand-in processing and fraud prevention; and
 - (B) is a service that, for technological or operational reasons given the configuration of the systems of the Scheme to process transactions, can only be provided by the administrator of the Scheme in Australia [or one of its Associated Entities].

For the definition circulated to stakeholders on 30 April, the Bank requested comments on the inclusion or exclusion of the text in brackets (in part (c)(ii)(B)), in addition to their view on the revised definition more broadly.

5.2 Stakeholder views

A substantial majority of stakeholders supported, in principle, Proposal 2. That is, the concept that Issuer Payments are those payments made by issuers in relation to core services of a scheme. No respondents objected to the idea Issuer Payments should only relate to *Payments* rather than *Benefits*. However, many respondents considered the specific definition of Core Services drafted by the Bank to give effect to the proposal to be too narrow. Three respondents objected to the proposal in its entirety.

Objections to the principle of defining Issuer Payments as payments for core services

Of the three respondents that objected to the proposal in its entirety, two suggested that the current definition of Issuer Payments should be retained. They suggested that the Bank could provide sufficient clarification of the current definition of Issuer Payments by adding an exclusions list.

A small number suggested that the proposal would materially change the definition of Issuer Payments, with a potentially substantive effect. They submitted that such a change should not be contemplated in this consultation, but as part of the Bank's periodic comprehensive review of the regulatory framework. In contrast to this view, many stakeholders described the expected impact of the proposed variations to be relatively small.

Another stakeholder suggested that Issuer Payments should be defined in relation to the scheduled fees a scheme has published to its issuers, rather than a definition of core services. This reflected a

concern that definitions can be vulnerable to circumvention. Under its proposed approach, schemes would only be able to include in Issuer Payments a fee for which:

- (i) the scheme has published that fee to all issuers of the scheme; and,
- (ii) the fee relates to payments initiated in Australia for the purchase of goods and services (excluding international e-commerce);

The stakeholder proposed that Schemes be required to disclose to the Bank all fees that applied to issuers during each reporting period, which would assist the Bank in verifying compliance. It noted that this approach would also increase the transparency of scheme fees. Discussion with other stakeholders suggested the schemes' fee schedules can be complex. Some schemes were said to have thousands of different types of scheme fees. However, several entities noted that a relatively small number of fee categories accounted for the vast majority of fees paid to schemes.

Comments in relation to the definition of core services set out in the Consultation Paper

Although a substantial majority of stakeholders supported, in principle, Proposal 2, many considered the specific definition of Core Services suggested by the Bank to give effect to the proposal to be too narrow.

Many stakeholders raised concerns that the 'provided globally' element (part (c)) of the Core Services definition set out in the Consultation Paper was too restrictive. A common view was that services that are core in Australia may not be provided by a scheme in other markets. For example, one respondent stated that in some countries schemes do not provide transaction processing services. Some also noted that Australia is often used as a test market for innovations (such as contactless technology), and that as a result some services will be taken up in Australia sooner than in other countries. A small number of respondents commented that the 'provided globally' test would make issuers overly reliant on schemes in determining which services are core.

Some stakeholders commented that other elements of the definition were too restrictive, namely the requirements that Core Services are:

- the minimum necessary services for a participant to issue, and administer transactions made using, a Device of the Scheme that can be used to make payments for goods or services; and,
- without which it would not be possible to be an Issuer of the scheme (directly or sponsored).

Some stakeholders suggested that 'minimum necessary' and 'without which it would not be possible' should be replaced with less restrictive wording, such as 'unavoidable' or 'minimum expected capability', respectively. An alternative suggestion was that the definition should refer to the minimum necessary services to ensure the integrity of the system, rather than the minimum necessary services to issue and administer transactions.

Several respondents suggested that the definition of Core Services should be considered from the perspective of cardholders. For example, that Core Services be the minimum necessary services needed to meet cardholders' expectations or, alternatively, those services necessary for an issuer to be able to compete effectively for prospective cardholders. Several stakeholders noted that fraud prevention services, which are not mandated by the schemes, are generally expected by cardholders.

One view put forward in consultation was that a service should not be considered to be a Core Service of the scheme (or any of its associated entities) if it could be provided by a third party or produced in-house by the issuer. Others suggested that schemes are often best placed to provide – or more efficient at providing – certain services, even when there are third-party providers. Some stakeholders asserted that such services should be considered core. In particular, it was suggested that schemes

are better placed to provide services that relate to the entire system and for which real-time action is critical to the integrity of the network, for example some types of fraud prevention services.

Stakeholders generally agreed that all scheme-mandated services should be considered core. However, some issuers raised concerns that schemes may choose to mandate a wider range of services if this criteria was included in the definition of Core Services. Others suggested that Core Services should be wider than just mandated services.

A few respondents suggested that the definition should include a list of services that are core and/or a list of services that are not core. While some entities provided examples of the services that they considered to be core, there was no consensus across respondents on the services listed. Some noted that it would be desirable for the definition to be drafted in a way that it would not need to be regularly updated, for example to account for technological changes.

Some commented that it would take significant time and resources to distinguish Core from non-Core Services based on the proposed definition. For some schemes, verifying services against the global test would be an extensive exercise. This notwithstanding, stakeholders expected that the cost of identifying Core Services would largely be limited to the period where entities transitioned from the current Standard to the varied Standard.

Comments on the revised definition of Core Service circulated to stakeholders on 30 April

In response to stakeholder feedback, the Bank drafted a revised definition of Core Service (previously Core Services) for stakeholder consultation (Box C). Many respondents acknowledged that the revised definition had addressed some of their concerns. Some stakeholders noted that they were comfortable with the revised definition, however others suggested that the definition remained too narrow. A small number of stakeholders that had previously objected to Proposal 2 in its entirety continued to argue against the proposal.

Some entities sought clarification on whether some specific service types would be captured as a Core Service, or relatedly whether specific fees would be included as Issuer Payments, under the revised definition. The services queried included: basic relationship management services, scheme compliance (including licensing, mandated releases, article updates), card management services, POS device Issuance, scheme-mandated product features and regulatory compliance. The fees queried included: assessment fees and other fees linked to the number of cards issued, reversal fees, access fees, testing fees and concierge fees. One respondent indicated the fees charged by some schemes change frequently, and that the names of fees do not necessarily clearly reflect the service being provided for that fee.

A number of respondents proposed modifications to the definition. One entity suggested that the Bank use a definition that includes products (i.e. broadening the defined term from Core Service to Core Service or Product). In consultation, several other stakeholders described schemes as providing products as well as services. Another entity submitted that if authorisation services were added to part (c)(ii) of the proposed definition, part (c)(iii) would not be required. Others suggested modifications based on incorporating either the issuer's or the cardholder's perspective on what is a Core Service. One entity commented that different issuers have different views on what they consider 'core'. In a small number of cases, respondents expressed concerns about the requirement that a Core Service would be defined as something without which it would not be possible to be an issuer of the scheme (directly or through sponsorship) (part (b)). A concern here was that this introduced a material change from the current Standards.

A few stakeholders commented specifically on the requirement that particular types of services are only core if they can only be provided by the scheme (or any of the scheme's associated entities) for

technological or operational reasons given the configuration of the systems of the Scheme to process transactions (in other words, excluding services that could be provided by a third party or performed by the issuer in-house). Some respondents held the view that the additional test would restrict issuer payments too narrowly. One entity indicated that it was likely to face significant difficulty in determining whether a particular service could – in theory – be provided by an alternative source to the scheme (or a scheme-associated entity). Drawing on an observation that for certain services the scheme will be the most efficient provider, but not the only possible provider, one entity suggested that this element of the definition (part (c)(iii)(B)) be replaced with a concept linked to efficiency. For example, that a service would be core if, for technological or operational reasons given the configuration of the scheme's systems to process transactions, an issuer receives the service from the scheme on efficiency grounds.

There was broad support for the inclusion of the reference to associated entities of a scheme in part (c)(ii)(B) of the revised definition.

In relation to compliance costs under the revised definition of Core Service, schemes noted that time and resources will be needed to identify which services are core and the fees attributable to them. Some indicated that the revised definition might necessitate the re-negotiation of contracts to ensure compliance with the Standards.

5.3 Assessment and Conclusion

Given the in-principle support from most respondents, the Bank has decided to proceed with adopting Proposal 2. The Bank appreciates the considerable input that the industry has provided over recent months in relation to the drafting of the definition of Core Service. The Bank has further refined the definition to reflect the most recent round of stakeholder consultation. The Bank carefully considered the views of those stakeholders who made submissions on Proposal 2, and an assessment of these is set out below.

Defining Issuer Payments as those payments made by issuers in relation to core services of a scheme

In the Bank's view, it is consistent with the purpose and intent of the Standards to define Issuer Payments as those payments made by issuers in relation to core services of a scheme (Proposal 2). In drafting the current Standards, the Bank envisaged that only a narrow set of scheme fees would be included as Issuer Payments. This is reflected in the examples of Issuer Payments provided in the Standards, namely scheme branding fees, processing fees and assessment fees. These are fees for services that the Bank understood to be essential and unavoidable to participate in the scheme. In putting forward Proposal 2, the Bank sought to provide greater clarity to stakeholders about what was, and was not, intended to be captured in Issuer Payments.

Proposal 2 is consistent with the original purpose and intent of the definition of Issuer Payments. It is possible that, if a scheme or issuer has previously taken a particularly wide interpretation of the current definition of Issuer Payments, the consequence of adoption of Proposal 2 could be a material change in the quantum of Issuer Receipts flowing from a scheme to an issuer in the future. If schemes and issuers have been taking a particularly wide interpretation of Issuer Payments, then this strengthens rather than diminishes the case for adopting Proposal 2. In the Bank's view, it is in the public interest to adopt Proposal 2 to confirm the purpose and intended outcome of the Standards even if doing so may have particular implications for some stakeholders. The Bank notes that it has included transitional arrangements for the variation to the Standards that enable issuers to comply with the existing Standards for the 2018/19 reporting period and move to the revised Standards for the 2019/20 reporting period (see Section 9).

The suggestion that Issuer Payments be, broadly speaking, tied to published scheme fees associated with payments initiated in Australia (rather than Core Services) raises a number of important questions and the Bank expects that there would be a diversity of views on these matters. Given this, and the in-principle support for the proposal the Bank put forward, it was decided not to consider this alternative, in its entirety, any further at this time.

This alternative also proposed that schemes disclose to the Bank all fees that applied to issuers during each reporting period. In the Bank's view, this would assist the Bank in verifying compliance. However, the Bank notes that it has information gathering powers under which it could acquire this information. Accordingly, it is not necessary to include this requirement in the Standards.

This alternative also raised a number of important issues that are outside the scope of this consultation. These largely relate to scheme fees, and include the question of whether complexity and opacity of scheme fees may be inhibiting competition and/or efficiency in the cards market. These issues would be best considered in the next comprehensive review of the regulatory framework.

Definition of core service

The Bank noted stakeholder feedback that the 'provided globally' element of the proposed definition might be overly restrictive, as there are some services that may be necessary for participating in a scheme in Australia that are not provided to issuers of the scheme globally. This element of the definition was removed in the revised version circulated to stakeholders in April.

A recurring theme in the consultation was the suggestion that Core Services should be defined in relation to either issuer or cardholder expectations, rather than the minimum services required to issue cards, and administer transactions, and without which it would not be possible to be an Issuer (directly or sponsored). This suggestion was not adopted. In the Bank's view, doing so would introduce scope for the definition to be interpreted much more broadly, and thus would not address some of the key issues raised in the initial call for views on the operation of the Standards. In addition, the consultation revealed that there is not a consistent view across issuers on what each considers to be the core services provided by schemes. It is worth noting that the definitions of Core Service(s) the Bank has proposed do not prevent an issuer from purchasing non-Core Services from a scheme to deliver additional services to their cardholders.

The Bank responded to stakeholder views that the definition could offer more clarity by including a list of services that could be considered a Core Service. By making such a list exclusive, this would also provide clarity on the types of services that are not to be considered core. The revised definition circulated by the Bank in April incorporated such a list. This list was segregated, with a portion of the services listed subject to a further test that incorporated the concept that if a service could be provided by a third party, or be produced in-house by the issuer, then it should not be considered a Core Service of the scheme. This additional test sought to address the mixed views across stakeholders as to whether the services in the list should be considered core. The inclusion of this list meant that the 'minimum necessary' test (part (a) of the definition proposed in the Consultation Paper) was not needed, and it was removed in the revision.

In responding to the revised definition, some stakeholders advocated for the removal or substantial modification of the additional test in relation to whether a service can be provided by an entity other than the scheme. The Bank acknowledges that this additional test added a layer of complexity and that there may be practical difficulties to its implementation, so it has decided to not include it.

In the Bank's view, the final definition for Core Service (see Box B) provides the industry with a much clearer picture of the intended scope of the definition of Issuer Payments, compared with the current definition. The final definition will limit the scope for substantial payments of incentives to particular

issuers.²³ Under the current definition of Issuer Payments, there is greater scope for this to occur when a scheme offers a wide range of card related services that are not Core Services. As discussed above, an increase in incentives paid to issuers is likely to lead to an increase in merchants' cost of accepting card payments (similar to an increase in interchange fees), and accordingly the Bank considers that a definition of Issuer Payments that is limited to payments for Core Services is in the public interest.

In relation to products provided by a scheme, the Bank notes that the term 'product' has traditionally referred to tangible personal property that is grown, manufactured, refined or otherwise physically produced for sale. In the financial services context the term has come to be used in a sense that does not involve tangible personal property, but in that context the term typically refers to a service that has been created to serve a need and that is marketed or sold as a commodity. In view of this, the Bank's view is that the term 'service' is the appropriate term. The fact that a service is labelled or marketed as a 'product' will not prevent it being a Core Service, provided it is in fact a service and meets the three tests in the definition of that term.

