

RESERVE BANK OF AUSTRALIA

Payment Systems (Regulation) Act 1998

The designated EFTPOS system

This notice is published in accordance with the requirements set out in Section 29(2)(a) of the *Payment Systems (Regulation) Act 1998* (the 'Act').

The Reserve Bank of Australia determines 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 participants in the designated EFTPOS system.

Summary of purpose and effect of the Standard

The purpose of this Standard is to reduce interchange fees in the EFTPOS payment system so as to promote efficiency and competition in the Australian payments system. The Standard requires that interchange fees in the EFTPOS payment system, for transactions not involving a cash-out component, be paid by issuers to acquirers, and be set in accordance with an objective benchmark to be recalculated every three years. The Standard requires that these interchange fees lie between a cap equal to the benchmark and a floor equal to 80 per cent of this benchmark. The effect of the Standard is expected to be a reduction in the average interchange fee paid by issuers to acquirers, on transactions not involving a cash-out component, from around 20 cents to between 4 and 5 cents.

The Standard is expected to encourage price signals and behaviour that will, over time, promote the development of a more efficient payments system in Australia. The Standard is also expected to ensure that prospective improvements in arrangements for participation in the EFTPOS system cannot be undermined by negotiations over interchange fees.

Signed



IJ Macfarlane
Governor
Reserve Bank of Australia

Date 24/4/2006

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 an authorised deposit-taking institution;

‘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;

‘nominated EFTPOS acquirers’ are those acquirers and self-acquirers 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 self-acquirers 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;

a ‘self-acquirer’ 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;

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 self-acquirer, 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 on any transaction, other than a transaction which includes a cash out component, by an issuer to an acquirer (or self-acquirer) 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 its eligible costs in the reference year is to be divided by the number of its debit card transactions in the reference year. The outcome 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 outcome as calculated in paragraph 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 self-acquirer 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 equivalents to International Financial Reporting Standards.
13. The data required to conduct the calculation in paragraph 10 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, each acquirer and self-acquirer in the EFTPOS system must report to the Reserve Bank of Australia the weighted average interchange fee it received and the range of interchange fees it received in the previous financial year by 1 November 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.