

17 November 2008

Ms Michele Bullock
Head of Payments Policy
Reserve Bank of Australia
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SYDNEY NSW 2001

Dear Michele

ATM Reform: Progress Report 5 – November 2008

The purpose of this letter is to provide the RBA with a quarterly progress report on the development of the ATM Access Code and implementation of the direct charging reforms, ahead of the Payments Systems Board (PSB) meeting on 21 November 2008.

In the RBA's media release of 31 August 2007, the PSB asked both APCA and the ABA to provide quarterly progress reports. As such, a joint progress report from both APCA and the ABA was prepared in November 2007. However given that APCA has had carriage of the elements of the reforms progressed this quarter, this progress report has not been prepared with the ABA, although we have provided them with a copy of this letter.

We report as follows:

Access Code Development/Legal Certainty

- 1 As you know to provide certainty under competition laws with respect to interchange fees and connection charges, within the time available, APCA has formed the view that it is necessary for the RBA to designate the ATM system and enact a co-regulatory Access Regime, which will operate with the ATM Access Code.
- 2 We understand that RBA is now preparing to make a public announcement with respect to designation of the ATM system and consultation on a draft Access Regime. As part of this process a public Exposure Draft of the ATM Access Code will be released by APCA for consultation, at the same time as the RBA's public announcement.

Industry Project Plan and Testing

- 3 All industry participants are currently reporting that they are on track to meet the 3 March 2009 implementation date.
- 4 Testing between some bilateral counter-parties has commenced and will occur through the rest of November, December and January.
- 5 In addition, it is likely that a limited (non-public) pilot will be run in February 2009 to test operation in a live production environment.

International Card Schemes

- 6 As you know, MasterCard has confirmed that it will amend its rules to allow direct charging of domestic MasterCard transactions. However it will not be able to complete the development

required to enable it to process directly charged transactions by 3 March 2009. The likely implementation date for MasterCard is November 2009.

- 7 Visa has now confirmed that it will amend its rules to allow direct charging of Visa transactions with a zero interchange fee, with effect from 3 March 2009. However some participants have expressed reservations about their ability to complete the development required to implement direct charging of Visa transactions by 3 March 2009. We are investigating this further.
- 8 As we have said previously, in each case the volume of domestic transactions that the above has the potential to effect is small. Based on the data we have, less than 1% of domestic ATM transactions are currently processed by MasterCard and Visa. However for some, generally smaller, institutions the impact maybe greater because all or a significant portion of their ATM transactions have to be processed via MasterCard or Visa.

Public Communications

- 9 A direct charging 'mini-site', containing information about direct charging for the general public, will be added to the APCA website in late November 2008. Individual institutions will be entitled to refer their customers to the mini-site for information about direct charging.
- 10 APCA has also developed a brochure, containing information about direct charging for the general public. The brochure will be available on the direct charging mini-site and can be distributed by individual institutions to their customers, for example:
 - (a) thru branches;
 - (b) at ATM sites; and
 - (c) by mail.
- 11 At this stage, we expect that most Issuing institutions will commence communicating with their own customers in January or February 2009.

Conclusion

- 12 Substantial progress has been made since the last report. Whilst there is still work to be done, we continue to target and work toward an implementation date of 3 March 2009.

Yours sincerely



Chris Hamilton
CHIEF EXECUTIVE OFFICER