



RESERVE BANK  
OF AUSTRALIA

Payments  
System Board  
Annual Report

2012

**RESERVE BANK OF AUSTRALIA**



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*G.R. Stevens*  
GOVERNOR

10 September 2012

The Hon Wayne Swan MP  
Deputy Prime Minister and Treasurer  
Parliament House  
CANBERRA ACT 2600

Dear Deputy Prime Minister

**PAYMENTS SYSTEM BOARD ANNUAL REPORT 2012**

I am writing to seek your agreement to the tabling in the Parliament of the Payments System Board Annual Report for 2012. A copy of the report is enclosed.

In terms of the *Reserve Bank Act 1959*, the Payments System Board is required to inform the Government, from time to time, of the Reserve Bank's payments system policy. There is no statutory requirement to table an annual report, but tabling has proven a useful way of publicising the work of the Payments System Board and the Board's previous annual reports have been tabled.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'G.R. Stevens'.



# Payments System Board

ANNUAL REPORT 2012

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## Contents

Functions and Objectives of the Payments System Board	1
Governance	3
Payments System Board	5
Developments in Retail Payments Systems	7
Regulatory Developments in Retail Payments	25
Strategic Review of Innovation	35
Oversight of High-value Payments Systems	41
Oversight of Clearing and Settlement Facilities	45
Regulatory Developments in Financial Market Infrastructures	49
Liaison Activity	53
The Board's Announcements and Reserve Bank Reports	55

*Reserve Bank*

## Payments System Board

It is the duty of the Payments System Board to ensure, within the limits of its powers, that:

- the Reserve Bank's payments system policy is directed to the greatest advantage of the people of Australia;
- the powers of the Reserve Bank that deal with the payments system, set out in the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998*, are exercised in a way that, in the Board's opinion, will best contribute to controlling risk in the financial system, promoting the efficiency of the payments system and promoting competition in the market for payment services, consistent with the overall stability of the financial system; and
- the powers of the Reserve Bank that deal with clearing and settlement facilities, set out in Part 7.3 of the *Corporations Act 2001*, are exercised in a way that, in the Board's opinion, will best contribute to the overall stability of the financial system.

# Functions and Objectives of the Payments System Board

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The responsibilities of the Payments System Board are set out in the *Reserve Bank Act 1959*. In particular, the Act requires the Board to determine the Reserve Bank's payments system policy so as to best contribute to:

- controlling risk in the financial system
- promoting the efficiency of the payment system
- promoting competition in the market for payment services, consistent with the overall stability of the financial system.

In order to give effect to these responsibilities, the Reserve Bank has powers that are set out in two Acts: the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998*.

Under the *Payment Systems (Regulation) Act*, the Reserve Bank has the power to designate payment systems and set standards and access regimes in designated systems. The Act also sets out the matters that the Bank must take into account when using these powers. The *Payment Systems and Netting Act* provides the Bank with the power to give legal certainty to certain settlement arrangements so as to ensure that risks of systemic disruptions from payment systems are minimised.

The Reserve Bank also has a formal regulatory role to ensure that the infrastructure supporting the clearing and settlement of transactions in financial markets is operated in a way that promotes financial stability. In particular, the *Reserve Bank Act* gives the Board responsibility for ensuring that the powers given to the Bank in Part 7.3 of the *Corporations Act 2001* are exercised in a way that, in the Board's opinion, will contribute to the overall stability of the financial system. These powers include the power to determine financial stability standards for licensed clearing and settlement facilities.

This Report discusses the activities of the Board during 2011/12.



# Governance

## Composition of the Payments System Board

The Payments System Board comprises the Governor, who is Chairman, one representative of the Reserve Bank appointed by the Governor, one representative of the Australian Prudential Regulation Authority (APRA) appointed by APRA, and up to five other members appointed by the Treasurer for terms up to five years. Details of the current members are set out on pages 5–6. Five members form a quorum at a meeting of the Board.

## Meetings of the Payments System Board

The *Reserve Bank Act 1959* does not stipulate the frequency of Board meetings. Since its inception, the Board's practice has been to meet at least four times a year, and more often as needed; there were four meetings in 2011/12.

## Conduct of Payments System Board Members

On appointment to the Board, each member is required under the Reserve Bank Act to sign a declaration to maintain confidentiality in relation to the affairs of the Board and the Reserve Bank. Further, members must by law meet the general obligations of directors of statutory authorities, as set out in the *Commonwealth Authorities and Companies Act 1997* (CAC Act). The CAC Act sets standards of conduct for directors and officers of Commonwealth authorities, with many of these requirements being modelled on comparable areas of the *Corporations Act 2001*. Accordingly, members of the Payments System Board must:

- discharge their duties with care and diligence
- act in good faith, and in the best interests of the Reserve Bank
- not use their position to benefit themselves or any other person, or to cause detriment to the Reserve Bank or any person
- not use any information obtained by virtue of their position to benefit themselves or any other person, or to cause detriment to the Reserve Bank or any person
- declare any material personal interest where a conflict arises with the interests of the Reserve Bank.