In relation to queries concerning whether specific services are Core Services, or whether particular fees should be captured in Issuer Payments, stakeholders should look to the final definition of Core Service (Box D). In addition, the Bank makes the following observations:

- Feedback from stakeholders indicates that the definition to be adopted is consistent with including in Issuer Payments the three types of fees provided as examples of Issuer Payments in the current version of the Standards, namely scheme branding fees, processing fees and assessment fees;
- Schemes and issuers should look beyond the names of fees to determine whether they are, indeed, payment for core services. As noted by a respondent, fee names can change from time to time and may not clearly indicate precisely what product or service the fee is for. Schemes should consider whether the information they provide on fees is sufficiently clear to enable issuers to easily identify what the fees they pay relate to.
- The definition of Core Service determined by the Bank requires that the service relates to, and only to, one or more 'Core Functions'. However, it allows for a scheme to provide incidental services necessary to support Core Functions without this affecting whether a service meets the definition of Core Service or not. Accordingly it allows for some basic relationship management assistance to be provided in conjunction with a service, without that service being precluded from being a Core Service.

To assess the operation of the varied definition of Issue Payments, the Bank may request, from time to time, that an entity provide the Bank with a list of the fees it has included in its calculation of Issuer Payments and the services provided for those fees. The Bank expects to make this request to schemes and to a sample of issuers when they certify their compliance in relation to the varied standard for the first time.

²³ Of note, in forming the definition of Core Service, the Bank took account of the proposed modifications to the set of entities that can receive Issuer Payments to ensure that the overall varied definition of Issuer Payments remains consistent with the original purpose and intent of the Standards. As noted in Section 4, the Bank intends to vary the set of entities that can receive Issuer Payments to include the associated entities of the scheme. This is to enhance consistency across the proposed definitions of Issuer Receipts and Issuer Payments. It also clarifies that the corporate structure of the scheme should not affect whether a particular Benefit is an Issuer Payment or not.

Box D: Definition of Core Service

The Bank has decided to adopt the following definition of Core Service in Standard No. 1. An equivalent definition will be adopted in Standard No. 2.

Core Service means, in relation to a Scheme, a service provided by the administrator of the Scheme in Australia or any of its Associated Entities that meets the requirements in the following paragraphs (a), (b) and (c):

- (a) the service is used by a participant in the Scheme in Australia in relation to Devices of the Scheme that can be used for purchasing goods or services on credit or transactions initiated using those Devices; and
- (b) without the service it would not be possible for a Direct Issuer Participant to be an Issuer or for another entity to be an Issuer through Sponsorship by a Direct Issuer Participant of the Scheme; and
- (c) the service (however named or described) relates to one or more of the following (each a Core Function) and only to one or more Core Functions:
 - i. the licensing of the Scheme's brands and other intellectual property owned by, or licensed to, the administrator of the Scheme in Australia or any of its Associated Entities, a licence (or sub-licence) of which is required in order to be a participant in the Scheme;
 - ii. connection to, and/or maintenance of a connection to, the systems to which it is necessary to connect in order to be a participant in the Scheme;
 - iii. transaction processing (including processing of charge-back transactions);
 - iv. clearing and settlement (including clearing and settlement of charge-back transactions);
 - v. authentication;
 - vi. authorisation;
 - vii. stand-in processing, clearing and settlement;
 - viii. fraud prevention; and
 - ix. handling, investigating and settling disputes, and requests or claims for chargebacks, raised by holders of Devices.

A service will relate only to one or more Core Functions for the purpose of this paragraph (c) even if it involves or includes incidental services necessary to support one or more Core Functions.

Conclusion: Issuer Payments as payments for 'core services'

Adopt Proposal 2.

The Bank will clarify that 'Issuer Payments' are those payments made by issuers in relation to core services of a scheme.

6. Entities Providing Issuer Receipts

6.1 Issues for consultation and proposed options

The Standards currently do not limit the types of entities from which an issuer can receive an Issuer Receipt. This was intended to ensure that any benefits provided by entities separate from, but related to, a scheme were appropriately captured. In practice, the broad scope of the definition is unlikely to be a major complication as issuers are unlikely to receive benefits related to card issuance or use from entities unrelated to a scheme. However, some feedback has been received suggesting that clarification of the possible sources of Issuer Receipts would be useful. Accordingly, the Bank proposed to narrow the definition of Issuer Receipts to include only benefits provided directly or indirectly from a Scheme Administrator or any of its associated entities (Proposal 6), with the definition of associated entity drawn from the *Corporations Act 2001*.^{24 25} The alternative was to leave this aspect of the definition of Issuer Receipts unchanged.

6.2 Stakeholder views

There was broad support for this proposal. No submissions objected to this change. One respondent suggested that the Bank should additionally require schemes and issuers to disclose in their Net Compensation compliance certification a list of all scheme-associated entities relevant to their certification. This respondent also suggested that the Standards be further modified to allow an issuer to offset receipts and payments to and from a scheme and its associated entities. Another respondent suggested that the Bank consider an alternative framework where the net compensation rules are broadened to additionally capture payments paid or received to or from acquirers, merchants and others; this is discussed in sections 4.2 and 4.3.

Other submissions requested the Bank provide additional guidance on whether certain payments between a scheme, issuer and brand or affinity partner²⁶ (hereafter brand/affinity partner) are intended to be captured as Issuer Receipts under the varied Standard. Similarly, several entities sought further guidance in relation to merchant-funded rewards facilitated by an associated entity of a scheme. Many were of the view that payments associated with merchant-funded rewards should not be captured in Issuer Receipts. Some stakeholders provided additional information on how one type of merchant-funded rewards program currently operates; they explained that the rewards are provided directly, and individually, to cardholders via a process similar to a chargeback or refund.

²⁴ As noted in section 4 the Bank proposes to modify the definition of Issuer Payments to include payments to an *associated entity* of a scheme, to enhance the consistency across the set of entities from whom Issuer Receipts could arise and the entities to whom Issuer Payment could be made.

²⁵ If this change is made it is no longer necessary to exclude from Issuer Receipts cardholder payments and reversals and chargebacks, so it was proposed that those exclusions be deleted.

²⁶ The term brand partner or affinity partner in this context refers to an entity (for example, an airline) that has a contractual agreement with an issuer for cards of the issuer to bear the entity's trade name or mark.

6.3 Assessment and Conclusion

This proposal was widely supported. The Bank will vary the Standards to clarify that the types of entity that an issuer can receive an Issuer Receipt from include associated entities of scheme administrators, drawing on the definition of Associated Entity in the *Corporations Act*. At this juncture, the Bank is not minded to increase the reporting burden on regulated entities by requiring they disclose which associated entities of a scheme are relevant to determining their net compensation position. Schemes and issuers would be able to voluntarily include this information in their annual compliance certifications.

In relation to payments involving brand/affinity partners, the Bank notes that (i) a scheme may provide Benefits to a brand/affinity partner of one of its issuers; (ii) an issuer may receive Benefits from this brand/affinity partner; and (iii) a scheme may not have visibility over the Benefits exchanged between the issuer and brand/affinity partner. In the context of determining net compensation, a relevant question is whether the Benefits provided by the brand/affinity partner to an issuer are, in fact, Benefits provided by the scheme to the issuer indirectly. The Bank's view is that a Benefit provided by a brand/affinity partner to an issuer is unlikely to be an Issuer Receipt, unless the Benefit provided arises from an obligation or understanding between the scheme and the brand/affinity partner that the brand/affinity partner will pass on to the issuer some or all of the Benefits it receives from the scheme. If there is such an obligation or understanding, then that Benefit could be viewed as being indirectly provided by the scheme. We also note that in determining whether a Benefit is an Issuer Receipt, the Incentive Test applies. Scheme and issuer relationships with brand/affinity partners may be considered in detail in the Bank's next review of card payments regulation.

Merchant-funded reward programs appear to be growing, potentially in response to changes to interchange regulation that took effect in 2016. The consultation process suggested that it was possible to have materially different types of merchant-funded rewards programs. In view of this, the Bank will not provide a blanket exemption for all payments, or other benefits, made to or from issuers in relation to this form of rewards program. In relation to the specific case where an associated entity of a scheme facilitates a merchant-funded rewards program for an issuer, and those rewards are provided to cardholders directly, and individually, in a manner similar to a charge-back or refund, it is unlikely that the transaction that provides the reward to the cardholder would meet the definition of an Issuer Receipt (under the current or varied version of the Standards). It is likely that the Bank will consider merchant-funded rewards programs in detail in its next review of card payments regulation.

Conclusion: Entities Providing Issuer Receipts

Adopt Proposal 6.

The Bank will clarify that the types of entity that an issuer can receive an Issuer Receipt from include associated entities of scheme administrators, drawing on the definition of Associated Entity in the *Corporations Act 2001*. The Bank will also clarify that associated entities of scheme administrators can be recipients of Issuer Payments.

7. Issuer Receipts: Discounts and Non-Financial Benefits

7.1 Issues for consultation and proposed options

Discounts and Non-Financial Benefits

The majority of incentives provided to issuers by schemes are in the nature of financial flows (payments, rebates, discounts and similar). However, some incentives that are provided have more of a non-financial nature – for example, goods or services provided for free to the issuer. Ahead of certifying for the first reporting period, some stakeholders sought clarification on the treatment of incentives with non-financial elements.

In the Bank's view, the inclusion of the value of these types of incentives in Issuer Receipts is consistent with the purpose and intent of the Standards. Providing a good or service for free is economically equivalent to providing it at a 100 per cent discount. Discounts are captured as a Benefit under the Standards, and are Issuer Receipts if they have the purpose or likely effect of incentivising the issuance or use of cards of the scheme (and under Proposal 6 are provided directly or indirectly from the scheme administrator or its associated entities).

While valuation of cash and cash-like flows is generally straightforward, valuation of benefits related to the provision of goods or services can present some challenges. Two broad scenarios are relevant for treatment under the Standards:

- where goods or services are provided to an issuer at a discount; and
- where goods or services are provided for no financial consideration.

The Bank proposed to provide additional clarity on how to calculate Issuer Receipts by specifying that:

- (i) where there is a price at which the supplier is regularly supplying relevant property or services, any discount or deduction from that price that meets the incentive test is a benefit to be included in Issuer Receipts (Proposal 4)
- (ii) where property or services are supplied and there is not a price at which the supplier is regularly supplying the relevant property or services, the benefit to be included in Issuer Receipts, subject to the incentive test, is the amount by which the fair value of the property or services exceeds what is paid for the property or services (and if nothing is paid, then the full fair value is to be included) (Proposal 5)

where the determination of regular price and fair value must be carried out in a manner consistent with the purpose and intent of the Standards.²⁷

The alternative option was not to make these changes to the Standards.

²⁷ For example, it would not be consistent with the purpose and intent of the Standards to use an artificially low price for a service and argue that there is no discount or subsidy to be included as an Issuer Receipt. Similarly, choosing to not record an incentive in Issuer Receipts due to difficulty determining its Fair Value would not be consistent with the purpose and intent of the Standards.

The Bank's preliminary expectation was that Fair Value (as defined in the draft variations) could be arrived at by following the principles of the 'fair value measurement' approach under relevant accounting standards (i.e. *AASB 13 Fair Value Measurement* or equivalent).

In the draft variations the Bank consulted on, the term 'Supplementary Service' was introduced as part of a set of changes to give effect to Proposals 4 and 5. This drafting sought to provide additional clarity to stakeholders that a service provided for free in a bundle should be considered to be a service provided at a discount, except where the service is bundled in this way to all entities participating in the Scheme globally. This sought to make clear that a 100 per cent discount on a service could not be ignored when calculating net compensation simply because it is labelled as being part of a bundle of services.

Definition of 'Incentive Test'

For a Benefit to be classified as an Issuer Receipt under the existing Standards, it must have the purpose or likely effect of promoting or incentivising the issuance or use of cards of the scheme, or providing or funding incentives for holders of cards of the scheme to use those cards. The Bank received enquiries from stakeholders about whether this test would cover Benefits that are intended to incentivise an issuer to enter into a contract to issue a scheme's cards. In the Bank's view, this aspect of incentivising card issuance was implicit in the wording of the Standards. Nonetheless, the enquiries indicated that some further clarification would be useful. Accordingly, the Bank proposed to explicitly set out in the Standards that Benefits that incentivise the entry into a contract relating to the issuance of cards of the scheme meet the Incentive Test to be included as an Issuer Receipt. The Bank also sought to clarify the operation of the Incentive Test by expanding the (non-limiting) list of examples of the types of Benefits that meet the Incentive Test. To streamline the structure of each Standard, the Bank proposed adding 'Incentive Test' as a defined term (in Clause 2), and referring to this in the definition of Issuer Receipts and elsewhere.

7.2 Stakeholder views

Discounts and Non-Financial Benefits

Stakeholders were generally supportive of the clarifications proposed. However, several respondents queried how the use of a regular price and Fair Value would operate in practice. A small number of entities considered that the proposals would expand the scope of the Standards, and objected to this.

In relation to determining the regular price and/or the determination of Fair Value, a number of stakeholders queried whether these measures could take into consideration the characteristics of the parties to a contract (such as their size or an existing relationship between the parties). Some queried whether the list, standard or usual price should be considered to be the price from which a discount is measured, and several noted that scheme-issuer agreements can be bespoke. Some entities raised concerns that it may be difficult to ascertain the Fair Value of Benefits in practice due to the nature of negotiations. Several asserted that negotiated prices should be considered the Fair Value price. Many stakeholders requested further guidance in relation to these matters, including in relation to the valuation of non-Core Services that could have been provided by a third party rather than the scheme.

A small number of entities commented on the timing of when fair-value measurement should be made. Views here were mixed. There was some support for the Bank's approach to specify that fair value should only be calculated once, at the earlier of:

- (a) the date the Property or service was first provided; and
- (b) the date the Property or service was committed to be provided to the Issuer;

However, an alternative view put forward was that the Standards should be aligned to the standard accounting approach which permits reassessments of fair value. More generally, there was broad support for the Standards to allow as much scope as possible to draw directly from entities' financial accounts.

A few respondents suggested that Proposals 4 and 5 would expand the scope of the Standards. They disputed that discounts provided on non-card related services would have qualified as an Issuer Receipt under the current version of the Standards. Others held the opposite view, noting that the clarifications the Bank proposed were consistent with how they had already been determining their compliance with the Standards.

