EFTPOS BENCHMARK CALCULATION

The Standard on *The Setting of Interchange Fees in the EFTPOS System* sets out the methodology for calculating the benchmark for interchange fees in the EFTPOS system for transactions not involving a cash-out component. In brief, the Standard requires the Bank to:

1. Identify the EFTPOS acquirers that are to provide the cost data necessary to calculate the benchmark ('nominated acquirers').

2. For each nominated acquirer, divide the aggregate value of its costs by the number of its EFTPOS transactions, yielding a cost expressed as a number of cents per transaction.

3. Identify the three nominated acquirers with the lowest outcomes in (2) above, and calculate the interchange fee benchmark as the aggregate value of their eligible costs divided by the aggregate number of their transactions – the result to be expressed as a number of cents per transaction, rounded to the nearest cent.

Applying this methodology, the Bank used data from its monthly Retail Payments Statistics collection to identify nominated EFTPOS acquirers. In total, there were five nominated acquirers accounting for 92 per cent of EFTPOS transactions in 2005/06. These acquirers were then asked to provide data on the costs directly related to their processing and switching of EFTPOS transactions, consistent with the Standard (paragraphs 11 and 12), by 15 August 2006.

After receiving and reviewing the data, the Bank identified the 3 nominated acquirers with the lowest cost outcomes in terms of cents per transaction. Dividing the aggregate value of eligible costs for these three acquirers by the aggregate number of transactions undertaken by them yielded a result of 4.8 cents per transaction. Hence, the interchange fee benchmark to apply from 1 November 2006 is 5 cents per transaction.

The Standard also determines a minimum interchange fee in the EFTPOS system, to be set at 80 per cent of the benchmark fee (paragraphs 9 and 16). Accordingly, from 1 November 2006 this minimum fee is 4 cents per transaction.