**Table 1: Number of Meetings Attended by Each Member in 2011/12<sup>(a)</sup>**

Glenn Stevens	4	(4)
Malcolm Edey	4	(4)
John Laker	4	(4)
Joseph Gersh	4	(4)
Robert McLean	4	(4)
Catherine Walter	3	(4)
Brian Wilson	4	(4)

(a) Figures in brackets show the number of meetings each member was eligible to attend



Over and above these legislated requirements, members recognise their responsibility for maintaining a reputation for integrity and propriety on the part of the Board and the Reserve Bank in all respects. Members have adopted a Code of Conduct that provides a number of general principles as a guide for their conduct in fulfilling their duties and responsibilities as members of the Board; a copy of the Code is on the Bank's website.

## **Remuneration**

Fees of the non-executive members of the Payments System Board are determined by the Remuneration Tribunal.

## **Indemnities**

Members of the Payments System Board have been indemnified in accordance with section 27M of the CAC Act against liabilities incurred by reason of their appointment to the Board or by virtue of holding and discharging such office.

# Payments System Board

September 2012



## Glenn Stevens (Chairman)

Chairman since 18 September 2006  
Present term ends 17 September 2013

Governor, Reserve Bank of Australia  
Chairman – Reserve Bank Board  
Chairman – Council of Financial Regulators  
Member – Financial Stability Board



## Malcolm Edey (Deputy Chairman)

Deputy Chairman since 14 April 2009

Assistant Governor (Financial System)  
Reserve Bank of Australia  
Chairman – OECD Committee on Financial Markets  
Member – Basel Committee on Banking Supervision  
Member – Council of Financial Regulators



## John Laker AO

Member since 24 July 1998

Chairman – Australian Prudential Regulation Authority  
Member – Basel Committee on Banking Supervision  
Member – BIS Group of Governors and Heads of Supervision  
Member – Council of Financial Regulators  
Member – Standard Business Reporting Board  
Member – Trans-Tasman Council on Banking Supervision



## Joseph Gersh AM

Member since 15 July 1998  
Present term ends 14 July 2013

Executive Chairman – Gersh Investment Partners Ltd  
Chairman – Australian Reinsurance Pool Corporation  
Director – Sydney Institute



## **Robert McLean AM**

Member since 29 November 2006  
Present term ends 28 November 2016

Chairman – Australia Program Advisory Board, The Nature Conservancy (Australia)  
Director – LJ Hooker Pty Ltd  
Director – The Centre for Independent Studies  
Senior Advisor – McKinsey & Company



## **Catherine Walter AM**

Member since 3 September 2007  
Present term ends 2 September 2017

Chairman – Australian Synchrotron  
Director – Australian Foundation Investment Company  
Director – Victorian Funds Management Corporation  
Director – Victorian Opera



## **Brian Wilson**

Member since 15 November 2010  
Present term ends 14 November 2015

Chairman – Foreign Investment Review Board  
Deputy Chancellor – University of Technology, Sydney  
Director – Bell Financial Group Ltd

# Developments in Retail Payments Systems

The Payments System Board closely monitors trends in retail payments use and other developments in line with its mandate to promote efficiency and competition in the Australian payments system. Developments during 2011/12 broadly continued the trends of recent years. There is some evidence to suggest that consumers are making less use of cash over time, while the use of card payments continues to increase; consistent with this is the fact that the average value per transaction of both debit and credit cards declined relative to 2010/11. Cheques continued their long-term decline, while the use of direct entry payments grew strongly, particularly in value terms. Other developments in 2011/12 include the introduction of a multilateral interchange fee schedule for the eftpos system, which reversed the direction of interchange fee flows for that system; part of this change has flowed through to pricing faced by merchants. Fraud on scheme credit, debit and charge cards continued to increase, driven by fraudulent card-not-present transactions, although this broadly reflects the rapid growth of online retail activity.

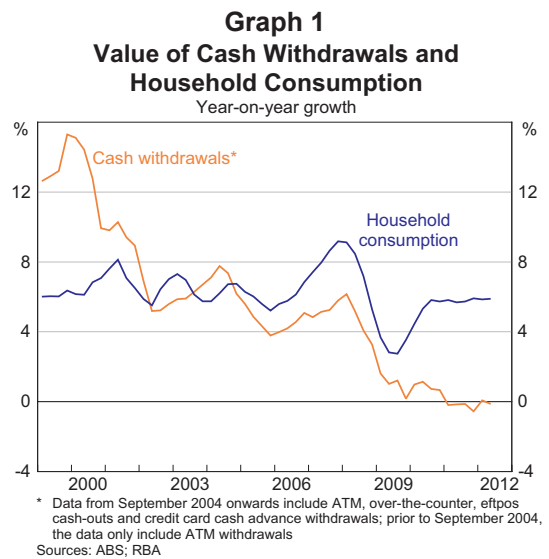
## Trends in Retail Payments Use

### Cash payments

The use of cash as a payment method is difficult to measure because the transaction takes place directly between the merchant and the customer, without the involvement of financial institutions. One source of information on cash payments is the Reserve Bank's consumer payments use studies. Conducted in 2007 and 2010, these studies – which provide some of the most detailed survey data available on cash use – suggest that cash remains the predominant method of payment for low-value transactions. The 2010 study found that cash payments accounted for 62 per cent of the number and 23 per cent of the value of all payments made by individuals in the study.<sup>1</sup>

Data for cash withdrawals, as reported by financial institutions, provide an alternative and more timely measure of the level of cash use within the economy.