Related to the view that the scope of the Standards had been expanded, a small number of respondents suggested that under Proposals 4 and 5, and in conjunction with the proposal in relation to core services (Proposal 2), the Standards would become asymmetrical in their calculation of Net Compensation. The reasoning being that a discount on a service could potentially be counted as an Issuer Receipt, even if the fee paid for the service is not counted as an Issuer Payment.

A small number of responses indicated that the term 'Supplementary Service' may not be well understood by stakeholders.

Definition of 'Incentive Test'

There was broad support for the proposed clarification of the Incentive Test. Several stakeholders noted that the clarification was consistent with their interpretation of the test. One stakeholder suggested further additions to the (non-limiting) list of examples of the types of Benefits that meet the Incentive Test, including (for example) rebates linked to the number of issued cards.

7.3 Assessment and Conclusion

Reflecting that most stakeholders agreed with the proposals in principle, but sought greater clarity on their operation, the Bank will adopt Proposals 4 and 5. Some minor modifications will be made to the drafting of the variations that give effect to these proposals, to improve clarity and their operation (as set out below). In addition, this section includes discussion of how the Bank expects the Incentive Test and the calculation of discounts should operate in practice. Box B provides commentary on the use of *AASB 13 Fair Value Measurement* in relation to determining Net Compensation.

In relation to the calculation of a regular price, the draft variation referred to a regular price at which the supplier is regularly supplying property or services of the same description to entities of a class, group or type that include the issuer. Accordingly, some characteristics common to that class, group or type would implicitly be taken into consideration. If no such regular price exists, say because the property or service provided is sufficiently bespoke that it cannot be said to be provided at a common price to a particular class, group or type that includes the issuer, then the Fair Value should be used. To aid clarity, the reference to 'the list, standard or usual price' in part (ii)(B) of the proposed Incentive Test, has been replaced with 'Regular Price'. A definition of Regular Price has been added to the variations, to streamline drafting of the 'Incentive Test' and 'Benefit' definitions in clause 2.

In relation to Fair Value, the Australian Accounting Standards (and particularly *AASB 13 Fair Value Measurement*) provide considerable guidance on how fair value should be arrived at for financial reporting. In the context of determining net compensation, entities should refer to these accounting standards in considering how to determine the Fair Value of property or service provided, and thereby deciding if a discount has been provided (including a 100 per cent discount) and, if so, the

value of the discount.²⁸ From an economic perspective, key considerations in determining Fair Value are: would the service have been provided by the scheme (or the scheme's associated entity) at that price if the issuer had not been an issuer of the scheme? Or would it have been provided at that price if the scheme had not been seeking to win an issuing contract with the issuer? If the answer is no, then this is unlikely to be the Fair Value for the purpose of the Standards. If the scheme or a related entity of the scheme has provided a discount to an issuer, it will be an Issuer Receipt if it meets the Incentive Test. The Bank may require schemes and issuers to substantiate their estimates of Fair Value and provide justification for a decision in relation to the Incentive Test.

In relation to the timing of when Fair Value is measured, the Bank's intention when drafting the variations was to ensure that the value of benefits that incentivise the entering into of an issuing contract are initially measured at the time of the decision to enter into that contract is made. In subsequent reporting periods, new information may become available to a scheme and/or an issuer that indicates that the value of a benefit (based on a Fair Value assessment of a property or service) is likely to have changed materially. Such information could, for example, lead to a reassessment of the likelihood that a variable incentive is likely to become payable or be clawed back.

Allowing updates to Fair Value (by allowing the possibility of multiple measurement dates) may therefore enable better estimates to be used in the calculation of Benefits payable or receivable, and thereby reduce the magnitude of 'true-ups' in subsequent periods.²⁹ In addition, as noted by stakeholders, AAS allow for some updating of fair-value measures over time. Therefore, enabling updates to Fair Value could reduce compliance costs by more closely aligning the interchange standards to AAS. However, it may also introduce greater scope for circumvention of the Standards. For example, entities may seek to cherry-pick the timing of when they update Fair Value specifically to generate a compliant net compensation position for a particular reporting period. Similarly, they may seek to update Fair Value only when the anticipated change in value is favourable for compliance purposes.

Taking this into account, the Bank has decided to adjust the drafting of the Fair Value definition to allow for subsequent measurement dates, and additionally place some parameters around when updates to Fair Value³⁰ may occur for the purposes of calculating net compensation. Specifically, the variation specifies that the *first* measurement date for Fair Value should be at the earlier of: (a) the date the Property or service was first provided; and (b) the date the Property or service was committed to be provided, to the Direct Issuer Participant. In subsequent reporting periods, entities may re-measure Fair Value when it is likely to have materially changed from the value used in the previous reporting period, and when doing so is fair and reasonable and consistent with objective of the Standards. In relation to when during a reporting period such an update should be made, the Bank's preliminary view is that it would be reasonable to align the measurement date to that used for financial reporting purposes (so long as it falls within the reporting period for the Standards).³¹

In the Bank's view, discounts provided to issuers on non-card related services qualified as an Issuer Receipt under the current version of the Standards if they met the Incentive Test. Accordingly, the proposed variations do not change the scope of the Standards in this regard.

28 This notwithstanding, we remind entities that they should satisfy themselves that any approach they take to determining Fair Value for the purposes of calculating net compensation must be consistent with the interchange standards, including the purpose and intent of the Standards.

29 A true-up is an accounting entry that reconciles a recorded estimate to the actual, once the actual is known.

30 And hence updates to any associate Benefit recorded as an Issuer Receipt.

31 This revision, versus the draft variation consulted on, is marked up in <https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/comparison-of-standards-to-version-in-consultation-papers-2019-05-31.pdf>.

In relation to concerns that the net compensation requirement would become asymmetrical as a result of the Proposals, the Bank notes that the Incentive Test provides an important link between Issuer Receipts and Issuer Payments. Issuer Payments (as proposed) are payments an issuer makes to a scheme or its associated entities for Core Services. Core Services, broadly speaking, are those services that relate to (and only to) one or more of the functions that are in practice the necessary functions for an issuer to participate effectively in a scheme. In contrast, Issuer Receipts can arise from discounts provided on a Core Service or a non-Core Service. Importantly, not every discount is an Issuer Receipt. Rather a discount must meet the Incentive Test to be included in Issuer Receipts. And this means, broadly speaking, that Issuer Receipts capture only those Benefits that incentivise use of the schemes Core Services.

In relation to the Incentive Test itself, the Bank will implement the changes it proposed to clarify its operation. The Bank has decided not to expand the list of examples contained in the definition to include rebates linked to the number of issued cards. However, the Bank notes that such rebates are highly likely to meet the test of being given for the purpose of, or has or will have the likely effect of, incentivising the issuance of cards of the scheme.

Finally, the Bank has decided that it is not necessary to introduce the defined term 'Supplementary Service'. The term is not strictly required to make it clear that schemes and issuers should consider the existence of discounts (including 100 per cent discounts) when services are provided in a bundle. In addition, excluding the term reduces the complexity of the variations. Of note, under the definition of Benefits to be adopted, services provided in a bundle must be assessed for the presence of a discount or deduction from the Regular Price (or Fair Value if there is no Regular Price) of the services. This assessment could be carried out for each service in the bundle individually or considered for the bundle of services as a whole.

Conclusion: Discounts and Non-Financial Benefits

Adopt Proposals 4 and 5.

The Bank will clarify the Standards with the effect that where there is a price at which the supplier is regularly supplying relevant property or services, any discount or deduction from that price that meets the incentive test is a benefit to be included in Issuer Receipts.

The Bank will clarify the Standards with the effect that where property or services are supplied and there is not a price at which the supplier is regularly supplying the relevant property or services, the benefit to be included in Issuer Receipts, subject to the incentive test, is the amount by which the fair value of the property or services exceeds what is paid for the property or services (and if nothing is paid, then the full fair value is to be included).

8. Aggregator arrangements

8.1 Issues for consultation and proposed options

In the Consultation Paper, the Bank proposed clarifying how the net compensation requirement in the Standards should operate in relation to arrangements where there are two entities involved in issuing a scheme's cards. The typical case is one where an aggregator, also known as a sponsor, has a direct relationship and contract with a scheme and handles particular scheme-related services and obligations on behalf of a number of (typically) smaller financial institutions. The latter have the direct contractual relationship with their cardholders (and from the perspective of the cardholder, it is one of these financial institutions whose brand is on the card and from whom the cardholder considers they are receiving card payment services). In these cases most, if not all, contractual arrangements regarding scheme fees, benefits and incentives are managed by the aggregator or sponsor.

Ahead of certification for the first reporting period, some stakeholders sought guidance from the Bank on which entity – the aggregator/sponsor or the 'downstream' sponsored issuer – should be treated as the Issuer for the purposes of compliance with the net compensation requirement. In informal engagement with stakeholders, there was significant support for the proposition that for net compensation purposes the aggregator/sponsor should be considered to be the entity with the direct relationship with the scheme, on the basis that this entity has the greatest visibility over the value flows to and from the scheme.

Consistent with this, the Bank proposed to modify the operation of the Standards, such that the obligation to comply with the net compensation requirements falls on the entity that has the status within a scheme to issue cards itself and/or sponsor another entity into the scheme (Proposal 7). The draft variations to the Standards implement this by introducing the defined terms 'Direct Issuer Participant', 'Indirect Issuer Participant' and 'Sponsor'.³²

8.2 Stakeholder views

There was broad support for this proposal (Proposal 7). No stakeholders objected to the change. ePAL suggested a minor technical modification to the proposed definition of 'Sponsor'. This was to improve the clarity of the definition as it relates to its debit and prepaid payment card systems by clarifying that a Sponsor 'additionally represents the transaction for the purposes of the EFTPOS System or EFTPOS prepaid', directly or indirectly, on behalf of one or more other entities. At the request of the Bank, additional information on relationships within the EFTPOS System and EFTPOS Prepaid was provided by both ePAL and aggregators.

Stakeholders did not object to the Bank's description of aggregator/sponsor arrangements – namely that in these arrangements: downstream sponsored entities currently issue a relatively low volume of cards and account for a small percentage of total card issuance; Benefits from schemes are nearly always provided to the aggregator/sponsor; the downstream issuer has no visibility of Benefits

32 These changes are also reflected in new definitions of Direct Issuer Participant Payments and Direct Issuer Participant Receipts, but for ease of reference this Conclusions Paper retains usage of the terms 'Issuer Payments' and 'Issuer Receipts'.

provided by the scheme to the aggregator/sponsor, or of how these Benefits may be allocated (if at all) to any of the sponsor's other downstream issuers; and, similarly, the scheme does not have visibility over the extent to which an aggregator/sponsor passes on the Benefits it receives.

8.3 Assessment and Conclusion

The Bank will adopt Proposal 7, incorporating a revision to the definitions of 'Sponsor', 'Direct Issuer Participant' and 'Indirect Issuer Participant' as those terms relate to the EFTPOS System and EFTPOS Prepaid. Specifically, based on the EFTPOS scheme rules and on information provided by stakeholders, the Bank has determined that for the EFTPOS System and EFTPOS Prepaid it is appropriate to define these terms in relation to the entity that settles (rather than clears) EFTPOS transactions.

There was broad support for Proposal 7 and, as discussed in the Consultation Paper, requiring small downstream issuers to comply, and certify compliance, on an annual basis would materially increase the overall regulatory burden on the industry. However, as noted in the Consultation Paper, the Bank would look to reinstate net compensation obligations on downstream issuers if arrangements emerged that sought to take advantage of this change in compliance requirements.

Conclusion: Aggregator arrangements

Adopt Proposal 7.

The Bank's Standards No. 1 and No. 2 of 2016 will be modified, such that for scheme-issuer arrangements where one entity sponsors another for a card-issuing arrangement, it is only the sponsoring issuer that is required to comply with the net compensation provisions.

9. Transition Arrangements

9.1 Issues for consultation and proposed options

The Consultation Paper identified that if the Board were to determine variations to the Standards, they would be implemented before the end of the 2018/19 financial year, and the varied Standards would commence from 1 July 2019. The paper noted that as a result, some period of transition from the previous regime to the new arrangements would be needed.

The Consultation Paper set out two possible approaches to transition.

Flexible transition

This approach provides issuers with flexibility in terms of their compliance basis and certification for the financial year 2018/19,³³ and was the Bank's proposed approach to transition. Under this approach an issuer may elect to comply for 2018/19 based on the revised Standard(s) (which stakeholder feedback has indicated is more in line with how financial accounts are prepared), or it may comply for 2018/19 with the current Standard(s) and make the transition to the new regime for the 2019/20 financial year.

More specifically, the Bank proposes that the varied Standards would be effective from 1 July 2019. Issuers would, by that date, make an election as to whether their compliance for 2018/19 would be based on the previous or the revised Standard(s), and would notify relevant schemes of this election so that scheme reporting of compliance is provided on the same basis. While this means that schemes will potentially need to prepare certifications relating to different issuers on different bases, it ensures that the certifications that schemes and issuers provide are done consistently. This approach reflects the fact that the substantive obligation – not to receive net compensation – is placed upon issuers.

Fixed transition

The alternate approach was to retain the obligation to report under the old Standard(s) for 2018/19, and for all participants to move to the new arrangements for 2019/20.

9.2 Stakeholder views

Issuers were generally supportive of the proposed flexible transitional arrangements (versus the alternative); a majority indicated that they were likely to elect to move to adopt the varied Standard for the 2018/19 reporting period, on the basis that the move to accruals would reduce their compliance burden. Conversely, most schemes objected to the flexible transition proposal as it gives rise to the potential for schemes to have to report in respect to both the current and varied Standards for the 2018/19 reporting period, as some of a scheme's issuers may choose to transition later than others.

