



RESERVE BANK OF AUSTRALIA

Payment Systems (Regulation) Act 1998

The designated credit card systems operated by Bankcard, MasterCard and Visa

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 to be complied with by the participants in each of the designated credit card systems. The standard would require interchange fees in the designated credit card schemes to be set in conformity with a common benchmark, rather than on the basis of separate benchmarks for each scheme.

Two alternative versions of the standard have been gazetted for comment. They would achieve the same policy end, but by different computational means.

Summary of purpose and effect of the proposed standard

The purpose of the standard is to ensure that the setting of interchange fees in the designated credit card schemes promotes efficiency and competition in the Australian payments system. The proposed standard would require interchange fees in each of the designated credit card schemes to be set subject to an objective benchmark which would be common for all three schemes, rather than, as is current practice, by reference to scheme-specific benchmarks. Such a change would encourage competition between the schemes in a way that would promote a more efficient use of resources.

Submissions

Interested parties are invited to make submissions on both versions of the proposed standard and the Bank's reasoning as set out in the *Proposed Changes to Credit Card Interchange Standards: A Consultation Document*, available on the Reserve Bank's website www.rba.gov.au.

Submissions should be made by 23 August 2005 to:

Head of Payments Policy or PYSubmissions@rba.gov.au
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

Signed

IJ Macfarlane
Governor
Reserve Bank of Australia
19 July 2005

Standard No. (..) A

The Setting of Wholesale ('Interchange') Fees in designated credit card schemes

Objective

The objective of this Standard is to ensure that the setting of wholesale ('interchange') fees in the designated credit card schemes is transparent and 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 systems operated within Australia known as the Bankcard scheme, the MasterCard system and the Visa system, each of which was designated as a payment system on 12 April 2001 by the Reserve Bank of Australia under Section 11 of the *Payment Systems (Regulation) Act 1998*, and referred to as follows as 'the Schemes'.
3. In this Standard:

an 'acquirer' is a participant in any of the Schemes that provides services to a merchant to allow that merchant to accept a credit card;

'credit card' means a card issued under the rules of any of the Schemes that can be used for purchasing goods or services on credit, or any other article issued under the rules of any of the Schemes and commonly known as a credit card;

'credit card transaction' or 'transaction' means a transaction in Australia between a credit cardholder and a merchant involving the purchase of goods or services using a credit card;

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

an 'issuer' is a participant in any of the Schemes in Australia that issues credit cards to the issuer's customers;

'merchant' means a merchant in Australia that accepts a credit card for payment for goods or services;

'nominated Scheme participants' for each Scheme are those issuers in each Scheme that, when selected in order of their share of the value of credit card transactions in the Scheme in Australia in the financial year prior to the date by which the applicable

cost-based benchmark must be calculated, are the minimum number of issuers to account for at least 90 per cent of those transactions, those issuers being determined by the administrator of the Scheme or the other participants in the Scheme in Australia;

‘rules of the Scheme’ mean the constitution, rules, by-laws, procedures and instruments of the relevant Scheme as applied in Australia, and any other arrangement relating to the Scheme by which participants in that Scheme in Australia consider themselves bound;

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 by an acquirer, directly or indirectly, to an issuer in relation to a credit card transaction in any of the Schemes.
5. Each participant in any of the Schemes must do all things necessary on its part to ensure compliance with this Standard.
6. If any part of this Standard is invalid, it 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 and the benchmark set under it will become effective from 1 November 2006.
9. This Standard will replace Standard No. 1, *The Setting of Wholesale (‘Interchange’) Fees* which applies to each of the Schemes individually. The benchmark determined under that Standard will be effective until 30 October 2006.

Interchange fees

10. On each of the dates specified in paragraph 11, the average of interchange fees implemented in each of the Schemes in Australia, calculated in accordance with paragraph 17 below, must not exceed the common cost-based benchmark calculated in accordance with paragraphs 12 to 16 below.
11. For the purposes of paragraph 10, the dates are:
 - (i) 1 November in the year in which the relevant common cost-based benchmark is published by the Reserve Bank of Australia; and
 - (ii) the date any interchange fee is introduced, varied, or removed.

