

25 July 2012

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By Email to: [pysubmissions@rba.gov.au](mailto:pysubmissions@rba.gov.au)

Dear Dr Richards,

## **Payments System Issues: The EFTPOS System: New Designation and Consultation on the Future Regulatory Framework**

I refer to the Reserve Bank of Australia (RBA) announcement of 12 June 2012 in relation to the “New Designation and Consultation on the Future Regulatory Framework” for the EFTPOS System. In that announcement, the RBA solicits views in relation to:

- Bilateral EFTPOS interchange fees; and
- EFTPOS Access arrangements.

The Commonwealth Bank of Australia (the Bank) appreciates the opportunity to articulate our views on these matters, and understands that these views will be posted on the RBA’s website.

At the outset, the Bank commends the Payments System Board (PSB) for its decision to define the EFTPOS system according to the Scheme Rules promulgated by EFTPOS Payments Australia Ltd (EPAL). The Bank sees this as a logical consequence of the establishment of EPAL and one which is consistent with other relevant designations.

Turning to the other matters identified in your consultation document:

### **Interchange Fees Standard**

The abovementioned consultation document identifies a range of options in relation to the future regulation of interchange fees.

The Bank has previously argued (refer to our letter of 20 September 2011) “*that there is no need for the regulation encompassed within the Revised EFTPOS Interchange Fee Standard ...*” This position is closest to your Option 4 (“Eliminating bilateral interchange fees ...”) and would see interchange fees set according to EPAL’s multilateral interchange fee schedule.

Our letter of September 2011 also flagged a fallback position based on greater “*practical and directional consistency*” (of interchange fees relative to EPAL’s multilateral benchmark and, by default, also to the regulation of Visa Debit interchange fees). This position is not dissimilar to your Option 3 (“Placing bilateral and multilateral interchange fees under a common benchmark”).

We note that Option 3 is, in the PSB's preliminary assessment, the most effective way forward on this matter and that such an option "would remove the regulatory requirement for bilateral EFTPOS interchange fees to flow to the acquirer and be constrained to between \$0.04 and \$0.05. Cash-out arrangements, which have typically involved a payment to the acquirer, would be consistent with the benchmark under Option 3. Accordingly, there would be no need for an exemption for cash-out transactions (as is the case under the current interchange fees Standard)". This would, in our view, be a positive development.

We agree that such an outcome based on regulatory parity would, in the absence of outright elimination, be a major step forward and

- provide necessary certainty and clarity;
- be in the long term interests of EPAL and its members; and
- prove pro-competitive.

### **Access Framework**

The abovementioned consultation document identifies a range of options in relation to the future Access Framework for EFTPOS.

Again, our views in relation to Access regulation have already been made known to you. We have previously suggested (September 2011) that "*there is no need for the EFTPOS Access Code and associated Regime ... no need for continuation of the Access Code ...*" We remain of this view.

In conjunction with the move to EPAL's multilateral interchange fee regime, other aspects of EPAL's Scheme Rules, and the establishment the Community of Interest Network, we believe that EPAL is well placed to assume control and management of all Access related issues. Under such a framework, there would also be no ongoing role for EFTPOS Access Australia Ltd as the administrator of the Access Code.

EPAL is now able to provide

- certainty of access;
- minimum connection standards; and
- commercial access arrangements under standard terms

for new entrants, and it is thus appropriate for EPAL to be entrusted to govern its own network.

Our position on this aspect is thus consistent with both your Option 2 ("Omitting the [no-discrimination] provisions") and your Option 3 ("Remove regulation of the cost of connection") – addressing the 'Access Regime' and 'Connection Charges' respectively.

To complement these aspects, the Bank would be supportive of EPAL exploring opportunities to enhance its access and membership related rules if this were required as a demonstration to the PSB of EPAL's commitment to a sustainable access framework.

As discussed further below, the Bank is also supportive of an examination of options to improve EFTPOS' underlying technical architecture.

### **Other Matters**

#### Transitional Arrangements

The consultation document also explores the possible need for transitional arrangements to apply while the market responds to potential changes such as those discussed above. We do not believe that transitional arrangements are required. By the time that the final position on the matters discussed above is determined, market adjustments will be largely complete – especially if a suitable implementation period is spelt out at the time of final decision.

Technical Infrastructure

Further to the above discussion in relation to Access, the Bank is also encouraging EPAL to critically examine the technical infrastructure currently supporting EFTPOS payments. While the current network of bilateral links has served the system well, we believe that the time is right to consider whether this is the optimal way forward in an environment of considerable, potential, product enhancement. Clearly, a series of technical and commercial considerations would need to be explored as part of such an examination, but should it be deemed appropriate to re-design the supporting architecture towards a more centralised structure, then a side effect of such a change may be enhanced access and connectivity arrangements – further assisting matters addressed above in relation to the preferred Access Framework. The Bank is supportive of EPAL's exploration of such matters.

Thank you again for the opportunity to express these views and engage in this consultation process.

We would be pleased to meet with you, at any time, to discuss these, or related, matters and ask that you contact the writer directly should you wish to do so.

Yours sincerely

*[Signed]*

Stuart Woodward  
General Manager  
Representation