Some stakeholders noted that it would take time and resources to identify which of their services are core, and hence determine their Issuer Payments under the varied Standards. In these cases, respondents generally expected their time and resource costs to be material in the year they

33 That is, for the reporting period ending 30 June 2019.

transitioned to the varied Standard and then relatively small thereafter. One scheme provided a preliminary estimate that it would take a few months to identify the Core Services it provides to its issuers and the fees associated with them. However, this estimate was based on the Core Services definition that included the 'provided globally' test, which would have required the scheme to look across all services it provides to issuers globally. This element of the definition has been removed. Another scheme estimated that it would take it around half a month to identify Core Services and the fees attributable to them, make Fair Value assessments (where necessary to determine Issuer Receipts) and apportion benefits that relate to more than one reporting period. This estimate was based on a definition of Core Service that included an element requiring schemes and issuers to consider whether some services could have only been provided by the scheme for technical or operation reasons. This element of the definition has also been removed, making the definition less complex and easier to implement. A small number of entities suggested that it was possible that some schemes and/or issuers may need to re-negotiate contracts to ensure they comply with the varied Standard.

Some stakeholders indicated that they would prefer an early fixed transition (that is, for the Bank to require all schemes and issuers to comply with the varied Standards this reporting period), rather than having flexible arrangements. However, others reiterated their concerns about the time and resources required to transition to a varied Standard.

9.3 Assessment and Conclusion

The Bank has decided to adopt the flexible transition approach it proposed in the Consultation Paper. The Bank carefully considered the views of stakeholders, and determined that (compared with the fixed transition alternative) the flexibility benefits this approach affords issuers outweighs the potentially larger (though temporary) cost to schemes. In making this decision, the Bank noted that the substantive obligation – not to receive net compensation – is placed upon issuers, and that many issuers wanted to comply with the varied Standard in 2018/19.

The Bank decided not to adopt an early fixed transition approach (that is, requiring compliance with the varied Standards in the 2018/19 reporting period), despite it receiving some support from some stakeholders. The proposed commencement date for the variations to the Standards is 1 July 2019. While the Bank expects to make and publish the instrument of variation around the beginning of June, ahead of that commencement date, adopting an early fixed transition approach would have involved retrospectively imposing the changes and the Bank does not believe that it is appropriate to do so. While schemes and issuers would have the final version of the variations a month before the end of the 2018/19 reporting period, the Bank was not satisfied that it would be fair and reasonable to require compliance with the varied Standard in 2018/19.

The Bank expects that the time and resources required to transition to the varied Standards will be lower than stakeholders initially estimated, as revisions the definition of Core Service will make identification of these services easier (relative to the versions of the definition proposed in the Consultation Paper and in April). The Bank also notes that if a scheme-issuer arrangement is such that re-negotiation may be required to ensure compliance with the varied Standards, then the issuer can elect to transition in the 2019/20 reporting period to allow itself more time to make the necessary changes.

Conclusion: Transition arrangements

Adopt the first option in Proposal 8.

The Bank will provide transition arrangements that allow, for the reporting period ending 30 June 2019 only, an issuer to choose whether to comply fully with current Standard(s) or fully with the revised Standard(s). The issuer must notify the scheme of their choice, and the scheme must report on the same basis as the issuer for each scheme-issuer agreement. In the event that an issuer fails to notify the scheme of its choice by the date specified in the varied Standard(s), the issuer will be deemed to have elected to comply with the current Standard(s) and a scheme must report compliance with the current Standard(s) for that scheme-issuer arrangement for the reporting period ending 30 June 2019. Thereafter, issuers and schemes must comply with the revised Standard(s) only.

10. Other Issues Raised in Consultation

Stakeholders raised a number of other issues in the consultation that did not directly relate to one of the eight proposals. These are discussed and addressed below.

Status of previous guidance

Some stakeholders requested clarification on the status of the guidance previously provided by the Bank in relation to the current Standards. For the avoidance of doubt, once the Standards are varied, previously issued guidance will no longer be current and therefore cannot be relied upon.

The independence of compliance certifications

In response to the draft variations, one entity sought clarification on the reporting obligations of schemes in relation to the net compensation clause of the Standards. Specifically, it noted that the proposed clause 7.3 (which relates to transitional arrangements), could potentially be read as requiring a scheme to certify to an issuer's compliance with the Standard, rather than its own compliance with the Standard. This ambiguity has been addressed. The wording of clause 7.3 has been amended to specifically refer to an Administrator of Scheme providing certification *of its own compliance*.

Verification of certification when an issuer and a scheme come to materially different compliance positions

A small number of entities queried what the Bank's course of action would be if a scheme and an issuer came to a materially different net compensation compliance position in relation to the same issuing agreement. For example, where one entity certifies compliance in relation to the agreement, but the other reports a breach. In this situation, the Bank would, in the first instance, follow up with both parties to investigate the matter more fully.

11. Final Variations and Implementation Arrangements

11.1 Variations to the Standards

The conclusions set out in this paper, and summarised in Box E, will be implemented through two Instruments of Variation, one for each Standard. These Instruments will amend and restate:

- Standard No. 1 of 2016: The Setting of Interchange Fees in the Designated Credit Card Schemes and Net Payments to Issuers
- Standard No. 2 of 2016: The Setting of Interchange Fees in the Designated Debit and Prepaid Card Schemes and Net Payments to Issuers.

Appendix A sets out how the Standards will read once they have been amended to incorporate the final variations. Documents setting out (i) the drafting changes relative to the version of the varied Standards proposed in the Consultation Paper and (ii) the drafting changes relative to the current Standards, have been published on the Bank's website.³⁴ Appendix B contains commentary on the application of accruals accounting to the calculation of net compensation. The expected impact of the variations on compliance costs is set out in Box F.

11.2 Implementation

The Bank expects to register the Instruments of Variations around the beginning of June, with the Variations to come into effect on 1 July 2019.

As set out in section 9, the Bank has adopted flexible transitional arrangements. Under these arrangements for the 2018/19 reporting period a Direct Issuer Participant may choose to comply with the current or varied Standards. It must notify the administrator of the Scheme of its choice (that is, its Transitional Election) by no later than 1 July 2019.

For the 2019/20 reporting period, and all subsequent reporting periods, all Schemes and Direct Issuer Participants must comply with the varied Standards.

³⁴ See <https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/comparison-of-standards-to-version-in-consultation-papers-2019-05-31.pdf> and <https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/variations-to-standards-no-1-and-2-of-2016-2019-05-31.pdf>.

Box E: Summary of Conclusions

Proposal 1: Adopt. The Bank's Standards No. 1 and No. 2 of 2016 will be modified to require an accrual approach to be used to allocate Issuer Receipts and Issuer Payments to, or between, reporting periods in a manner consistent with the purpose and intent of the Standards, such that in determining net compensation certifying entities have more scope to draw on information from financial accounts prepared in line with generally accepted Australian accounting principles. Compliance would not be permitted on a cash or quasi-cash basis.

Proposal 2: Adopt. The Bank will clarify that 'Issuer Payments' are those payments made by issuers in relation to core services of a scheme.

Proposal 3: Adopt. Remove references to 'Acquirer' from the definition of 'Issuer Payments' in the Standards.

Proposal 4: Adopt. The Bank will clarify the Standards with the effect that where there is a price at which the supplier is regularly supplying relevant property or services, any discount or deduction from that price that meets the Incentive Test is a benefit to be included in Issuer Receipts.

Proposal 5: Adopt. The Bank will clarify the Standards with the effect that where property or services are supplied and there is not a price at which the supplier is regularly supplying the relevant property or services, the benefit to be included in Issuer Receipts, subject to the Incentive Test, is the amount by which the fair value of the property or services exceeds what is paid for the property or services (and if nothing is paid, then the full fair value is to be included).

Proposal 6: Adopt. The Bank will clarify that the types of entity that an issuer can receive an Issuer Receipt from include associated entities of scheme administrators, drawing on the definition of Associated Entity in the *Corporations Act 2001*. The Bank will also clarify that associated entities of scheme administrators can be recipients of Issuer Payments.

Proposal 7: Adopt. The Bank's Standards No. 1 and No. 2 of 2016 will be modified, such that for scheme-issuer arrangements where one entity sponsors another for a card-issuing arrangement, it is only the sponsoring issuer that is required to comply with the net compensation provisions.

Proposal 8: Adopt the first option. The Bank will provide transition arrangements that allow, for the reporting period ending 30 June 2019 only, an issuer to choose whether to comply fully with current Standard or fully with the revised Standard. The issuer must notify the scheme of its choice, and the scheme must report on the same basis as the issuer for each scheme-issuer agreement. In the event that an issuer fails to notify the scheme of its choice by the date specified in the varied Standard, the issuer will be deemed to have elected to comply with the current Standard and a scheme must report compliance with the current Standard for that scheme-issuer arrangement for the reporting period ending 30 June 2019. Thereafter, issuers and schemes must comply with the revised Standard only.

Box F: Expected Impact of the Variations on Compliance Costs

During consultation, the Bank asked stakeholders to estimate compliance costs under the current and proposed Standards. Two stakeholders quantified their estimated compliance costs based on the current and the proposed variations in their entirety; another seven qualitatively described the expected impact of the proposed variations.³⁵ Based on this information, the Bank estimates that the adoption of the proposed variations will result in a modest net reduction in ongoing annual compliance costs.³⁶ The Bank expects that a limited number of entities will experience a temporary increase in compliance costs during the transition period.

Stakeholders identified proposals 1, 2, and 8 as potentially materially impacting compliance costs, which are discussed below. Stakeholders supported the adoption of all other proposals, indicating that they would improve the clarity of the Standards.

Proposal 1: Most stakeholders suggested that a move to accruals based accounting would immediately and materially reduce their compliance burden by enabling the direct sourcing of more inputs into the net compensation calculation from financial accounts. One stakeholder noted that it does not use accruals accounting to manage its financial accounts for its cards business, but indicated that the proposed change would not materially affect its compliance burden.

Proposal 2: A majority of stakeholders supported the concept of issuer payments being those that relate to core services, though there was some disagreement regarding what should constitute Core Services. Five stakeholders suggested that the distinction between core and non-Core Services would increase their compliance burden. However, three of these entities indicated that this would be more than offset by a reduction in compliance burden from moving to an accruals approach for calculating net compensation. Most of the stakeholders who commented on the compliance burden in relation to Core Services expected it would decrease over time. Two stakeholders suggested that the distinction between core and non-Core Services would not materially affect their compliance burden. The Bank notes that the final definition of Core Service requires an assessment that is less complex than in the versions of the definition circulated to stakeholders. In view of this, the Bank expects Proposal 2 will have a moderately smaller impact on compliance costs than estimated by stakeholders in consultation.

Proposal 8: Issuers were supportive of the proposed transition arrangements which enable them to elect whether to certify under the current or proposed Standards in the reporting period ending 30 June 2019. Schemes objected to this proposal due to the potential to be required to make certifications under both versions of the Standards. Two schemes estimated that this would (for the one year of potential dual reporting) more than double their compliance burden compared with only being required to report under a single Standard.

35 Some stakeholders provided estimates of the impact they expected from specific proposals in isolation. For example, the impact on their compliance costs of adopting an accruals approach for calculating net compensation but no other changes to the Standards.

36 In adhering to the Government's Regulatory Burden Measurement Framework, the Bank has estimated the Commonwealth Regulatory Burden Measure (RBM) for the variations to the Standards. The RBM is a quantitative estimate of the economy-wide impact on regulatory costs. This was calculated as \$10,377 on an ongoing basis (that is, an increase in regulatory costs across the economy of \$10,377 per year). Additionally, a start-up cost of \$15,902 for card schemes was estimated for the reporting period ending 30 June 2019. These estimates should be interpreted with caution, as they are based on a very small number of quantitative estimates provided by stakeholders. Qualitative stakeholder estimates are not used to derive the headline RBM estimates. The majority of the qualitative estimates indicated a moderate decrease in ongoing regulatory costs as a result of the variations.

Appendix A: The Varied Standards

This Appendix contains the text, as amended for the variations described in this paper, of:

- Standard No. 1 of 2016: The Setting of Interchange Fees in the Designated Credit Card Schemes and Net Payments to Issuers; and
- Standard No. 2 of 2016: The Setting of Interchange Fees in the Designated Debit and Prepaid Card Schemes and Net Payments to Issuers

THE SETTING OF INTERCHANGE FEES IN THE DESIGNATED CREDIT CARD SCHEMES AND NET PAYMENTS TO ISSUERS

1. Objective

The objective of this Standard is to ensure that the setting of interchange fees and payments and other transfers of valuable consideration having an equivalent object or effect to interchange fees in each designated credit card scheme is transparent and promotes:

- *efficiency; and*
- *competition*

in the Australian payments system.

2. Application

2.1 This Standard is determined under Section 18 of the *Payment Systems (Regulation) Act 1998* (the **Act**).

2.2 This Standard applies to each of the following, each of which is referred to in this Standard as a **Scheme**:

- (a) the payment system operated within Australia known as the MasterCard system which was designated under the Act as a payment system on 12 April 2001 and which is referred to in this Standard as the **MasterCard System**;
- (b) the payment system operated within Australia known as the VISA system, which was designated under the Act as a payment system on 12 April 2001 and which is referred to in this Standard as the **VISA System**; and
- (c) the American Express Companion Card payment system operated within Australia, which was designated under the Act as a payment system on 15 October 2015 and which is referred to in this Standard as the **American Express Companion Card Scheme**.