Methodology

12. The cost-based benchmark for each Scheme is calculated as the total value of eligible costs of the nominated Scheme participants in that Scheme for the financial year

prior to the date by which the cost-based benchmark must be calculated, divided by the aggregate value of credit card transactions for the same period undertaken using credit cards issued by those nominated Scheme participants, and expressed as a percentage. Eligible costs are:

- (i) issuers' costs incurred principally in processing credit card transactions, including the costs of receiving, verifying, reconciling and settling such transactions;
- (ii) issuers' costs incurred principally in respect of fraud and fraud prevention in connection with credit card transactions;
- (iii) issuers' costs incurred principally in providing authorisation of credit card transactions; and
- (iv) issuers' costs incurred in funding the interest-free period on credit card transactions, calculated using the average of the cash rate published by the Reserve Bank of Australia over the three financial years prior to the date by which the cost-based benchmark must be calculated.

13. Data on eligible costs must be drawn from accounting records of the nominated Scheme participants, prepared in accordance with generally accepted accounting principles and Australian accounting standards.

14. Data on eligible costs and the total value of transactions of each nominated Scheme participant in each Scheme must be provided by that participant to an independent expert proposed by that Scheme and agreed to by the Reserve Bank of Australia. The expert must review the data to determine if the costs included are eligible costs and must use the data on eligible costs to calculate the cost-based benchmark for that Scheme.

15. The administrator of each Scheme and the nominated Scheme participants for that Scheme must provide to the Reserve Bank by 15 September of the relevant year:

- (i) the cost-based benchmark and the data on eligible costs and the value of transactions undertaken by each of the nominated Scheme participants used by the independent expert to calculate the cost-based benchmark;
- (ii) the value of transactions undertaken by all of the participants in the Scheme in the previous financial year.

16. The common cost-based benchmark is calculated by the Reserve Bank using as weights the shares of each Scheme in the total value of credit card transactions undertaken in all the Schemes. The Reserve Bank of Australia will publish the common cost-based benchmark by 30 September of the relevant year.

17. The cost-based benchmark for each Scheme must be calculated and provided to the Reserve Bank of Australia by 15 September 2006 and each third anniversary thereafter. If the Reserve Bank of Australia agrees in writing, a recalculation of the cost-based benchmark for each Scheme and of the common cost-based benchmark may be undertaken at other times if changes in eligible costs or other factors warrant.

18. For purposes of paragraph 10, the average of interchange fees in each Scheme is a weighted average calculated as follows:

- (i) each interchange fee rate, net of applicable taxes, is expressed as a percentage of transaction value for the transactions in the relevant Scheme to which that interchange fee rate applies for the financial year prior to the applicable date specified in paragraph 10;
- (ii) the weights to be applied to these percentages are the shares of transactions in the relevant Scheme to which each such interchange fee rate applies in the total value of transactions in the Scheme in Australia for the financial year prior to the applicable date specified in paragraph 10.

Transparency

19. The administrator of each Scheme or a representative of the participants in the Scheme in Australia must publish the interchange fee rates of the Scheme in Australia on the Scheme's website or make the interchange fee rates generally available through other means.

20. The administrator of each Scheme must certify annually in writing to the Reserve Bank of Australia, on or before 30 November each year, that interchange fees of the Scheme in Australia over the prior twelve months ending 31 October were in compliance with this Standard.

Standard No. (..) B

The Setting of Wholesale ('Interchange') Fees in designated credit card schemes

Objective

The objective of this Standard is to ensure that the setting of wholesale ('interchange') fees in the designated credit card schemes is transparent and 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 systems operated within Australia known as the Bankcard Scheme, the MasterCard system and Visa system, each of which was designated as a payment system on 12 April 2001 by the Reserve Bank of Australia under Section 11 of the *Payment Systems (Regulation) Act 1998*, and referred to as follows as 'the Schemes'.
3. In this Standard:

an 'acquirer' is a participant in any of the Schemes that provides services to a merchant to allow that merchant to accept a credit card;

'credit card' means a card issued under the rules of any of the Schemes that can be used for purchasing goods or services on credit, or any other article issued under the rules of any of the Schemes and commonly known as a credit card;

'credit card transaction' or 'transaction' means a transaction in Australia between a credit cardholder and a merchant involving the purchase of goods or services using a credit card;

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

an 'issuer' is a participant in any of the Schemes in Australia that issues credit cards to the issuer's customers;

'merchant' means a merchant in Australia that accepts a credit card for payment for goods or services;