Cash withdrawals contracted slightly in 2011/12, to a total of \$244 billion. This compares with 6 per cent growth in nominal household consumption expenditure (Graph 1). This was the seventh consecutive year that growth in



<sup>1</sup> Bagnall J, S Chong and K Smith (2011), *Strategic Review of Innovation in the Payments System: Results of the Reserve Bank of Australia's 2010 Consumer Payments Use Study*, RBA, June. The results of the Study are discussed further in the chapter 'Strategic Review of Innovation'.

**Graph 2**  
**ATM Withdrawals**

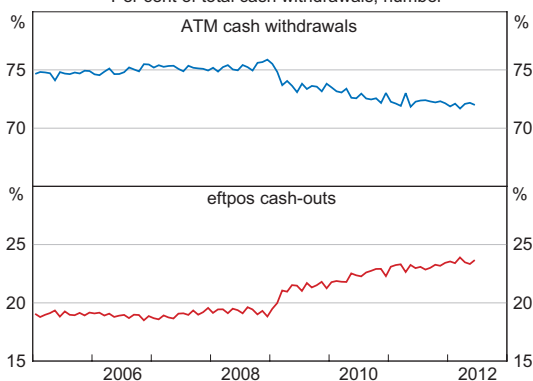
Annual growth rate, financial year



Source: RBA

**Graph 3**  
**Composition of Cash Withdrawals**

Per cent of total cash withdrawals, number\*



\* Includes ATM, over-the-counter, eftpos cash-outs and credit card cash advance withdrawals

Source: RBA

cash withdrawals has been below that in household consumption, suggesting that over time there is declining reliance on cash as a payment method by consumers.

The most common means of withdrawing cash is through automated teller machines (ATMs). ATMs account for around 62 per cent of the total value of cash withdrawals and 72 per cent of the total number of cash withdrawals. The value and number of ATM withdrawals increased by less than 1 per cent in 2011/12 (Graph 2). While growth in the value of ATM withdrawals was stronger than the previous year, the rate of growth in both volumes and values remained below that in the period preceding the March 2009 ATM direct charging reforms. Withdrawals at ATMs not owned by the account holder's institution – 'foreign ATMs' – accounted for around 41 per cent of ATM withdrawals in 2011/12.

After ATM withdrawals, cash withdrawn via eftpos cards at a point-of-sale terminal ('eftpos cash-out') is the next most common means of accessing cash, representing 23 per cent of the total number of cash withdrawals. Reflecting their typically low values, eftpos cash-outs account for only around 7 per cent of the value of total cash withdrawals; the average amount withdrawn in an eftpos cash-out transaction was \$60, compared with an average ATM withdrawal of \$181. In 2011/12, the use of eftpos cash-outs continued to grow solidly, increasing in number by 4 per cent. Indeed, growth in this type of

withdrawal continues to outpace that of all other cash acquisition methods, as reflected in its increasing share of the total number of cash withdrawals (Graph 3). This increasing popularity of eftpos cash-outs as a means of cash withdrawal is likely to reflect both the reduced use of ATMs following the 2009 ATM direct charging reforms, as well as stronger promotion of cash-out facilities at major retailers in recent years.

There were 30 511 ATMs and 764 549 eftpos terminals in operation as at June 2012, an increase of 13 per cent and 14 per cent, respectively, from the end of 2008.<sup>2</sup>

In 2011/12, over-the-counter (OTC) cash withdrawals declined slightly in both value and number to account for 27 per cent of the value and only 2 per cent of the number of total cash withdrawals. The average value of an OTC cash withdrawal was \$2 499. Cash advances on credit cards make up only around 2 per cent of cash withdrawals and continued to decline in the year.

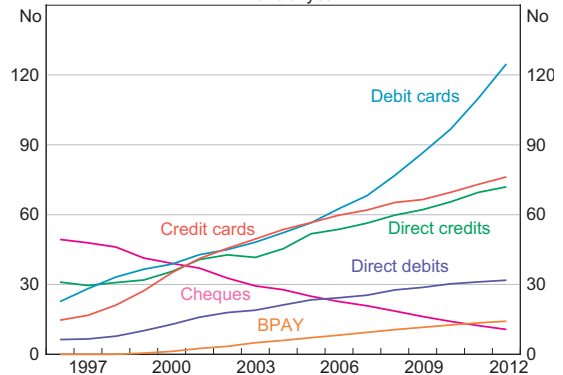
2 See Australian Payments Clearing Association, 'Transaction Statistics', available at <<http://www.apca.com.au/payment-statistics/transaction-statistics>>.