2.3 In this Standard:

Above Benchmark Reference Period has the meaning given to it in clause 4.2;

Acquired includes accepted;

Acquirer means a participant in a Scheme in Australia that:

- (a) provides services, directly or indirectly, to a Merchant to allow that Merchant to accept a Credit Card of that Scheme; or
- (b) is a Merchant that accepts, or is a Related Body Corporate of a Merchant that accepts, a Credit Card of that Scheme and bears risk as principal in relation to the payment obligations of the Issuer of that Credit Card in relation to that acceptance;

Associated Entity has the meaning given by section 50AAA of the *Corporations Act 2001*;

Benefit means:

- (a) a payment, receipt, rebate, refund or allowance;
- (b) in relation to any Property or service received or receivable by a Direct Issuer Participant:

- (i) where there is a Regular Price for that Property or service, any discount or deduction from that price;
 - (ii) where there is not a Regular Price for that Property or service, an amount by which the Fair Value of the Property or service exceeds the payment or other similar financial consideration made or given for it by the Direct Issuer Participant; and
- (c) a benefit (however named or described) of a similar nature to, or having the same effect as, a benefit of the kind specified in (a) or (b) above;

Commencement Date means 1 July 2017;

Core Service means, in relation to a Scheme, a service provided by the administrator of the Scheme in Australia or any of its Associated Entities that meets the requirements in the following paragraphs (a), (b) and (c):

- (a) the service is used by a participant in the Scheme in Australia in relation to Devices of the Scheme that can be used for purchasing goods or services on credit or transactions initiated using those Devices; and
- (b) without the service it would not be possible for a Direct Issuer Participant to be an Issuer or for another entity to be an Issuer through Sponsorship by a Direct Issuer Participant of the Scheme; and
- (c) the service (however named or described) relates to one or more of the following (each a Core Function) and only to one or more Core Functions:
 - (i) the licensing of the Scheme's brands and other intellectual property owned by, or licensed to, the administrator of the Scheme in Australia or any of its Associated Entities, a licence (or sub-licence) of which is required in order to be a participant in the Scheme;
 - (ii) connection to, and/or maintenance of a connection to, the systems to which it is necessary to connect in order to be a participant in the Scheme;
 - (iii) transaction processing (including processing of charge-back transactions);
 - (iv) clearing and settlement (including clearing and settlement of charge-back transactions);
 - (v) authentication;
 - (vi) authorisation;
 - (vii) stand-in processing, clearing and settlement;
 - (viii) fraud prevention; and
 - (ix) handling, investigating and settling disputes, and requests or claims for chargebacks, raised by holders of Devices.

A service will relate only to one or more Core Functions for the purpose of this paragraph (c) even if it involves or includes incidental services necessary to support one or more Core Functions;

Credit Card Account means, in relation to a Credit Card of a Scheme, the account that is debited when that Device is used to purchase goods or services on credit;

Credit Card of a Scheme or **Credit Card of that Scheme** means, in relation to a Scheme, a Device issued by a participant in the Scheme in Australia under the Rules of the Scheme that can be used for purchasing goods or services on credit;

Credit Card Transaction means, in relation to a Scheme, a transaction in that Scheme between a holder of a Credit Card of that Scheme and a Merchant involving the purchase of goods or services using a Credit Card of that Scheme that is Acquired by an Acquirer (but does not include any transaction to reverse such a transaction or provide a credit or make a chargeback in relation to such a transaction);

Device means any card, plate or other payment code or device, including a code or device where no physical card or other embodiment is issued and a code or device used or to be used for only one transaction;

Direct Issuer Participant means, in relation to a Scheme, a participant in that Scheme in Australia as an Issuer, or as a Sponsor for one or more Issuers, that is not an Indirect Issuer Participant in that Scheme in Australia. Without limitation, for the:

- (a) MasterCard System this means any Principal Customer or Association Customer, each as defined in the Rules of the Scheme, in its capacity as Issuer or as Sponsor for one or more Issuers; or
- (b) VISA System this means any Principal-Type Member as defined in the Rules of the Scheme in its capacity as Issuer or as Sponsor for one or more Issuers;

Direct Issuer Participant Payments has the meaning given to it in clause 5.2;

Direct Issuer Participant Receipts has the meaning given to it in clause 5.2;

Fair Value means, in relation to any Property or service:

- (a) subject to paragraph (b), the amount that would be paid to acquire the Property or service in an orderly transaction between independent, unrelated and well informed parties at the earlier of:
 - (i) the date the Property or service was first provided; and
 - (ii) the date the Property or service was committed to be provided,to the Direct Issuer Participant; but
- (b) if at any subsequent time the amount that would be paid to acquire the Property or service in an orderly transaction between independent, unrelated and well informed parties (**Revised Value**) is materially different from the amount determined in accordance with paragraph (a) (or, if any adjustment is made in accordance with this paragraph (b), the most recent such adjustment), the Fair Value may be adjusted to that Revised Value provided:
 - (i) use of that Revised Value as Fair Value is fair and reasonable and consistent with the objective of this Standard; and
 - (ii) the Fair Value may be adjusted to a Revised Value no more than once in a Reporting Period;

Incentive Test: a Benefit meets the **Incentive Test** in relation to a Scheme if it is given for a purpose of, or has or will likely have the effect of, any one or more of the following:

- (a) incentivising the entry into of a contract relating to the issue of Credit Cards of the Scheme;
- (b) promoting or incentivising the issuance or use of Credit Cards of the Scheme; or
- (c) providing or funding incentives to holders of Credit Cards of the Scheme to use those cards.

Benefits that meet the Incentive Test in relation to a Scheme include lump-sum, volume based and transaction-specific Benefits such as:

- (i) incentives to market Credit Cards of the Scheme; and

- (ii) any of the following earned, accrued or receivable by a Direct Issuer Participant for agreeing to issue Credit Cards of the Scheme or for Credit Card Transactions undertaken in the Scheme meeting or exceeding a specific transaction volume, percentage share or dollar amount of transactions processed:
 - (A) a rebate on any fees or other costs or charges, whether for a Core Service or for any other product or service;
 - (B) a discount from the Regular Price of any Property or service, whether the Property or service is related to Credit Cards of the Scheme or not;

Indirect Issuer Participant means, in relation to a Scheme, a participant in that Scheme in Australia as an Issuer that participates in the Scheme in Australia as Issuer through the Sponsorship of another participant in that Scheme. Without limitation, for the:

- (a) MasterCard System this means any Affiliate Customer as defined in the Rules of the Scheme in its capacity as Issuer; or
- (b) VISA System this means any Participant-Type Member or Associate-Type Member, each as defined in the Rules of the Scheme, in its capacity as Issuer;

Interchange Fee Category has the meaning given to it in clause 4.1(b);

Interchange Fees means:

- (a) for each of the VISA System and the MasterCard System, wholesale fees, known as interchange fees, which are payable between an Issuer and an Acquirer, directly or indirectly, in relation to Credit Card Transactions in the Scheme; and
- (b) for the American Express Companion Card Scheme, wholesale fees, known as issuer fees or issuer rates, which are payable, directly or indirectly, between an Issuer which is a participant in the Scheme in Australia and the Acquirer or an administrator of the Scheme in Australia, or any Related Body Corporate of either of them, and any other Credit Card Transaction based payments which are functionally equivalent to such issuer fees or issuer rates or to the fees described in paragraph (a) above;

Issuer means a participant in a Scheme in Australia that has a contractual relationship with its customers under which it issues Credit Cards of a Scheme to those customers or their nominees;

Merchant means, in relation to a Scheme, a merchant in Australia that accepts a Credit Card of that Scheme for payment for goods or services;

Multilateral Interchange Fee means, in relation to a Scheme, an Interchange Fee that is determined by an administrator of the Scheme and applies regardless of the identity of the Acquirer or Issuer paying or receiving the Interchange Fee;

Net Compensation has the meaning given to it in clause 5.1;

Property means any property including any good and any proprietary right or interest;

Quarter means a 3 month period ending on 30 June, 30 September, 31 December or 31 March;

Reference Period means a 12 month period ending on the last day of a Quarter;

Regular Price means, in relation to Property or a service, a supplier and a Direct Issuer Participant at any time, the price at which the supplier is regularly supplying Property or services of the same description to entities of a class, group or type that includes the Direct Issuer Participant at that time;

Related Body Corporate has the meaning given in the *Corporations Act 2001*;

Relevant Portion has the meaning given to it in clause 5.2;

Reporting Period means a 12 month period ending 30 June;

Rules of a Scheme or **Rules of the Scheme** means the constitution, rules, by-laws, procedures and instruments of the relevant Scheme as applied in Australia, and any other arrangement relating to the Scheme by which participants in that Scheme in Australia are, or consider themselves to be, bound;

Sponsor means a participant in a Scheme in Australia who has accepted responsibility in whole or in part for, or to act as agent for, another entity under and in accordance with the Rules of the Scheme so that the other entity may participate in the Scheme and **Sponsorship** has a corresponding meaning;

include or **including** or **such as** when introducing an example do not limit the meaning of the words to which the example relates to that example or examples of a similar kind; and

terms defined in the Act have the same meaning in this Standard.

2.4 For the purposes of this Standard:

(a) a provision of a plan, arrangement or agreement shall be deemed to have a particular purpose if the provision was included in the plan, arrangement or agreement by a party or parties for purposes that include that purpose and that purpose was a substantial purpose; and

(b) conduct including the payment or receipt of a fee or the giving of a benefit or other valuable consideration shall be deemed to have been made for a particular purpose if the person undertaking the conduct, payment or receipt did so for purposes that include that purpose and that purpose was a substantial purpose.

2.5 Each participant in a Scheme must do all things necessary on its part to ensure compliance with this Standard.

2.6 If any part of this Standard is invalid, this Standard is ineffective only to the extent of such part without invalidating the remaining parts of this Standard.

2.7 This Standard is to be interpreted:

(a) in accordance with its objective; and

(b) by looking beyond form to substance.

2.8 For the purposes of this Standard, an Interchange Fee paid from an Acquirer to an Issuer is to be expressed as a positive number and an Interchange Fee paid from an Issuer to an Acquirer is to be expressed as a negative number.

2.9 On the Commencement Date this Standard replaces *Standard No. 1, The Setting of Wholesale (Interchange) Fees in the Designated Credit Card Schemes* relating to each of the VISA System and MasterCard System. Neither the registration nor the terms of this Standard affect that standard before the Commencement Date.

3. Anti-Avoidance

A participant in a Scheme must not, either alone or together with one or more other persons, enter into, begin to carry out or carry out a plan or arrangement or otherwise be knowingly involved in a plan or arrangement if it would be concluded that the person did so for a purpose of avoiding the application of this Standard, and the plan or arrangement or part of the plan or arrangement has achieved or would but for this provision have achieved or could reasonably be considered to have achieved that purpose.

4. Interchange Fees

- 4.1 (a) An Interchange Fee (exclusive of goods and services tax) in relation to a Credit Card Transaction must not exceed 0.800 per cent of the value of the Credit Card Transaction to which it relates.
- (b) If an Interchange Fee applies in relation to a category of Credit Card Transactions (whether that category is determined by reference to the nature of the holder, or type, of the Credit Card of the Scheme, the identity or nature of the Merchant, the means of effecting the transaction, the security or authentication that applies or any other matter, or is a residual category covering transactions not in any other category) (**Interchange Fee Category**), that Interchange Fee must be:
- (i) a percentage of the value of the Credit Card Transaction to which it relates; or
 - (ii) a fixed amount,
- applying to all Credit Card Transactions in the category, and cannot be expressed as a range of rates or amounts.
- 4.2 If the total value of Interchange Fees (exclusive of goods and services tax) payable in relation to Credit Card Transactions undertaken in a Scheme during a Reference Period exceeds 0.500 per cent of the total value of those Credit Card Transactions:
- (a) that Reference Period will be an **Above Benchmark Reference Period**; and
 - (b) the participants in that Scheme must take all necessary steps to vary the rates or amounts of Interchange Fees applicable under that Scheme, with effect no later than 2 months and 1 day after the end of the Above Benchmark Reference Period, to rates or amounts such that, had those varied rates or amounts applied under the Scheme during that Above Benchmark Reference Period, that Reference Period would not have been an Above Benchmark Reference Period.
- 4.3 If at any time any Interchange Fee applicable under a Scheme is introduced or removed, or the rate or amount of any Interchange Fee under a Scheme is varied, the Interchange Fees applicable under that Scheme following that change must be such that, had they applied for the whole of the most recent Reference Period prior to the date of the change, that Reference Period would not have been an Above Benchmark Reference Period. Nothing in this clause 4.3 limits clause 4.2.

5. Net Payments to Direct Issuer Participants

- 5.1 No Direct Issuer Participant in a Scheme may receive, directly or indirectly, Net Compensation in relation to Credit Card Transactions undertaken in that Scheme. **Net Compensation** is received by a Direct Issuer Participant if the Direct Issuer Participant Receipts of the Direct Issuer Participant for that Scheme in respect of a Reporting Period exceed the Direct Issuer Participant Payments of the Direct Issuer Participant for that Scheme in respect of that Reporting Period.
- 5.2 For the purpose of this clause 5:
- (a) subject to paragraphs (c), (d), (e), (f) and (g), **Direct Issuer Participant Receipts** of the Direct Issuer Participant for a Scheme and a Reporting Period is the total of the Benefits that meet the Incentive Test in relation to the Scheme that are earned or accrued during, or receivable in respect of, the Reporting Period by the Direct Issuer Participant and payable, allowable or otherwise to be provided, directly or indirectly, by the administrator of the Scheme in Australia or any of its Associated Entities but, if such an Associated Entity is an Acquirer, excluding Interchange Fees;

- (b) subject to paragraphs (c), (d), (e), (f) and (g), **Direct Issuer Participant Payments** of the Direct Issuer Participant for a Scheme and a Reporting Period is the total amount paid or payable, directly or indirectly, by the Direct Issuer Participant to or in favour of the administrator of the Scheme in Australia or any of its Associated Entities in relation to Core Services provided during or in respect of the Reporting Period for Credit Cards of the Scheme or Credit Card Transactions undertaken in the Scheme;
- (c) if a Benefit referred to in paragraph (a) or (b) does not relate solely to Credit Cards of the Scheme or Credit Card Transactions undertaken in the Scheme and also relates to other Devices or other transactions:
 - (i) the Benefit must be apportioned between:
 - (A) the Credit Cards of the Scheme and Credit Card Transactions on the one hand; and
 - (B) the other Devices and other transactions on the other,

fairly and reasonably, having regard to, where relevant, the transaction history on Devices used in the payment systems to which the Benefit relates and the proportion of the Devices to which the Benefit relates that are Credit Cards of the Scheme issued by the Direct Issuer Participant or by any Indirect Issuer Participant through Sponsorship by that Direct Issuer Participant; and
 - (ii) the portion referable to Credit Cards of the Scheme and Credit Card Transactions determined in accordance with sub-paragraph (i) (the **Relevant Portion**) must be included in the determination of Direct Issuer Participant Receipts or Direct Issuer Participant Payments, as applicable;
- (d) one method of apportionment under clause 5.2(c) that will be fair and reasonable for the purpose of that provision is an apportionment on a pro-rata basis, based on the value of Credit Card Transactions undertaken in the Scheme using Credit Cards of the Scheme during the Reporting Period as a proportion of the total value of the transactions undertaken in any payment system to which the Benefit relates during the Reporting Period. This does not preclude an apportionment in another way that meets the requirements of clause 5.2(c);
- (e) where a Benefit referred to in paragraph (a), (b) or (c) relates to a period that spans more than one Reporting Period, the Benefit or, in the case of a Benefit referred to in paragraph (c), the Relevant Portion of the Benefit, may be allocated among Reporting Periods, in which case the allocation must:
 - (i) be on a pro-rata basis based on the number of months in each relevant Reporting Period to which the Benefit relates if an allocation on that basis would fairly and reasonably align the Benefit to the activity to which the Benefit relates; or
 - (ii) otherwise on some other basis that fairly and reasonably aligns the allocation of the Benefit to the activity to which the Benefit relates,

in each case provided that:

