

21 October 2004

Dr John Veale
Head of Payments Policy Department
Reserve Bank of Australia
Level 10
65 Martin Place
SYDNEY NSW 2000

Dear Dr Veale

EFTPOS Interchange Fees

I refer to Reserve Bank's invitation dated 9 September 2004 to submit views on the desirability of setting standards for EFTPOS interchange fees.

APCA position in summary is the conditional one that interchange fees must be standardised if an effective and complete access regime is to be developed for EFTPOS.

APCA is developing an access regime for EFTPOS applicable to institutions that are or wish to become 'direct connectors'. Direct connectors are institutions that exchange EFTPOS transactions between each other directly as distinct from using the services of a gateway or switch.

The approach APCA is taking (though you should be aware that this is by way of work in progress at this stage) is to identify material factors that need to be decided or negotiated in a direct bilateral engagement and to establish specific standards or guiding principles for each of them so as to produce for each of them a determinable outcome. In broad terms the material factors encompassed by the regime will be technical interchange standards, and the cost and timing of connectivity. The regime will define a standard connection service and a set of cost recovery principles to underpin arbitration to the extent parties cannot successfully negotiate an outcome.

APCA's development of an access regime for EFTPOS was to a large extent triggered by an application made to the Australian Competition and Consumer Commission (ACCC) for authorisation of an arrangement that would have resulted in interchange fees being set to zero. Following the ACCC's favourable determination on the application, APCA took zero interchange fees as a working assumption in its work on access. Accordingly, interchange fees were not incorporated into the access regime

and this is still the position notwithstanding the ACCC's determination being set aside. However, it is clear that negotiable interchange fees are a material factor in bilateral engagements between acquirers and issuers and therefore could at times become a sticking point preventing new entry.

What this means is that APCA's access regime, in so far as it excludes consideration of interchange fees, will not be complete in encompassing all material factors impinging on new entry. If all of these material factors are to be subject to access conditions, APCA's access regime, as it stands at present, would need to be complemented by some standardising of interchange fees. Without this, the access regime will not necessarily be effective in opening doors for new entrants.

To be clear, APCA is not expressing a position *per se* on whether the Reserve Bank should set a standard for EFTPOS interchange fees. APCA's position is the conditional one of saying that if a complete set of access conditions is to be developed, it will require interchange fees to be standardised along with the other material factors that impinge on new entry as presently encompassed by APCA's access regime.

Yours sincerely

Signed

Peter Smith
Chief Executive Officer