



RESERVE BANK OF AUSTRALIA

Payment Systems (Regulation) Act 1998

Draft Standard for the designated EFTPOS payment system

This notice is published in accordance with the requirements set out in Section 28(2)(a) of the *Payment Systems (Regulation) Act 1998* (the Act).

The Reserve Bank of Australia proposes to determine, in accordance with Section 18 of the Act, the attached Standard entitled *The Setting of Interchange Fees in the EFTPOS Payment System*, to be complied with by the participants in the designated EFTPOS payment system.

This Standard is an amended version of a draft Standard previously released by the Reserve Bank for public consultation in February 2005.

Summary of purpose and effect of the proposed Standard

The purpose of the proposed Standard is to ensure that the setting of interchange fees in the EFTPOS system promotes efficiency and competition in the EFTPOS system, and the Australian payments system.

When the draft Standard was first released for public consultation in February 2005, the Bank indicated that the effect of the standard is expected to be a reduction in interchange fees paid by issuers to acquirers from an average of around 20 cents to a maximum of around 5 cents. That expectation is unaffected by the proposed amendments, which do not affect the calculation of the proposed benchmark. The amended draft Standard continues to set a benchmark capping the interchange fee that may be paid to an acquirer (or a merchant principal).

The effect of proposed amendments to the draft Standard is to narrow the range of interchange fees in the EFTPOS system by requiring that the minimum fee that can be paid by an issuer to an acquirer (or a merchant principal) be 80 per cent of the benchmark (maximum) fee. The Bank estimates that this would result in interchange fees ranging from around 4 cents to the previously estimated cap of around 5 cents, paid by issuers to acquirers.

Together with the proposed Access Regime for the EFTPOS system, the proposed EFTPOS Access Code developed by the Australian Payments Clearing Association and the proposed Standards for the Visa Debit system released for consultation in February 2005, the proposed Standard is expected to encourage price signals and behaviour that will, over time, promote the development of a more efficient payments system in Australia.

Submissions

Interested parties are invited to make submissions on the proposed draft Standard and the Reserve Bank's reasoning as set out in *Reform of Debit Card Systems in Australia: A Consultation Document*, available on the Reserve Bank's website www.rba.gov.au. Although the Bank is primarily seeking submissions on the amendments to the draft Standard, it also welcomes further submissions on other elements of the Standard.

Submissions should be made by 17 February 2006 to:

Head of Payments Policy
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

or PYSubmissions@rba.gov.au

Signed



IJ Macfarlane
Governor
Reserve Bank of Australia

Date

16/12/05

Draft Standard

The Setting of Interchange Fees in the EFTPOS System

Objective

The objective of this Standard is to ensure that the setting of interchange fees in the designated EFTPOS payment system promotes:

(i) efficiency; and

(ii) competition

in the Australian payments system.

Application

1. This Standard is determined under Section 18 of the *Payment Systems (Regulation) Act 1998*.
2. This Standard applies to the payment system operated within Australia known as the EFTPOS system, which was designated as a payment system on 9 September 2004 and referred to below as the EFTPOS system.
3. In this Standard:

an ‘acquirer’ is a participant in the EFTPOS system that provides services to a merchant to allow that merchant to accept a debit card;

‘cash out’ means the provision of cash to a cardholder by a merchant, as a result of a debit card transaction at the merchant;

‘debit card’ means a card issued by a participant in the EFTPOS system that allows the cardholder to make payments to merchants for goods or services and/or obtain cash out using the EFTPOS system by accessing a deposit account held at the participant;

‘debit card transaction’ or ‘transaction’ means a transaction in Australia using the EFTPOS system;

‘financial year’ is the 12-month period ending 30 June;

an ‘issuer’ is a participant in the EFTPOS system that issues debit cards to its customers;

‘merchant’ means a merchant in Australia that accepts a debit card for payment for goods or services and/or that provides cash out;

a 'merchant principal' is a participant in the EFTPOS system that is a merchant that sends transactions directly to issuers rather than through an acquirer and takes on the responsibilities usually undertaken by an acquirer;