 - (iii) no part of it is allocated to any Reporting Period the whole of which occurs before the term of the contract or arrangement under which the Benefit is payable, receivable or allowable has commenced;
 - (iv) no part of it is allocated to any Reporting Period the whole of which occurs after the term of the contract or arrangement under which the Benefit is payable, receivable or allowable has ended; and

- (v) it may not be allocated among more than 10 consecutive Reporting Periods;
- (f) a Direct Issuer Participant who adopts a particular method permitted by clause 5.2 of this Standard of:
 - (i) determining whether and to what extent:
 - (A) Benefits are earned or accrued during, or are receivable in respect of, a Reporting Period for the purposes of paragraph 5.2(a); or
 - (B) Core Services are provided during or in respect of a Reporting Period for the purposes of paragraph 5.2(b); or
 - (ii) allocating or apportioning Benefits for the purpose of paragraph (c), (d) or (e),
must, unless the Reserve Bank of Australia otherwise agrees in writing, continue to use the same method consistently from one Reporting Period to the next; and
- (g) for the purpose of this clause 5, a Direct Issuer Participant must ensure that:
 - (i) a Benefit paid, allowed or otherwise provided, directly or indirectly, by the administrator of the Scheme in Australia or any of its Associated Entities that meets the Incentive Test is included as a Direct Issuer Participant Receipt in the calculation of Net Compensation in respect of a Reporting Period; and
 - (ii) an amount treated as a Direct Issuer Participant Payment in the calculation of Net Compensation in respect of a Reporting Period is not included as a Direct Issuer Participant Payment in the calculation of Net Compensation for any other Reporting Period.

6. Reporting and Transparency

- 6.1 An administrator of a Scheme in Australia or a representative of the participants in the Scheme in Australia must publish the Multilateral Interchange Fee rates or amounts (whichever is applicable) of the Scheme in Australia on the Scheme's website, including the rates or amounts for each Interchange Fee Category.
- 6.2 Each:
- (a) Acquirer; and
 - (b) Issuer that is a Direct Issuer Participant,
- that is a party to an agreement with one or more other participants in a Scheme to pay or receive Interchange Fees in relation to Credit Card Transactions in the Scheme that are not Multilateral Interchange Fees must report to the Reserve Bank of Australia by 31 July each year the range of Interchange Fee rates or amounts (whichever is applicable) it received or paid in respect of the most recent Reporting Period. The Reserve Bank of Australia may publish the reported range of these Interchange Fees for the Scheme on its website.
- 6.3 An administrator of a Scheme in Australia or a representative of the participants in the Scheme in Australia must on or before 31 July each year certify in writing to the Reserve Bank of Australia in respect of the most recent Reporting Period, that Interchange Fees of the Scheme in Australia were during that Reporting Period in compliance with this Standard.
- 6.4 Each of an administrator of a Scheme in Australia and each Direct Issuer Participant in the Scheme in Australia must on or before 31 July each year certify in writing to the Reserve Bank of Australia that it was, in respect of the most recent Reporting Period, in compliance with clause 5.

- 6.5 An administrator of a Scheme in Australia or a representative of the participants of the Scheme in Australia must, not later than 30 days after the end of each Quarter, certify in writing to the Reserve Bank of Australia each of the following for that Quarter for the Scheme:
- (a) the total value of Credit Card Transactions undertaken in the Scheme in that Quarter;
 - (b) the number of Credit Card Transactions undertaken in the Scheme in that Quarter;
 - (c) the total value of all Interchange Fees (exclusive of goods and services tax) payable in respect of the Credit Card Transactions undertaken in the Scheme during that Quarter;
 - (d) the total value of Interchange Fees (exclusive of goods and services tax) payable in respect of Credit Card Transactions undertaken in the Scheme during the Quarter divided by the total value of the Credit Card Transactions undertaken in the Scheme during the Quarter; and
 - (e) each Interchange Fee Category that applied for some or all of the Quarter and, for each of those categories:
 - (i) the Interchange Fee rates or amounts (whichever is applicable) that applied during the Quarter (expressed as a percentage or an amount, not as a range); and
 - (ii) the total value of Interchange Fees (exclusive of goods and services tax) payable in respect of that Quarter that are referable to Credit Card Transactions undertaken in the Scheme in that Quarter in that category.

7. Commencement and Implementation

- 7.1 This Standard came into force on the Commencement Date, but certain provisions in it had a transitional application as set out in clause 7 of this Standard as at the Commencement Date.
- 7.2 This Standard as varied with effect from 1 July 2019 must be complied with for the Reporting Period ending on 30 June 2020 and all subsequent Reporting Periods. For the Reporting Period ending on 30 June 2019 a Direct Issuer Participant in a Scheme may elect to comply, in relation to that Scheme, with either:
- (a) this Standard as in effect on 30 June 2019; or
 - (b) this Standard as amended with effect on 1 July 2019 as if this Standard so amended had been in effect from 1 July 2018,
- and must notify its election of (a) or (b) (**Transitional Election**) to the administrator of the Scheme no later than 1 July 2019.
- 7.3 An administrator of a Scheme in Australia that receives a notification under clause 7.2 from a Direct Issuer Participant must provide its certification of its compliance under clause 6.4 as that compliance relates to that Direct Issuer Participant and the Reporting Period ending on 30 June 2019 on the same basis as that specified in the Transitional Election made by that Direct Issuer Participant.
- 7.4 If a Direct Issuer Participant in a Scheme does not give a Transitional Election in accordance with clause 7.2 then:
- (a) it is taken to have elected to comply, in relation to that Scheme, with this Standard as in effect on 30 June 2019; and
 - (b) the administrator of the Scheme in Australia must provide its certification under clause 6.4 in relation to that Direct Issuer Participant and the Reporting Period ending on 30 June 2019 accordingly.

THE SETTING OF INTERCHANGE FEES IN THE DESIGNATED DEBIT AND PREPAID CARD SCHEMES AND NET PAYMENTS TO ISSUERS

1. Objective

The objective of this Standard is to ensure that the setting of interchange fees and payments and other transfers of valuable consideration having an equivalent object or effect to interchange fees in each designated debit card scheme and prepaid card scheme is transparent and promotes:

- *efficiency; and*
- *competition*

in the Australian payments system.

2. Application

2.1 This Standard is determined under Section 18 of the *Payment Systems (Regulation) Act 1998* (the **Act**).

2.2 This Standard applies to each of the following, each of which is referred to in this Standard as a **Scheme**:

- (a) the payment system operated within Australia known as Visa Debit, which was designated under the Act as a payment system on 23 February 2004 and which is referred to in this Standard as **Visa Debit**;
- (b) the payment system operated within Australia known as Visa Prepaid, which was designated under the Act as a payment system on 15 October 2015 and which is referred to in this Standard as **Visa Prepaid**;
- (c) the payment system operated within Australia known as Debit MasterCard, which was designated under the Act as a payment system on 15 October 2015 and which is referred to in this Standard as **Debit MasterCard**;
- (d) the payment system operated within Australia known as MasterCard Prepaid, which was designated under the Act as a payment system on 15 October 2015 and which is referred to in this Standard as **MasterCard Prepaid**;
- (e) the debit card payment system operated within Australia known as the EFTPOS payment system, which was designated under the Act as a payment system on 12 June 2012 and which is referred to in this standard as the **EFTPOS System**; and
- (f) the prepaid card payment system operated within Australia under the EFTPOS Scheme Rules, which was designated under the Act as a payment system on 15 October 2015 and which is referred to in this standard as **EFTPOS Prepaid**.

2.3 In this Standard:

Above Benchmark Reference Period has the meaning given to it in clause 4.2;

Acquired includes accepted;

Acquirer means a participant in a Scheme in Australia that:

- (a) provides services, directly or indirectly, to a Merchant to allow that Merchant to accept a Card of that Scheme; or
- (b) is a Merchant that accepts, or is a Related Body Corporate of a Merchant that accepts, a Card of that Scheme and bears risk as principal in relation to the payment obligations of the Issuer of that Card in relation to that acceptance;

Associated Entity has the meaning given by section 50AAA of the *Corporations Act 2001*;

Benefit means:

- (a) a payment, receipt, rebate, refund or allowance;
- (b) in relation to any Property or service received or receivable by a Direct Issuer Participant:
 - (i) where there is a Regular Price for that Property or service, any discount or deduction from that price;
 - (ii) where there is not a Regular Price for that Property or service, an amount by which the Fair Value of the Property or service exceeds the payment or other similar financial consideration made or given for it by the Direct Issuer Participant; and
- (c) a benefit (however named or described) of a similar nature to, or having the same effect as, a benefit of the kind specified in (a) or (b) above;

Card Account means, in relation to a Card of a Scheme, the account that is debited when that Device is used to purchase goods or services;

Card of a Scheme or **Card of that Scheme** means a Debit Card of a Scheme or a Prepaid Card of a Scheme;

Card of a Scheme Pair means a Card of a Scheme that is part of a Scheme Pair;

Card Transaction means a Debit Card Transaction or a Prepaid Card Transaction;

Commencement Date means 1 July 2017;

Core Service means, in relation to a Scheme, a service provided by the administrator of the Scheme in Australia or any of its Associated Entities that meets the requirements in the following paragraphs (a), (b) and (c):

- (a) the service is used by a participant in the Scheme in Australia in relation to Devices of the Scheme that can be used to make payments for goods or services by accessing a deposit account held at an authorised deposit-taking institution or a bank or other financial institution, or transactions initiated using those Devices; and
- (b) without the service it would not be possible for a Direct Issuer Participant to be an Issuer or for another entity to be an Issuer through Sponsorship by a Direct Issuer Participant of the Scheme; and
- (c) the service (however named or described) relates to one or more of the following (each a Core Function) and only to one or more Core Functions:
 - (i) the licensing of the Scheme's brands and other intellectual property owned by, or licensed to, the administrator of the Scheme in Australia or any of its Associated Entities, a licence (or sub-licence) of which is required in order to be a participant in the Scheme;
 - (ii) connection to, and/or maintenance of a connection to, the systems to which it is necessary to connect in order to be a participant in the Scheme;
 - (iii) transaction processing (including processing of charge-back transactions);

- (iv) clearing and settlement (including clearing and settlement of charge-back transactions);
- (v) authentication;
- (vi) authorisation;
- (vii) stand-in processing, clearing and settlement;
- (viii) fraud prevention; and
- (ix) handling, investigating and settling disputes, and requests or claims for chargebacks, raised by holders of Devices.

A service will relate only to one or more Core Functions for the purpose of this paragraph (c) even if it involves or includes incidental services necessary to support one or more Core Functions;

Debit Card of a Scheme or **Debit Card of that Scheme** means, in relation to a Scheme, a Device issued by a participant in the Scheme in Australia under the Rules of the Scheme that can be used to make payments for goods or services by accessing a deposit account held at an authorised deposit-taking institution or a bank or other financial institution;

Debit Card Transaction means, in relation to a Scheme, a transaction in that Scheme between a holder of a Debit Card of that Scheme and a Merchant involving the purchase of goods or services (whether or not it also involves the obtaining of cash) using a Debit Card of that Scheme that is Acquired by an Acquirer (but does not include any transaction to reverse such a transaction or provide a credit or make a chargeback in relation to such a transaction);

Device means any card, plate or other payment code or device, including a code or device where no physical card or other embodiment is issued and a code or device used or to be used for only one transaction;

Direct Issuer Participant means, in relation to a Scheme, a participant in that Scheme in Australia as an Issuer, or as a Sponsor for one or more Issuers, that is not an Indirect Issuer Participant in that Scheme in Australia. Without limitation, for:

- (a) Debit MasterCard and MasterCard Prepaid this means any Principal Customer or Association Customer, each as defined in the Rules of the Scheme, in its capacity as Issuer or as Sponsor for one or more Issuers;
- (b) VISA Debit and Visa Prepaid this means any Principal-Type Member as defined in the Rules of the Scheme in its capacity as Issuer or as Sponsor for one or more Issuers; or
- (c) EFTPOS System and EFTPOS Prepaid this means:
 - (i) any eftpos Issuer that is not an Indirect Settler; or
 - (ii) any Settlement Agent,

with each of those expressions having the meaning given in the Rules of the Scheme;

Direct Issuer Participant Payments has the meaning given to it in clause 5.2;

Direct Issuer Participant Receipts has the meaning given to it in clause 5.2;

EFTPOS Scheme Rules are the rules promulgated under the constitution of EFTPOS Payments Australia Limited (ABN 37 136 180 366) and any schedule, document, specification or rule published by EFTPOS Payments Australia Limited pursuant to those rules;

Fair Value means, in relation to any Property or service:

- (a) subject to paragraph (b), the amount that would be paid to acquire the Property or service in an orderly transaction between independent, unrelated and well informed parties at the earlier of:
 - (i) the date the Property or service was first provided; and
 - (ii) the date the Property or service was committed to be provided,to the Direct Issuer Participant; but
- (b) if at any subsequent time the amount that would be paid to acquire the Property or service in an orderly transaction between independent, unrelated and well informed parties (**Revised Value**) is materially different from the amount determined in accordance with paragraph (a) (or, if any adjustment is made in accordance with this paragraph (b), the most recent such adjustment), the Fair Value may be adjusted to that Revised Value provided:
 - (i) use of that Revised Value as Fair Value is fair and reasonable and consistent with the objective of this Standard; and
 - (ii) the Fair Value may be adjusted to a Revised Value no more than once in a Reporting Period;

Incentive Test: a Benefit meets the **Incentive Test** in relation to a Scheme Pair if it is given for a purpose of, or has or will likely have the effect of, any one or more of the following:

- (a) incentivising the entry into of a contract relating to the issue of Cards of any Scheme in the Scheme Pair;
- (b) promoting or incentivising the issuance or use of Cards of any Scheme in the Scheme Pair; or
- (c) providing or funding incentives to holders of Cards of any Scheme in the Scheme Pair to use those cards.