## Non-cash payments

Recent movements in non-cash payments have been broadly consistent with the longer-term trends observed over recent years (Table 2, Graph 4). Overall, the use of electronic payment instruments, particularly cards, has continued to grow, while cheque use has declined further. Direct entry payments are becoming more common and are being used for increasingly higher amounts. Australians made an average of 330 non-cash payments per person during the year, up from 310 non-cash payments in 2010/11.

Direct entry payments account for 87 per cent of the value of non-cash payments and around one-third of the number of non-cash payments. Direct credit is used for a variety of payments ranging from salary payments to internet banking transfers; on average, there were 72 direct credits per person in 2011/12. Direct debits, with an average of 32 payments per person in 2011/12, are most commonly associated with automatic bill payments.

**Graph 4**  
Non-cash Payments per Capita\*  
Financial year



\* Apart from BPAY, data from 2002 onwards are based on the RBA's Retail Payments Statistics; data for earlier years come from APCA and the RBA, and have been adjusted for differences between these sources and the Retail Payments Statistics  
Sources: ABS; APCA; BPAY; RBA

**Table 2: Australian Non-cash Retail Payments**

	2011/12			Average annual growth, 2006/07 – 2011/12			
	Per cent of total		Average value \$	Growth, per cent		Per cent	
	Number	Value		Number	Value	Number	Value
Cheques	3.2	8.3	5 154	-12.2	-7.7	-11.2	-6.9
Direct debits <sup>(a)</sup>	9.7	40.0	8 319	3.7	9.6	6.2	6.9
Direct credits <sup>(a),(b)</sup>	21.8	47.3	4 347	4.7	8.8	6.6	3.7
Debit cards	37.9	1.2	64	14.9	11.5	14.6	12.8
Credit cards <sup>(b)</sup>	23.1	1.6	143	5.7	4.6	5.8	6.6
BPAY	4.3	1.6	748	6.8	11.9	10.2	12.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>2 010</b>	<b>7.9</b>	<b>7.5</b>	<b>8.0</b>	<b>3.9</b>

(a) Growth in 2011/12, particularly by value, was largely driven by one institution

(b) Excludes BPAY transactions

Sources: BPAY; RBA

Card-based payments are predominantly used for mid-sized transactions, with debit card (i.e. eftpos, Debit MasterCard and Visa Debit) and credit card payments accounting for 61 per cent of the number but only 3 per cent of the value of non-cash payments in 2011/12. Per head of population, 125 debit card transactions and 76 credit card transactions were made in 2011/12, up from 45 and 46 transactions, respectively, a decade ago.

The use of cheques as a payment method continues to decline, with a 12 per cent fall in the number of cheques and an 8 per cent fall in the value in 2011/12. Around 11 cheques per person were written in the

financial year – most of these being commercial cheques – down from 33 cheques a decade ago. Cheques accounted for around 3 per cent of non-cash retail payments in 2011/12.

The following sections discuss the movements in each non-cash payment method in more detail.

### Card-based payments

There were around 4.5 billion card payments made in 2011/12, with a total value of \$424 billion. Debit cards continue to be used for lower-value payments, with an average value of \$64, while credit cards are used for higher-value transactions, having an average value of \$143. The average transaction value for both card types, however, declined over the year, in part reflecting a broader trend towards the use and acceptance of cards for lower-value transactions. This trend is likely to continue as technologies such as contactless payments – where the cardholder need only to tap or wave their card in front of a card reader – become more widely adopted by cardholders and merchants.

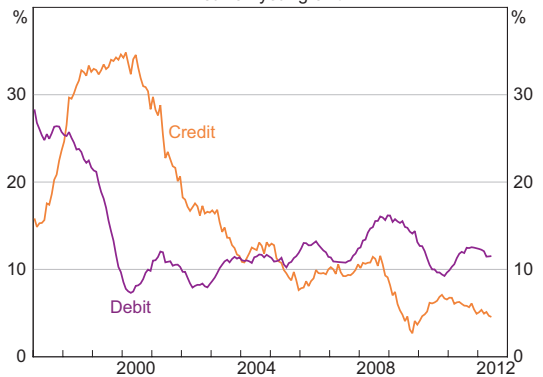
Year-on-year growth in debit card spending, at 12 per cent in 2011/12, was over twice the rate of growth of credit cards spending, which has broadly been the case for the past four years (Graph 5).

Within debit cards, the number of MasterCard and Visa debit card transactions increased by 25 per cent (compared with 12 per cent in 2010/11), while the value of those transactions increased by 18 per cent in 2011/12. Accordingly, MasterCard and Visa debit card transactions continued to grow as a share of total debit card transactions, representing 27 per cent of the value and 19 per cent of the number of total debit card payments in 2011/12 (Graph 6). While eftpos continues to account for the majority of debit card transactions, use of eftpos cards increased at a more modest pace than for MasterCard and Visa debit cards in 2011/12 – increasing 13 per cent by number and 10 per cent by value of transactions.