'nominated EFTPOS acquirers' are those acquirers and merchant principals determined by the Reserve Bank of Australia, selected in order of their share of the number of transactions, who comprise the minimum number of such acquirers or merchant principals required to account for at least 90 per cent of the number of transactions acquired in the EFTPOS system in the 'reference year';

'reference year' is the financial year prior to the relevant year;

'relevant year' is the financial year in which the interchange fee benchmark is calculated;

terms defined in the *Payment Systems (Regulation) Act 1998* have the same meaning in this Standard.

4. This Standard refers to wholesale fees, known as 'interchange' fees, which are payable between an issuer and an acquirer or merchant principal, directly or indirectly, in relation to a debit card transaction in the EFTPOS system.
5. Each participant in the EFTPOS system must do all things necessary on its part to ensure compliance with this Standard.
6. If any part of this Standard is invalid, the Standard is ineffective only to the extent of such part without invalidating the remaining parts of this Standard.
7. This Standard is to be interpreted:
 - in accordance with its objective; and
 - by looking beyond form to substance.
8. This Standard comes into force on [1 July 2006].

Interchange fees

9. From [1 November 2006], an interchange fee must be paid by an issuer to an acquirer (or merchant principal) and must be no more than the interchange fee benchmark applying in accordance with paragraph 15 and no less than the minimum fee specified in paragraph 16.

Methodology

10. The interchange fee benchmark for the EFTPOS system is to be calculated by the Reserve Bank of Australia as follows:
 - (i) for each of the nominated EFTPOS acquirers, the aggregate value of eligible costs in the reference year is to be divided by the number of debit card transactions in the reference year. This ratio is to be expressed as a number of cents per transaction;

- (ii) the interchange fee benchmark is to be calculated by the Reserve Bank of Australia as the aggregate value of eligible costs in the reference year of the three nominated EFTPOS acquirers with the lowest ratios as calculated in 10(i), divided by the aggregate number of transactions undertaken by the same three nominated EFTPOS acquirers in the reference year. The result is to be expressed as a number of cents per transaction, rounded to the nearest cent.
11. Eligible costs are those directly related to processing and switching EFTPOS transactions incurred by an acquirer or merchant principal when performing the business responsibilities usually undertaken by an acquirer.
 12. Data on eligible costs must be drawn from accounting records of the nominated EFTPOS acquirers, prepared in accordance with generally accepted accounting principles and Australian accounting standards.
 13. Data on eligible costs must be provided by each nominated EFTPOS acquirer to the Reserve Bank of Australia, or its agent, by [15 August] in the relevant year.
 14. The Reserve Bank of Australia, or its agent, will review the data to determine if the costs included are eligible costs and the Reserve Bank of Australia will use the eligible costs to calculate the interchange fee benchmark in accordance with paragraph 10.
 15. The Reserve Bank of Australia will publish the interchange fee benchmark for the EFTPOS system by [15 September] in the relevant year, and this benchmark will apply for three years from 1 November in the relevant year.
 16. The minimum fee determined for the purposes of paragraph 9 is 80 per cent of the applicable interchange fee benchmark.

Initial and subsequent interchange fee benchmarks

17. For the initial interchange fee benchmark the relevant year is the financial year [2006/07].
18. The interchange fee benchmark is to be re-calculated in the financial year [2009/10] and every three years thereafter.

Transparency

19. Commencing in 2007, acquirers and merchant principals in the EFTPOS system must report to the Reserve Bank of Australia the weighted average interchange fee they received and the range of interchange fees received in the previous financial year by [30 September] each year. The weights to be used in this calculation are the shares of transaction value to which each interchange fee applies. In 2007, this requirement applies to the [8] months ending [30 June 2007].
20. The Reserve Bank of Australia will publish the industry weighted average of interchange fees on its website.