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Banking Products
Premium Business Services

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



By email to: pysubmissions@rba.gov.au

Dear Dr Veale

PAYMENT SYSTEM ISSUES – CREDIT CARD INTERCHANGE FEES

I refer to the Reserve Bank of Australia (RBA) Media Release of 11 December 2006 (Payments Systems Issues) where the RBA sought the views of interested parties in relation to "Credit Card Interchange Fees" – specifically on the need for an earlier (than planned) review of such fees in light of alleged impacts on the nature of competition between credit card schemes.

The Commonwealth Bank (the Bank) appreciates the opportunity to contribute to the RBA's thinking on this issue. As you are well aware, the Bank has been a long and active participant in the reform debate over recent years, and we anticipate that this tradition will continue, as we strive to be Australia's leading financial services organisation, and as we fulfill our responsibilities as a key participant within the broader payments industry.

The RBA Media Release notes:

"The recent resetting of interchange fees has led some parties to argue that the backward-looking and scheme-specific nature of the weights used in calculating the average interchange fee, together with the compliance timetable, have the potential to affect the nature of competition between the schemes. At a minimum, it is appropriate that this issue be included in the 2007/08 review. However, given the timing of the review, the Bank is seeking views from interested parties on whether this issue should be examined sooner. It is also seeking views on how the compliance aspects of the credit card, and possibly Visa Debit, interchange standards might be altered to address any concerns about the impact of the standards on competition between the schemes."

The Bank is of the view that the 2007/08 Review is the appropriate forum within which to review these issues of timing, compliance and competitive impact. We do not believe that there is a need to accelerate this review. As the RBA Media Release notes, it is intended that the 2007/08 Review be broad in scope, and open and transparent. Operating under such an approach, and with a scope that includes credit card (and scheme debit) reforms,

we believe that the above identified issues should be considered as part of that Review, without the need for a separate, and earlier, review. Bringing forward such a review would create unnecessary uncertainty, and potentially distract the industry (including the RBA) from the 2007/08 Review. Without proffering a view as to the merits of these issues, we believe that the appropriate process for their consideration is to include them in the 2007/08 Review.

We thank you again for the opportunity to lodge this submission. The Bank remains ready and willing to discuss any of the above points, and to that end, please contact the writer on (02) 9312-7523.

Yours sincerely

[Signed]

Stuart Woodward
General Manager
Industry and Alliance Management