The value of credit card transactions grew by 5 per cent in 2011/12, again growing at a slower pace than for debit transactions. Net repayments on credit card balances have remained higher than during the period of rapid credit growth in the middle part of the 2000s (Graph 7). In 2011/12, the average month-end total balance outstanding on a personal credit account was \$3 272, while the average balance accruing interest was \$2 547.

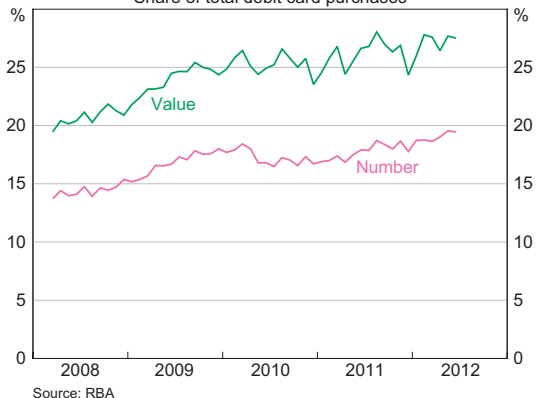
Within the credit and charge card market, there was little change in the shares of the four-party

**Graph 5**  
Value of Card Payments\*  
Year-on-year growth



\* RBA credit card data prior to March 2008 adjusted to remove BPAY transactions  
Sources: BPAY; RBA

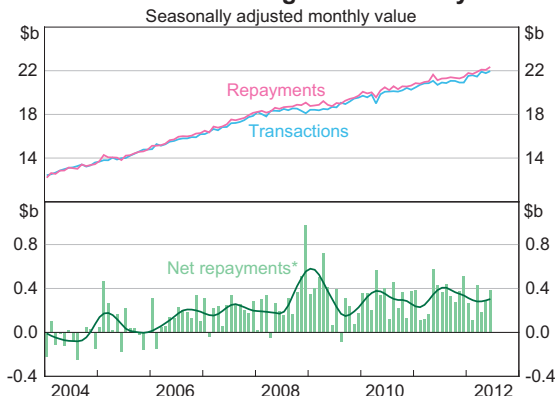
**Graph 6**  
MasterCard and Visa Debit Cards  
Share of total debit card purchases



Source: RBA

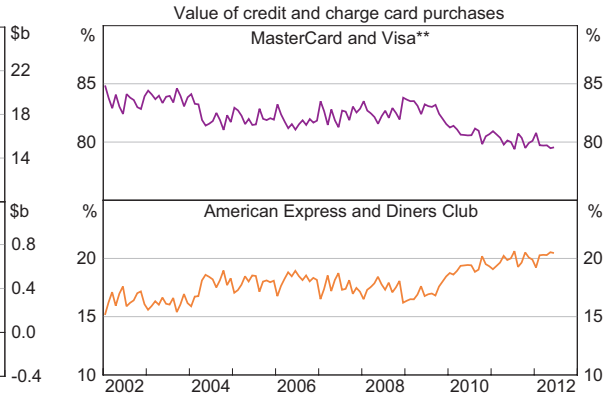
(MasterCard and Visa) and three-party (American Express and Diners Club) card schemes in the year. The combined market share of the three-party schemes remained around 20 per cent of the value of credit and charge card spending (Graph 8). This is a levelling out after the increase between late 2009 and mid 2011, which reflected the issuance of ‘companion’ American Express cards to holders of MasterCard or Visa credit cards by the major banks (see ‘Pricing and product offerings to cardholders’ for more detail).

**Graph 7**  
Credit and Charge Card Activity



\* Repayments less transactions (includes repayments of interest and other charges); smoothed line is a 13-period Henderson trend  
Source: RBA

**Graph 8**  
Market Shares of Card Schemes\*



\* Excludes scheme debit from March 2008; back data adjusted for break  
\*\* Includes Bankcard before 2007  
Source: RBA

## Other electronic payments

The number of direct debit and direct credit payments grew by around 4 per cent and 5 per cent, respectively, in 2011/12 – slightly slower than their annual average growth over the past five years. Figures reported by financial institutions show a sharp increase in the value of direct debit and direct credit payments in the year, although this may overstate underlying growth due to particularly strong growth in direct debits and credits reported by one particular institution.

The value of BPAY transactions increased by around 12 per cent in 2011/12, reflecting a combination of a 7 per cent increase in transaction volumes and a 5 per cent rise in the average transaction size, from \$714 to \$748. BPAY transactions have grown by an average of around 10 per cent by number and 13 per cent by value annually over the past five years.

## Online payments

The use of the internet to make retail payments has increased in recent years, reaching around 17 per cent of the number and 15 per cent of the value of all non-cash retail payments in 2011/12. Online payments can be made in several ways, including by means of the previously discussed methods of payment – credit cards, MasterCard and Visa debit cards, BPAY and direct entry – and increasingly by means of specialised payments providers, such as PayPal.