Benefits that meet the Incentive Test in relation to a Scheme Pair include lump-sum, volume based and transaction-specific Benefits such as:

- (i) incentives to market Cards of any Scheme in the Scheme Pair; and
- (ii) any of the following earned, accrued or receivable by a Direct Issuer Participant for agreeing to issue Cards of any Scheme in the Scheme Pair or for Card Transactions undertaken in any Scheme in the Scheme Pair meeting or exceeding a specific transaction volume, percentage share or dollar amount of transactions processed:
 - (A) a rebate on any fees or other costs or charges, whether for a Core Service or for any other product or service;
 - (B) a discount from the Regular Price of any Property or service, whether the Property or service is related to Cards of any Scheme in the Scheme Pair or not;

Indirect Issuer Participant means, in relation to a Scheme, a participant in that Scheme in Australia as an Issuer that participates in the Scheme in Australia as Issuer through the Sponsorship of another participant in that Scheme. Without limitation, for:

- (a) Debit MasterCard and MasterCard Prepaid this means any Affiliate Customer as defined in the Rules of the Scheme in its capacity as Issuer; or
- (b) VISA Debit and Visa Prepaid this means any Participant-Type Member or Associate-Type Member, each as defined in the Rules of the Scheme, in its capacity as Issuer; or

(c) EFTPOS System and EFTPOS Prepaid this means any eftpos Issuer that is an Indirect Settler, with each of those expressions having the meaning given in the Rules of the Scheme;

Interchange Fee Category has the meaning given to it in clause 4.1(b);

Interchange Fees means in relation to a Scheme, wholesale fees, known as interchange fees, which are payable between an Issuer and an Acquirer, directly or indirectly, in relation to Card Transactions in the Scheme but excluding any such fees to the extent that they are referable only to the obtaining of cash by the Card holder;

Issuer means a participant in a Scheme in Australia that has a contractual relationship with its customers under which it issues Debit Cards or Prepaid Cards of a Scheme (as the case may be) to those customers or their nominees;

Merchant means, in relation to a Scheme, a merchant in Australia that accepts a Card of that Scheme for payment for goods or services;

Multilateral Interchange Fee means, in relation to a Scheme, an Interchange Fee that is determined by an administrator of the Scheme and applies regardless of the identity of the Acquirer or Issuer paying or receiving the Interchange Fee;

Net Compensation has the meaning given to it in clause 5.1;

Prepaid Card of a Scheme or **Prepaid Card of that Scheme** means, in relation to a Scheme, a Device issued by a participant in the Scheme in Australia under the Rules of the Scheme that can be used to make payments for goods or services using a store of value that has been prepaid or pre-funded and is accessible to make payments for goods or services only through the use of that, or a linked or related, Device;

Prepaid Card Transaction means, in relation to a Scheme, a transaction in that Scheme between a holder of a Prepaid Card of that Scheme and a Merchant involving the purchase of goods or services (whether or not it also involves the obtaining of cash) using a Prepaid Card of that Scheme that is Acquired by an Acquirer (but does not include any transaction to reverse such a transaction or provide a credit or make a chargeback in relation to such a transaction);

Property means any property including any good and any proprietary right or interest;

Quarter means a 3 month period ending on 30 June, 30 September, 31 December or 31 March;

Reference Period means a 12 month period ending on the last day of a Quarter;

Regular Price means, in relation to Property or a service, a supplier and a Direct Issuer Participant at any time, the price at which the supplier is regularly supplying Property or services of the same description to entities of a class, group or type that includes the Direct Issuer Participant at that time;

Related Body Corporate has the meaning given in the *Corporations Act 2001*;

Relevant Portion has the meaning given to it in clause 5.2;

Reporting Period means a 12 month period ending 30 June;

Rules of a Scheme or **Rules of the Scheme** means the constitution, rules, by-laws, procedures and instruments of the relevant Scheme as applied in Australia, and any other arrangement relating to the Scheme by which participants in that Scheme in Australia are, or consider themselves to be, bound;

Scheme Benchmark is 8.0 cents;

Scheme Pair means:

- (a) VISA Debit and VISA Prepaid;
- (b) Debit MasterCard and MasterCard Prepaid; or
- (c) EFTPOS System and EFTPOS Prepaid;

Scheme Pair Transaction has the meaning given in clause 5.1;

Sponsor means:

- (a) in relation to a Scheme which is VISA Debit, VISA Prepaid, Debit MasterCard or MasterCard Prepaid, a participant in the Scheme in Australia who has accepted responsibility in whole or in part for, or to act as agent for, another entity under and in accordance with the Rules of the Scheme so that the other entity may participate in the Scheme; and
- (b) in relation to a Scheme which is EFTPOS System or EFTPOS Prepaid, a participant in the Scheme in Australia who has accepted responsibility to carry out settlement (the process of exchanging value to discharge payment obligations between Issuers and Acquirers), directly or indirectly, on behalf of one or more other entities,

and **Sponsorship** has a corresponding meaning;

include or **including** or **such as** when introducing an example do not limit the meaning of the words to which the example relates to that example or examples of a similar kind; and

terms defined in the Act have the same meaning in this Standard.

2.4 For the purposes of this Standard:

- (a) a provision of a plan, arrangement or agreement shall be deemed to have a particular purpose if the provision was included in the plan, arrangement or agreement by a party or parties for purposes that include that purpose and that purpose was a substantial purpose; and
- (b) conduct including the payment or receipt of a fee or the giving of a benefit or other valuable consideration shall be deemed to have been made for a particular purpose if the person undertaking the conduct, payment or receipt did so for purposes that include that purpose and that purpose was a substantial purpose.

2.5 Each participant in a Scheme must do all things necessary on its part to ensure compliance with this Standard.

2.6 If any part of this Standard is invalid, this Standard is ineffective only to the extent of such part without invalidating the remaining parts of this Standard.

2.7 This Standard is to be interpreted:

- (a) in accordance with its objective; and
- (b) by looking beyond form to substance.

2.8 For the purposes of this Standard, an Interchange Fee paid from an Acquirer to an Issuer is to be expressed as a positive number and an Interchange Fee paid from an Issuer to an Acquirer is to be expressed as a negative number.

2.9 On the Commencement Date this Standard replaces each of the following Standards:

- (a) *The Setting of Interchange Fees in the Visa Debit Payment System*; and
- (b) *Interchange Fees in the EFTPOS System*.

Neither the registration nor the terms of this Standard affect those standards before the Commencement Date.

3. Anti-Avoidance

A participant in a Scheme must not, either alone or together with one or more other persons, enter into, begin to carry out or carry out a plan or arrangement or otherwise be knowingly involved in a plan or arrangement if it would be concluded that the person did so for a purpose of avoiding the application of this Standard, and the plan or arrangement or part of the plan or arrangement has achieved or would but for this provision have achieved or could reasonably be considered to have achieved that purpose.

4. Interchange Fees

4.1 (a) An Interchange Fee (exclusive of goods and services tax) in relation to a Card Transaction must:

- (i) where the Interchange Fee is a fixed amount per transaction, not exceed 15.0 cents; or
- (ii) where the Interchange Fee is calculated by reference to the value or amount of the transaction, not exceed 0.200 per cent of that amount or value.

(b) If an Interchange Fee applies in relation to a category of Card Transactions (whether that category is determined by reference to the nature of the holder, or type of the Card of the Scheme, the identity or nature of the Merchant, the means of effecting the transaction, the security or authentication that applies or any other matter, or is a residual category covering transactions not in any other category) (**Interchange Fee Category**), that Interchange Fee must be:

- (i) a percentage of the value of the Card Transaction to which it relates; or
- (ii) a fixed amount,

applying to all Card Transactions in the category, and cannot be expressed as a range of rates or amounts.

4.2 If:

(a) the total value of Interchange Fees (exclusive of goods and services tax) payable in relation to Card Transactions undertaken in a Scheme during a Reference Period divided by the number of those Card Transactions exceeds the Scheme Benchmark; and

(b) for the Scheme Pair of which the Scheme referred to in sub-paragraph (a) forms part, the total value of Interchange Fees (exclusive of goods and services tax) payable in relation to Card Transactions undertaken in each of the Schemes in the Scheme Pair during the Reference Period divided by the number of those Card Transactions exceeds the Scheme Benchmark;

that Reference Period will be an **Above Benchmark Reference Period** for that Scheme and the participants in the Scheme referred to in paragraph (a) above must take all necessary steps to vary the rates or amounts of Interchange Fees applicable under that Scheme, with effect no later than 2 months and 1 day after the end of the Above Benchmark Reference Period, to rates or amounts such that, had those varied rates or amounts applied under the Scheme during the Above Benchmark Reference Period, that Reference Period would not have been an Above Benchmark Reference Period for that Scheme unless:

(c) prior to the end of that period of 2 months and 1 day, a variation to the rates or amounts of Interchange Fees applicable under the other Scheme in the Scheme Pair takes effect; and

(d) the varied Interchange Fees referred to in paragraph (c) are such that, had they applied under that other Scheme during the Above Benchmark Reference Period, the Reference Period would not have been an Above Benchmark Reference Period.

4.3 If at any time any Interchange Fee applicable under a Scheme is introduced or removed, or the rate or amount of any Interchange Fee under a Scheme is varied, the Interchange Fees applicable under that Scheme following that change must be such that, had they applied for the whole of the most recent Reference Period prior to the date of the change, that Reference Period would not have been an Above Benchmark Reference Period. Nothing in this clause 4.3 limits clause 4.2.

5. Net Payments to Direct Issuer Participants

5.1 No Direct Issuer Participant in a Scheme may receive, directly or indirectly, Net Compensation in relation to Card Transactions undertaken in any of the Schemes in the Scheme Pair of which that Scheme forms part (**Scheme Pair Transactions**). **Net Compensation** is received by a Direct Issuer Participant if the Direct Issuer Participant Receipts of the Direct Issuer Participant for that Scheme Pair in respect of a Reporting Period exceed the Direct Issuer Participant Payments of the Direct Issuer Participant for that Scheme Pair in respect of that Reporting Period.

5.2 For the purpose of this clause 5:

(a) subject to paragraphs (c), (d), (e), (f) and (g), **Direct Issuer Participant Receipts** of the Direct Issuer Participant for a Scheme Pair and a Reporting Period is the total of the Benefits that meet the Incentive Test in relation to that Scheme Pair that are earned or accrued during, or receivable in respect of, the Reporting Period by the Direct Issuer Participant and payable, allowable or otherwise to be provided, directly or indirectly, by the administrator in Australia of any Scheme in the Scheme Pair or any of the Associated Entities of any administrator in Australia of any Scheme in the Scheme Pair but, if such an Associated Entity is an Acquirer, excluding Interchange Fees;

(b) subject to paragraphs (c), (d), (e), (f) and (g), **Direct Issuer Participant Payments** of the Direct Issuer Participant for a Scheme Pair and a Reporting Period is the total amount paid or payable, directly or indirectly, by the Direct Issuer Participant to or in favour of the administrator in Australia of any Scheme in the Scheme Pair or any of the Associated Entities of any administrator in Australia of any Scheme in the Scheme Pair in relation to Core Services provided during or in respect of the Reporting Period for any of the Cards of the Schemes in the Scheme Pair or Scheme Pair Transactions.

(c) if a Benefit referred to in paragraph (a) or (b) does not relate solely to Cards of any Scheme in the Scheme Pair or Scheme Pair Transactions and also relates to other Devices or other transactions:

(i) the Benefit must be apportioned between:

(A) the Cards of any Scheme in the Scheme Pair and Scheme Pair Transactions on the one hand; and

(B) the other Devices and other transactions on the other,

fairly and reasonably, having regard to, where relevant, the transaction history on Devices used in the payment systems to which the Benefit relates and the proportion of the Devices to which the Benefit relates that are Cards of a Scheme in the Scheme Pair issued by the Direct Issuer Participant or by any Indirect Issuer Participant through Sponsorship by that Direct Issuer Participant; and

- (ii) the portion referable to Cards of any Scheme in the Scheme Pair and Scheme Pair Transactions determined in accordance with sub-paragraph (i) (the **Relevant Portion**) must be included in the determination of Direct Issuer Participant Receipts or Direct Issuer Participant Payments, as applicable;
- (d) one method of apportionment under clause 5.2(c) that will be fair and reasonable for the purpose of that provision is an apportionment on a pro-rata basis, based on the value of Scheme Pair Transactions using Cards of any Scheme in the relevant Scheme Pair during the Reporting Period as a proportion of the total value of the transactions undertaken in any payment system to which the Benefit relates during the Reporting Period. This does not preclude an apportionment in another way that meets the requirements of clause 5.2(c);
- (e) where a Benefit referred to in paragraph (a), (b) or (c) relates to a period that spans more than one Reporting Period, the Benefit or, in the case of a Benefit referred to in paragraph (c), the Relevant Portion of the Benefit, may be allocated among Reporting Periods, in which case the allocation must:
 - (i) be on a pro-rata basis based on the number of months in each relevant Reporting Period to which the Benefit relates if an allocation on that basis would fairly and reasonably align the Benefit to the activity to which the Benefit relates; or
 - (ii) otherwise on some other basis that fairly and reasonably aligns the allocation of the Benefit to the activity to which the Benefit relates,
 in each case provided that:
 - (iii) no part of it is allocated to any Reporting Period the whole of which occurs before the term of the contract or arrangement under which the Benefit is payable, receivable or allowable has commenced;
 - (iv) no part of it is allocated to any Reporting Period the whole of which occurs after the term of the contract or arrangement under which the Benefit is payable, receivable or allowable has ended; and
 - (v) it may not be allocated among more than 10 consecutive Reporting Periods;
- (f) a Direct Issuer Participant who adopts a particular method permitted by clause 5.2 of this Standard of:
 - (i) determining whether and to what extent:
 - (A) Benefits are earned or accrued during, or are receivable in respect of, a Reporting Period for the purposes of paragraph 5.2(a); or
 - (B) Core Services are provided during or in respect of a Reporting Period for the purposes of paragraph 5.2(b); or
 - (ii) allocating or apportioning Benefits for the purpose of paragraph (c), (d) or (e),
 must, unless the Reserve Bank of Australia otherwise agrees in writing, continue to use the same method consistently from one Reporting Period to the next; and
- (g) for the purpose of this clause 5, a Direct Issuer Participant must ensure that:
 - (i) a Benefit paid, allowed or otherwise provided, directly or indirectly, by the administrator of a Scheme in Australia or any of its Associated Entities that meets the Incentive Test in relation to the Scheme Pair of which that Scheme is part is included as a Direct Issuer Participant Receipt in the calculation of Net Compensation in respect of a Reporting Period; and

- (ii) an amount treated as a Direct Issuer Participant Payment in the calculation of Net Compensation in respect of a Reporting Period is not included as a Direct Issuer Participant Payment in the calculation of Net Compensation for any other Reporting Period.

