

30 July 2012

Dr. Tony Richards
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Review of the Regulatory Framework for the eftpos System: Consultation on Options for Reform

Dear Dr. Richards,

In June 2012, the Payments System Board (**PSB**) of the Reserve Bank of Australia (**RBA**) issued the above consultation paper (**Consultation Paper**), calling for submissions by 31 July 2012 on the regulation of the following matters for the eftpos system as newly designated according to the scheme rules promulgated by eftpos Payments Australia Limited (**eftpos**) covering:

- (a) interchange fees – 5 options were put; and
- (b) access arrangements – 2 options were put in respect of the no-discrimination provisions and 3 options were put in respect of connection charges.

eftpos is pleased to make this submission on the above matters and understands that this submission will be posted on the RBA website.

Executive summary

In summary, eftpos supports:

- (a) option 3 in respect of the interchange fee standard;
- (b) option 2 in respect of the no-discrimination provisions of the access regime; and
- (c) option 3 in respect of the incorporation of connection charge and timing provisions into the eftpos scheme rules.

eftpos looks forward to discussing with the RBA each of these preferences and, in particular, how the access regime can be included within the eftpos scheme rules.

Interchange fee standard

The existing interchange fee standards and voluntary undertakings that apply to each of the Visa debit, MasterCard debit and eftpos systems set an interchange fee benchmark which allows flexibility in setting interchange fees for different transaction types, so long as the weighted average of all multilaterally set interchange fees remains under the specified cap of \$0.12. The existing eftpos interchange fee standard regulates both multilateral interchange fees as set by eftpos and bilaterally agreed interchange fees.

eftpos believes that continued regulation of interchange fees related to the eftpos system, in a manner which is consistent with the regulation of the other designated systems, is required and will promote competition and efficiency in the payment industry.

eftpos also considers that the universal adoption of multilateral interchange rates for all eftpos transactions is in the best interests of eftpos. However it does not believe that regulation is the most appropriate way to achieve that result. This is a matter for eftpos.

Therefore, eftpos supports option 3 through which both bilateral and multilateral interchange fees would be brought under a common benchmark cap of \$0.12.

The PSB has provided a draft standard as attachment 2 to the Consultation Paper based on option 3. eftpos suggests that the following change be made to attachment 2 - add the words "and any schedule, document, specification or rule published by the Company pursuant to those rules" at the end of the definition of EFTPOS Scheme Rules.

Access Regime

The current eftpos Access Code (administered by the Australian Payments Clearing Association on behalf of EFTPOS Access Australia Limited) and Access Regime were designed to deal with access issues under the bilateral system that existed before the incorporation of eftpos and promulgation of the eftpos scheme rules. It has two components, being no-discrimination on interchange fees and the cap of connection charges.

The PSB recognized in the Consultation Paper that the transition to the multilateral arrangements under the eftpos scheme rules, including the introduction of multilateral interchange fees, and the change to the connection arrangements under the Community of Interest Network (COIN) mean that the nature of the access issues for new entrants to the eftpos system has changed.

In addition to these matters the incorporation of eftpos (and designation of eftpos according to its rules) means that access arrangements for eftpos should reside within eftpos. Steps should therefore be taken to transfer access arrangements from EFTPOS Access Australia Limited to eftpos, whilst at the same time reviewing those arrangements for continuing applicability, utility and consistency with the any changes to the regulation of interchange fees (no-discrimination) and connection charges. eftpos is committed to working with RBA on these issues.

The PSB put two options in relation to the non-discrimination provisions of the Access Regime, those being imposing no-discrimination provisions that accommodate bilateral interchange fees being negotiated by new entrants or removing the no-discrimination provisions entirely.

With the transition to multilateral interchange fees being well progressed and nearing completion, eftpos does not believe that bilaterally negotiated fees will place competitive constraints on new entrants, which need to be addressed through a no discrimination provision. Therefore, eftpos supports option 2, being the removal entirely from the Access Regime of the no-discrimination on interchange fees provisions.

The other purpose of the Access Regime was to cap connection fees charged to new entrants for the establishment of bilateral connections. The PSB has put three options for consultation.

eftpos supports option 3, being the removal of the regulation of connection costs, on the basis that eftpos would include provisions dealing with the establishment of connections within the eftpos scheme rules. These provisions and the other changes that have occurred since the establishment of the Access Code may mean that a cap on connection charges is no longer required. Alternatively a cap could be included in eftpos' access related provisions.

Given eftpos' stated preferences, we have not commented on the drafting of attachment 3 to the Consultation Paper.

Yours sincerely,



Bruce Mansfield

Managing Director

eftpos Payments Australia Limited