



23 October 2009

Ms Michele Bullock  
Head of Payments Policy  
Reserve Bank of Australia  
65 Martin Place  
Sydney NSW 2000

Dear Michele

## **PROPOSED CHANGES TO THE EFTPOS INTERCHANGE FEE STANDARD**

### **EPAL Supports the Proposed Changes**

- 1 Subject to the points made below, EFTPOS Payments Australia Limited (EPAL) supports the proposed changes to the EFTPOS Interchange Fee Standard, outlined in the RBA's consultation document and draft standard released on 22 September 2009 (the Proposal).

### **The Proposal**

- 2 The Proposal amends the EFTPOS Interchange Fee Standard so that:
  - (a) the weighted average of any multilateral interchange fees for purchase transactions (set by EPAL) must not exceed the benchmark applying to the Visa Debit system (currently 12 cents payable to the issuer);
  - (b) any bilateral interchange fees for purchase transactions must not exceed the benchmark applying to the Visa Debit system (currently 12 cents payable to the issuer); and
  - (c) EPAL will be required to publish information on the multilateral interchange fees it sets for purchase transactions and/or acquirers will be required to provide information on any bilateral interchange fee arrangements for purchase transactions to the RBA, which will publish industry ranges.
- 3 The Proposal would create regulatory parity, so that multilateral interchange fees for purchase transactions in the EPAL, Visa Debit and MasterCard Debit<sup>1</sup> systems are subject to the same regulatory arrangements.
- 4 The Proposal is transitional. It will only apply until the RBA finalises its approach to regulation of interchange fees for all card payments.

### **Current Disparity Means that EPAL is at a Competitive Disadvantage**

- 5 Under current regulatory arrangements Visa and MasterCard have much greater flexibility than EPAL with respect to interchange fees for debit card purchase transactions.

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<sup>1</sup> MasterCard having provided an undertaking to comply with the Interchange Fee Standard applicable to the Visa Debit system.

- 6 Visa or MasterCard can set interchange fees at rates that are more favourable to issuers or acquirers than EPAL. In particular EPAL interchange fees must be within a narrow range of 4-5 cents payable to the acquirer (a floor and cap approach), whilst Visa and MasterCard need only be below a cap of 12 cents payable to the issuer (with no floor), calculated on a weighted average basis.
- 7 That is the current regulatory arrangements allow Visa and MasterCard to, for example:
  - (a) set interchange fees at 12 cents payable to the issuer or, say, 15 cents payable to the acquirer;
  - (b) offer a range of debit card products with varying interchange fees (whilst maintaining a weighted average of 12 cents); or
  - (c) temporarily adjust their interchange fees to take into account any imbalance in the costs and benefits associated with the introduction of a new technology or product to facilitate take up and adoption.
- 8 However the current regulatory arrangements do not allow EPAL to adopt any of these types of strategies because its interchange fees must remain between 4 and 5 cents paid to the acquirer. This puts EPAL at a competitive disadvantage.
- 9 The current regulatory disparity also means that Visa and MasterCard can use interchange fees to negate EPAL's lower fraud costs and other fees, creating the appearance that all 3 systems carry comparable costs (to the issuer) when in fact EPAL is the much lower cost system. That EPAL is prevented from responding puts it at a competitive disadvantage.
- 10 Only through regulatory parity can EPAL's competitive disadvantage be rectified.

#### **EPAL Interchange Fees and Access to the EFTPOS System**

- 11 The first step in securing EFTPOS' future as a viable competitive force has been taken by Australia's major financial institutions and retailers. EPAL has been established and given the responsibility and authority to manage, promote and develop the EFTPOS system.
- 12 In particular EPAL has been invested with the power to set multilateral interchange fees and is considering uses of that power to further its competitive positioning and goals. As set out above, Visa and MasterCard have much greater regulatory freedom and therefore a competitive advantage in this area; a disparity that should be rectified as soon as possible.
- 13 At the same time, EPAL recognises the importance of ensuring that new entrants are not unfairly disadvantaged by its interchange fee arrangements. EPAL's initial scheme rules will encourage new entrants and include required measures in this area.

#### **The Proposal is Transitional**

- 14 The current Proposal is transitional; it is only intended to apply until the RBA finalises its approach to regulation of interchange fees for all card payments. EPAL supports it on this basis.

15 Capping interchanges fees in the EPAL, Visa Debit and MasterCard Debit systems at an amount based on the costs of processing and authorisation in the, higher cost, Visa and MasterCard systems may not be an efficient or competitive outcome over the longer term.

**Conclusion**

16 EPAL supports the transitional changes proposed to the EFTPOS Interchange Fee Standard and recognizes the relationship between those changes and the need to encourage new entrants.

Yours sincerely

A handwritten signature in black ink, appearing to read "Temogen Hield". The signature is written in a cursive style with a large initial 'T' and 'H'.

**Temogen Hield**  
**EFTPOS PAYMENTS AUSTRALIA LIMITED**