6. Reporting and Transparency

6.1 An administrator of a Scheme in Australia or a representative of the participants in the Scheme in Australia must publish the Multilateral Interchange Fee rates or amounts (whichever is applicable) of the Scheme in Australia on the Scheme's website, including the rates or amounts for each Interchange Fee Category.

6.2 Each:

- (a) Acquirer; and
- (b) Issuer that is a Direct Issuer Participant,

that is a party to an agreement with one or more other participants in a Scheme to pay or receive Interchange Fees in relation to Card Transactions in the Scheme that are not Multilateral Interchange Fees must report to the Reserve Bank of Australia by 31 July each year the range of Interchange Fee rates or amounts (whichever is applicable) it received or paid in respect of the most recent Reporting Period. The Reserve Bank of Australia may publish the reported range of these Interchange Fees for the Scheme on its website.

6.3 An administrator of a Scheme in Australia or a representative of the participants in the Scheme in Australia must on or before 31 July each year certify in writing to the Reserve Bank of Australia in respect of the most recent Reporting Period, that Interchange Fees of the Scheme in Australia were during that Reporting Period in compliance with this Standard.

6.4 Each of an administrator of a Scheme in Australia and each Direct Issuer Participant in the Scheme in Australia must on or before 31 July each year certify in writing to the Reserve Bank of Australia that it was, in respect of the most recent Reporting Period, in compliance with clause 5.

6.5 An administrator of a Scheme in Australia or a representative of the participants of the Scheme in Australia must, not later than 30 days after the end of each Quarter, certify in writing to the Reserve Bank of Australia each of the following for that Quarter for the Scheme (and in the case of paragraph (e), the relevant Scheme Pair):

- (a) the total value of Card Transactions undertaken in the Scheme in that Quarter;
- (b) the number of Card Transactions undertaken in the Scheme in that Quarter;
- (c) the total value of all Interchange Fees (exclusive of goods and services tax) payable in respect of the Card Transactions undertaken in the Scheme during that Quarter;
- (d) the total value of Interchange Fees (exclusive of goods and services tax) payable in respect of Card Transactions undertaken in the Scheme during the Quarter divided by the total number of the Card Transactions undertaken in the Scheme during the Quarter;
- (e) the total value of Interchange Fees (exclusive of goods and services tax) payable in respect of Scheme Pair Transactions undertaken in the Schemes that form part of that Scheme Pair during the Quarter divided by the total number of the Scheme Pair Transactions undertaken in the Schemes that form part of that Scheme Pair during the Quarter; and
- (f) each Interchange Fee Category that applied for some or all of the Quarter and, for each of those categories:

- (i) the Interchange Fee rates or amounts (whichever is applicable) that applied during the Quarter (expressed as a percentage or an amount, not as a range); and
- (ii) the total value of Interchange Fees (exclusive of goods and services tax) payable in respect of that Quarter that are referable to Card Transactions undertaken in the Scheme in that Quarter in that category.

7. Commencement and Implementation

- 7.1 This Standard came into force on the Commencement Date, but certain provisions in it had a transitional application as set out in clause 7 of this Standard as at the Commencement Date.
- 7.2 This Standard as varied with effect from 1 July 2019 must be complied with for the Reporting Period ending on 30 June 2020 and all subsequent Reporting Periods. For the Reporting Period ending on 30 June 2019 a Direct Issuer Participant in a Scheme in a Scheme Pair may elect to comply, in relation to both Schemes in that Scheme Pair, with either:
- (a) this Standard as in effect on 30 June 2019; or
 - (b) this Standard as amended with effect on 1 July 2019 as if this Standard so amended had been in effect from 1 July 2018,
- and must notify its election of (a) or (b) (**Transitional Election**) to the administrator of each Scheme in the Scheme Pair no later than 1 July 2019.
- 7.3 An administrator of a Scheme in Australia that receives a notification under clause 7.2 from a Direct Issuer Participant must provide its certification of its compliance under clause 6.4 as that compliance relates to that Direct Issuer Participant and the Reporting Period ending on 30 June 2019 on the same basis as that specified in the Transitional Election made by that Direct Issuer Participant.
- 7.4 If a Direct Issuer Participant in a Scheme in a Scheme Pair does not give a Transitional Election in accordance with clause 7.2 then:
- (a) it is taken to have elected to comply, in relation to both Schemes in that Scheme Pair, with this Standard as in effect on 30 June 2019; and
 - (b) the administrator of each Scheme in the Scheme Pair in Australia must provide its certification under clause 6.4 in relation to that Direct Issuer Participant and the Reporting Period ending on 30 June 2019 accordingly.

Appendix B: The Application of Accrual Accounting to the Calculation of Net Compensation

This Appendix contains 4 case studies. In each, the Bank sets out an example of an accounting treatment that it considers likely to be consistent with the purpose and intent of Standards No. 1 and No. 2 of 2016. Some of the case studies provide commentary on accounting treatments that would be of concern to the Bank. The examples and commentary are not necessarily exhaustive. The case studies use as their starting point the Australian Accounting Standards, and take the perspective of the issuer in a scheme-issuer arrangement. The commentary draws on the observations in Box B, regarding the application of accounting concepts to the calculation of net compensation. For example, the observation that in the context of the net compensation requirements, the customer should always be considered to be either the issuer or the scheme (that is, the administrator of the scheme or its associated entities), and not a third party, such as a merchant or cardholder.

The Bank notes that these case studies are stylised scenarios and the appropriate accounting treatment of any actual set of flows will depend on the specific facts and circumstances of those flows.³⁷ The case studies and commentary do not constitute accounting advice.

Case study 1: Sign-on bonus

The scheme commits to make an upfront payment to the issuer for signing an issuing contract with the scheme (a 'sign-on bonus'). The payment is not linked to contract performance. The issuer receives the sign-on bonus as a cash payment when the contract is signed.

Commentary

As required under AASB 15, the issuer should consider the performance obligations in the contract to which the payment relates, regardless of the timing or name of the payment. In this case, the issuer should conclude that the payment is not linked to any 'distinct' performance obligations in the contract. Accordingly, the performance obligations align to the whole contract tenure and, correspondingly, the payment relates to the life of the overall contractual relationship between the issuer and the scheme.

For the treatment to be consistent with the interchange standards, the payment should be allocated on a pro-rata basis over the life of the contract. One exception is where the issuing contract spans more than 10 years, as set out in clause 5.2(e). It would clearly be inconsistent with the interchange standards to apportion the sign-on bonus in a manner specifically intended to achieve a particular net

³⁷ The case studies are considered in isolation. In practice, an issuer would consider, in their totality, the contract(s) that exist between it and the scheme when determining the appropriate treatment.

compensation position in one or more reporting periods. Here, the anti-avoidance clause of each Standard would be relevant.

In assessing the value of the sign-on bonus for the purposes of determining net compensation, it would be appropriate for the issuer to assess whether the sign-on bonus contained a 'significant financing component' (as defined in AASB 15).³⁸ If so, it would be consistent with the purpose and intent of the interchange standards to include the financing component in value of the benefit recorded to determine net compensation.

Case study 2: Migration benefit

A payment of a fixed amount from the scheme to the issuer which is described as covering part or all of the issuer's costs associated with switching from one scheme to another (for example reissuing cards and internal technology system changes). These migration costs are only incurred in the first year of a multi-year issuing contract. A cash payment is made to the issuer upfront.

Commentary

As in case study 1, the issuer should consider the performance obligations in the contract associated with the 'migration benefit' payment, regardless of the timing or name of the payment. In the context of the interchange standards, it may well be reasonable – depending of the specifics of the agreement – for the issuer to conclude that there are no distinct performance obligations in the contract on the grounds that the payment (and the migration services the issuer is effectively providing the scheme in exchange for that payment) relates to the use of the scheme's brand over the life of the contract. If the issuer makes this determination then, as in case study 1, the migration benefit should be allocated over the life of the contract (although it may not be allocated among more than 10 consecutive reporting periods). The interchange standards require the allocation to be on a pro-rata basis if an allocation on that basis would fairly and reasonably align the benefit to the activity to which it relates. If it does not, an allocation method that does achieve this can be used.

Alternatively, it may well be reasonable – depending of the specifics of the agreement – for the issuer to conclude that there are distinct performance obligations in the contract in relation to the migration benefit payment. In this case, the Bank would expect the issuer to match the allocation of the migration benefit to the relevant distinct obligation.

As in case study 1, it would be consistent with the purpose and intent of the interchange standards for the issuer to consider if there was a significant financing component arising from the migration benefit.

Case study 3: Estimates and accounting (or book entry) true-ups

The issuer earns a cash incentive from the scheme where the value of the incentive is a fixed percentage of the issuer's transaction volumes for period 1. For its period 1 accounts, the issuer estimates the value of this incentive payment, as the exact magnitude of its transaction volumes (and hence the magnitude of the incentive) will only be known in reporting period 2. In reporting period 2, the value of the incentive is calculated and the incentive is paid; the estimate of the incentive that the issuer entered into its accounts is found to be incorrect, accordingly a 'true-up' is required.

³⁸ That is, whether, by receiving the payment up front, the issuer has received a significant implicit financing benefit.

Commentary

It is consistent with the purpose and intent of the Standards for the issuer to use its best estimate of the incentive (that is, the extent of variable consideration) it is likely to receive (and ultimately retain once actuals are verified) in any given reporting period. The issuer will put considerably more effort and diligence into forming its estimate of the incentive where the incentive is expected to be large and/or material in relation to the issuer's net compensation position. In this case, the issuer would, in forming its estimate, consider factors within the issuer's control (for example, marketing spend), those factors not within the Issuer's control (for example, market forces, customer behaviour) and historic experience.

The issuer could choose not to use the same threshold of meeting revenue recognition in AASB 15 guidance (that is, a high degree of confidence that revenue would not be reversed in a subsequent reporting period), but rather use a 'more probable than not' threshold, which implies a greater than 50 per cent likelihood of the incentive payment being received.

The issuer records the true-up in the subsequent reporting period or when the benefit of hindsight is achieved.

It would not be consistent with the purpose and intent of the Standards for the issuer to use either an overly conservative or aggressive estimate; nor for the issuer to have failed to form a reasonable basis for its estimates.

Case study 4: Pre-payment of incentives and cash clawbacks

The issuer earns a cash incentive from the scheme if the issuer reaches a transaction value target for card transactions made in reporting period 1. The value of the incentive is a fixed dollar amount known by both parties in period 1. But the scheme and issuer only know if the target is reached in the following period.

Period 1: The scheme pays 50 per cent of this incentive to the issuer at the beginning of period 1 (before either party knows whether the target has been reached).

Period 2: Both parties learn whether the issuer reached the target for reporting period 1. If the target is reached, the remaining 50 per cent of the incentive is paid to the issuer in reporting period 2. If the target is not reached, the scheme can require the issuer to pay back the pre-paid incentive (that is, it can clawback the incentive). The clawback is at the discretion of the scheme. That is, the scheme may elect not to enforce the clawback.

Commentary

As in case study 3, it is consistent with the purpose and intent of the Standards for the issuer to use its best estimate of the incentive (that is, the extent of variable consideration) it is likely to receive (and ultimately retain, once actuals are verified) in any given reporting period, independent of the amount received in earlier periods that remain subject to claw back. The issuer will put considerably more effort and diligence into forming its estimate of the incentive where the incentive is expected to be large and/or material in relation to the issuer's net compensation position. In this case, factors the issuer should consider include (but are not limited to):

- (i) the likelihood of achieving the target, including appropriate weighting to those factors within the issuer's control (for example, marketing spend), those factors not within the issuer's control (for example, market forces, customer behaviour) and historic experience.

- (ii) the likelihood and magnitude of clawback being enforced, with due consideration of historic experience with each relevant scheme.
- (iii) completing a probability weighted multi-scenario analysis, consistent with other forecasts used by the Issuer.

The issuer could choose not use the same threshold of meeting revenue recognition in AASB 15 guidance (that is, a high degree of confidence that revenue would not be reversed in a subsequent reporting period), but rather use a 'more probable than not' threshold, which implies a greater than 50 per cent likelihood of the incentive payment being received.

It would not be consistent with the purpose and intent of the Standards for the issuer to use overly simplified assumptions in making its forecasts, for example for it to:

- assume targets will not be achieved; or
- assume targets will be fully achieved,

without any reasonable basis.