Direct entry (e.g. ‘pay anyone’) transactions in an internet banking package remain the most widely used online payment method, accounting for almost 50 per cent of the number and almost 88 per cent of the value of online payments (Table 3). The average value of internet direct entry transactions is much higher than that of other transaction types, reflecting its use for business payments, in addition to household payments.



**Table 3: Online Payments by Payment Method**  
2011/12

	Per cent of total		Growth, per cent	
	Number	Value	Number	Value
Direct entry	48.7	88.2	11.8	14.5
BPAY	22.7	9.8	9.0	13.2
Credit cards, and MasterCard and Visa debit cards	23.8 <sup>(a)</sup>	1.8	25.0 <sup>(a)</sup>	16.7
Specialised payments providers <sup>(b)</sup>	4.8	0.2	41.3	36.6

(a) Includes double-counting of some PayPal transactions

(b) Estimates included for one provider for the March and June quarters 2012

Sources: BPAY; RBA; specialised payments providers

BPAY accounts for 22.7 per cent of the number of online payments and 9.8 per cent of the value. Credit cards and MasterCard and Visa debit cards account for around one-quarter of the number of transactions but less than 2 per cent of the total value of transactions, while specialised payments providers remain a relatively small share of the overall market in both number and value.

A distinct segment of the broad online payments market is the 'online retail' market for the purchase of goods and services. This market is largely characterised by the use of payment methods that provide real-time confirmation of payments to merchants, which is important where consumers want to complete transactions quickly so that goods or services can be booked, downloaded or shipped rapidly. Currently only credit cards, MasterCard and Visa debit cards, and the specialised payments providers allow for this real-time functionality in Australia.

Online retail payments accounted for around 29 per cent of the total number of online payments in 2011/12, but only around 2 per cent of the value. Within this segment of online payments, credit cards remained the dominant payment method, though their share of online retail transaction volume fell from 61 per cent in 2010/11 to 55 per cent in 2011/12 and their share of the value fell from 75 per cent to 71 per cent (Table 4). This reflects continued rapid growth in MasterCard and Visa debit cards as well as specialised online payments in recent years.

**Table 4: Online Retail Payments**  
Shares in the year to June 2012, per cent

	Number	Value
Credit cards	54.5 <sup>(a)</sup>	70.9 <sup>(b)</sup>
MasterCard and Visa debit cards	28.5 <sup>(a)</sup>	18.6 <sup>(b)</sup>
Specialised payments providers <sup>(c)</sup>	16.9	10.5

(a) Includes double-counting of some PayPal transactions

(b) Adjusted for the double-counting of some PayPal transactions

(c) Estimates included for one provider for the March and June quarters 2012

Sources: RBA; specialised payments providers

## Cheques

In 2011/12 the number and value of cheque payments fell by around 12 per cent and 8 per cent, respectively, continuing the long-term trend of declining cheque use. Nonetheless, with cheque payments accounting for 8 per cent of the total value of non-cash payments, cheques continue to have a place in the retail payments

landscape, particularly for higher-value transactions. The average value of a cheque payment increased by around 5 per cent in 2011/12, to \$5 154.

In May 2012, the Australian Payments Clearing Association (APCA) published a report, *The Decline of Cheques: Building a Bridge to the Digital Economy*, following a period of public consultation.<sup>3</sup> APCA found that, while cheque use has declined significantly over the past decade, there remain some segments of society – including older Australians and those in rural Australia – that continue to rely on cheques. APCA concluded that there was no immediate need for major structural reform to Australia’s cheque system and that the market is best placed to address the decline in cheque use with alternative payment instruments. Nevertheless, APCA sees a role for government and industry bodies in promoting the use of electronic payment methods as an alternative to cheques. As part of the ongoing process to manage the decline in cheque use, APCA will undertake a series of measures, including an examination into ways of lowering the costs of cheque processing and the development of an industry policy on messaging standards for electronic payments.

### Payment trends internationally

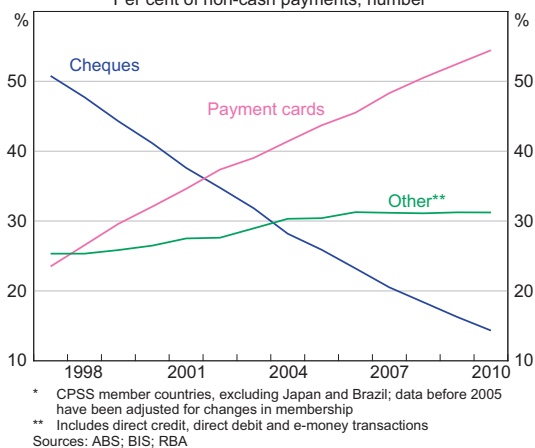
The international payment trends observed in 2010 (the latest year for which data are available) are consistent with the trends observed over past years, both overseas and in Australia. Overall, the use of electronic payment instruments – notably cards – continues to grow, while cheque use continues to decline as a proportion of the total number of non-cash payments (Graph 9).

By number, payment card transactions represented over half of all non-cash payments in 2010, with other electronic payment methods constituting around one-third of the total number of non-cash payments. The growth in the number of payment card transactions has also consistently outpaced that in the number of direct credit, direct debit and e-money transactions.