‘nominated participants’ are those issuers that, when selected in order of their share of the value of credit card transactions of all the Schemes in Australia as reported to the Reserve Bank of Australia in the financial year prior to the date by which the applicable cost-based benchmark must be calculated, are the minimum number of issuers to account for at least 90 per cent of those transactions, those issuers being determined by the Reserve Bank of Australia;

‘rules of the Scheme’ mean the constitution, rules, by-laws, procedures and instruments of the relevant Scheme as applied in Australia, and any other arrangement relating to the Scheme by which participants in that Scheme in Australia consider themselves bound;

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 by an acquirer, directly or indirectly, to an issuer in relation to a credit card transaction in any of the Schemes.
5. Each participant in any of the Schemes must do all things necessary on its part to ensure compliance with this Standard.
6. If any part of this Standard is invalid, it 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 and the benchmark set under it will become effective from 1 November 2006.
9. This Standard will replace Standard No. 1, *The Setting of Wholesale (‘Interchange’) Fees* which applies to each of the Schemes individually. The benchmarks determined under that Standard will be effective until 30 October 2006.

Interchange fees

10. On each of the dates specified in paragraph 11, the average of interchange fees implemented in each of the Schemes in Australia, calculated in accordance with paragraph 17 below, must not exceed the common cost-based benchmark calculated in accordance with paragraphs 12 to 16 below.
11. For the purposes of paragraph 10, the dates are:
 - (i) 1 November in the year in which the relevant common cost-based benchmark is published by the Reserve Bank of Australia; and
 - (ii) the date any interchange fee is introduced, varied, or removed.

Methodology

12. The common cost-based benchmark is calculated as the total of eligible costs for the nominated participants for the financial year prior to the date by which the common cost-based benchmark must be calculated, divided by the total value of credit card transactions for the same period undertaken using credit cards of all the Schemes issued by the nominated participants, and expressed as a percentage. Eligible costs are:
 - (i) issuers' costs incurred principally in processing credit card transactions, including the costs of receiving, verifying, reconciling and settling such transactions;
 - (ii) issuers' costs incurred principally in respect of fraud and fraud prevention in connection with credit card transactions;
 - (iii) issuers' costs incurred principally in providing authorisation of credit card transactions; and
 - (vi) issuers' costs incurred in funding the interest-free period on credit card transactions, calculated using the average of the cash rate published by the Reserve Bank of Australia over the three financial years prior to the date by which the cost-based benchmark must be calculated.
13. Data on eligible costs must be drawn from accounting records of the nominated participants, prepared in accordance with generally accepted accounting principles and Australian accounting standards.
14. Data on eligible costs and the total value of transactions of each nominated participant must be provided by that participant to an independent expert proposed by the nominated participants and agreed to by the Reserve Bank of Australia. The expert must review the data to determine if the costs included are eligible costs.
15. The independent expert and the nominated participants must provide the data on eligible costs of each nominated participant and the total value of transactions of each of the nominated participants to the Reserve Bank of Australia by 15 September of the relevant year. The Reserve Bank of Australia will calculate the common cost-based benchmark by 30 September and publish it on its website.
16. The common cost-based benchmark will be calculated by 15 September 2006 and by each third anniversary thereafter. If the Reserve Bank of Australia agrees in writing, a recalculation of the common cost-based benchmark may be undertaken at another date if changes in eligible costs or other factors warrant.
17. For purposes of paragraph 10, the average of interchange fees in each Scheme is a weighted average calculated as follows:
 - each interchange fee rate, net of applicable taxes, is expressed as a percentage of transaction value for the transactions in the relevant Scheme to which that interchange fee rate applies for the financial year prior to the applicable date specified in paragraph 10;

- the weights to be applied to these percentages are the shares of transactions in the relevant Scheme to which each such interchange fee rate applies in the total value of transactions in the Scheme in Australia for the financial year prior to the applicable date specified in paragraph 10.

Transparency

18. The administrator of each Scheme or a representative of the participants in the Scheme in Australia must publish the interchange fee rates of the Scheme in Australia on the Scheme's website or make the interchange fee rates generally available through other means.
19. The administrator of each Scheme must certify annually in writing to the Reserve Bank of Australia, on or before 30 November each year, that interchange fees of the Scheme in Australia over the prior twelve months ending 31 October were in compliance with this Standard.