The number of cheques written as a share of total non-cash payments continues to decline, albeit at a slightly slower rate in recent years. Governments and regulators around the world continue to grapple with this issue. For example, both the US Treasury and the Canadian Government have announced the phase-out of government-issued cheque payments in favour of electronic payments, with deadlines of March 2013 and April 2016, respectively.

Despite the broad similarity in non-cash payment trends, the size and composition of non-cash payments across countries still differs significantly (Table 5). With 282 transactions per capita, Australians make significantly more non-cash payments than most other reporting countries, with higher usage only in the Netherlands, Sweden and the United States. Despite the general dominance of card-based payments globally, direct entry payment systems are utilised more frequently than card-based systems in some countries, including Belgium, Brazil, Germany, the Netherlands, Russia

**Graph 9**  
Non-cash Payments – International\*  
Per cent of non-cash payments, number



3 APCA (2012), *The Decline of Cheques: Building a Bridge to the Digital Economy*, May. Available at <<http://www.apca.com.au/docs/cheques/decline-of-cheques.pdf>>.

**Table 5: Non-cash Retail Payments in Selected Countries**  
Number per capita, 2010

	Cheques	Direct debits	Direct credits	Debit card	Credit card <sup>(a)</sup>	Total
Australia	13	30	67 <sup>(b)</sup>	102	70	282
Belgium	1	23	92	87	11	214
Brazil	9	22	40	15	18	104
Canada	27	19	29	117	84	276
China	1	na	1	4 <sup>(c)</sup>	na	na
France	48	53	46	114 <sup>(c)</sup>	na	261
Germany	1	106	72	27	6	212
Hong Kong	na	na	na	15	51	na
India	1	<1	<1	4	<1	5
Italy	5	10	20	15	10	60
Japan <sup>(d)</sup>	1	na	11	<1	41	na
Korea	15	29	54	29	116	243
Mexico	4	<1	8	6	4	22
Netherlands	na <sup>(e)</sup>	79	95	138 <sup>(c)</sup>	na	312
Russia	<1	1	18	7	<1	26
Saudi Arabia	<1	<1	<1	44	1	45
Singapore	15	11	7	40	na	na
South Africa	2	11	11	20 <sup>(c)</sup>	na	44
Sweden	<1	29	105	154	42	330
Switzerland	<1	6	94	50	21	171
Turkey	na	na	na	3	27	na
United Kingdom	18	52	55	106	33	264
United States	74	37	25	142	69	347

(a) Includes charge cards

(b) Includes BPAY

(c) Split between debit and credit cards not available

(d) Figures for Japan are for 2008

(e) Cheques have been abolished in the Netherlands since 2001

Sources: ABS; BIS; RBA

and Switzerland. Focusing on the breakdown between card-based payments, more transactions are typically made with debit cards than credit cards except in Brazil, Hong Kong, Korea and Turkey.

## Other Retail Payments Developments

### Interchange fees

The Reserve Bank regulates interchange fees in the MasterCard and Visa credit card systems, the Visa Debit system and the eftpos debit system.<sup>4</sup> Under standards imposed by the Bank, the weighted-average multilateral interchange fee in each of these systems must be at or below a set benchmark on a specified date every three

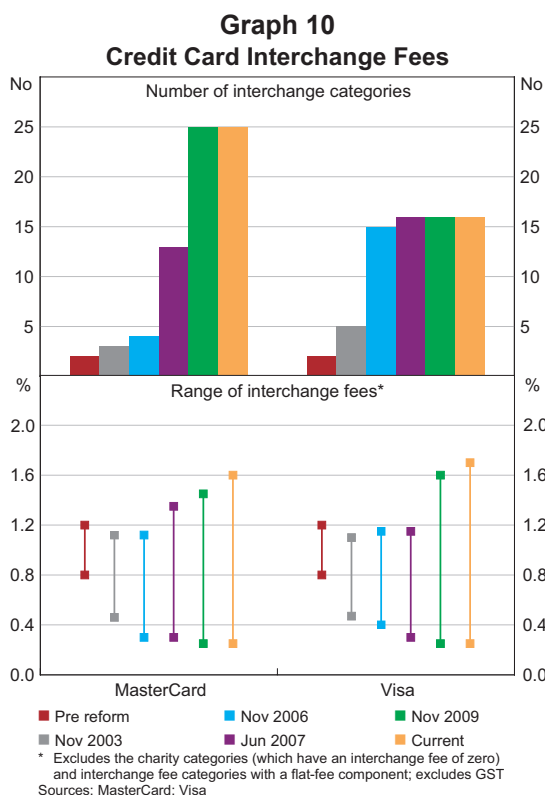
<sup>4</sup> For debit cards, MasterCard has undertaken to voluntarily comply with the interchange fee benchmark in the Visa Debit Standard. All interchange fees quoted in this section exclude GST.

years, or whenever the system makes a change to its interchange fee schedule. The next specified compliance/ reset date is 1 November 2012. The benchmarks are currently 0.50 per cent of the value of transactions for the credit card systems and 12 cents per transaction for the debit card systems, paid from the acquirer (merchant's bank) to the issuer (cardholder's bank). Bilateral interchange fees in the eftpos system are required to be between 4 and 5 cents per transaction (paid from the issuer to the acquirer), excluding transactions with a cash-out component, although the Bank is currently consulting on the ongoing form of bilateral interchange fee regulation. In December 2011, the Bank waived the requirement, scheduled for 2012/13, to recalculate the cost-based benchmarks for all designated card systems.

Under this regulatory approach, the card schemes have the flexibility to set different multilateral interchange fees for different types of transactions, provided that the weighted average of interchange fees for each scheme does not exceed the benchmark at the specified dates. The card schemes have used this flexibility to appeal to issuers, cardholders and merchants in different ways (see 'Pricing and product offerings to cardholders', below, for a related discussion). This has seen high interchange fees introduced for some categories (such as platinum/ premium card transactions), and low interchange fees for some other categories (such as transactions at 'strategic' merchants). Over time, MasterCard and Visa have introduced interchange fee categories based on factors such as the type of account (e.g. consumer or commercial), the type of card (e.g. standard or premium), the type of merchant (e.g. charity, government or service station), and the type of transaction (e.g. contactless or chip; Table 6). Reflecting this, the number of interchange fee categories, and the variability in the level of fees between categories, has grown steadily in the years since the Reserve Bank's reforms (shown for credit cards in Graph 10). These strategies have tended to increase average interchange revenue per transaction between compliance dates, because the fastest growth in transaction values tends to be in categories with the highest interchange fees. Both MasterCard's and Visa's debit card and credit card interchange fee schedules were unchanged in 2011/12, but, as mentioned above, are to be reset later in the year.

In October 2011, the multilateral interchange fee schedule introduced by eftpos Payments Australia Limited (ePAL) – the body established in 2009 to govern the eftpos system – came into effect. The multilateral schedule reverses the direction of interchange fees for most transactions so that they now flow from the acquirer to the issuer. The standard rate on most purchase transactions is 4.5 cents.

In April 2012, ePAL also announced the introduction of 'differential' merchant rates into its multilateral schedule, to take effect from 1 October 2012. These rates have a similar rationale to MasterCard's and



**Table 6: Interchange Fees<sup>(a)</sup>**  
As at 30 June 2012, excluding GST

	Credit card Per cent unless otherwise specified		Debit card Cents unless otherwise specified		
	MasterCard	Visa	MasterCard	Visa	eftpos
Consumer electronic	0.35	0.40	6.0	8.0	4.5
Consumer standard	0.40 <sup>(b)</sup>	0.45	19.0	0.30%	–
Consumer chip	0.35	–	12.0	–	–
Premium/platinum	1.00 <sup>(c)</sup>	1.00	0.50%	0.40%	–
Premium chip	1.00	–	–	–	–
Super premium	1.60 <sup>(d)</sup>	1.70	–	–	–
Commercial	1.27	1.28	1.27%	1.00%	–
Commercial chip	1.27	–	1.48%	–	–
Strategic merchant	0.25 or 0.34	0.25 to 0.35	3.6	4.0 to 60.0	–
Government/utility	0.30	0.30	7.0	8.0	–
Charity	0.00	0.00	0.00%	0.00%	0.0
Petrol/service station	0.34	0.32	4.0	6.0	–
Education	0.30	0.40	–	8.0	–
Supermarket	–	0.32	–	6.0	–
Insurance	–	0.40	–	8.0	–
Transit	–	0.30	–	6.0	–
Recurring payment	0.30	0.30	9.1	8.0	–
Quick Payment Service	0.40	–	4.0	–	–
Contactless payment	0.35	–	–	–	–
Micropayment <sup>(e)</sup>	–	–	4.0	–	0.0
Large ticket <sup>(f)</sup>	–	\$20 + 0.20%	–	\$10 + 0.10%	–
Cash-out <sup>(g)</sup>	–	–	–	–	–13.6
Medicare Easyclaim	–	–	–	–	0.0
<b>Benchmark</b>	<b>0.50</b>	<b>0.50</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>

(a) Positive fees indicate those paid to the issuer; negative fees indicate those paid to the acquirer

(b) May be 0.30% or 0.35% depending on use of MasterCard's SecureCode online authentication system

(c) May be 0.90% or 0.95% depending on use of MasterCard's SecureCode online authentication system

(d) May be 1.50% or 1.55% depending on use of MasterCard's SecureCode online authentication system

(e) For eftpos, these are transactions with a value less than \$15; for MasterCard these are transactions with a value equal to or less than \$20

(f) Transactions above \$10 000 excluding travel/entertainment purchases

(g) Transactions with a cash-out component, including combined purchase/cash-out transactions

Sources: ePAL website; MasterCard website; RBA; Visa website

Visa's 'strategic merchant' rates: to encourage further use and promotion of eftpos.<sup>5</sup> Two new categories have been introduced:

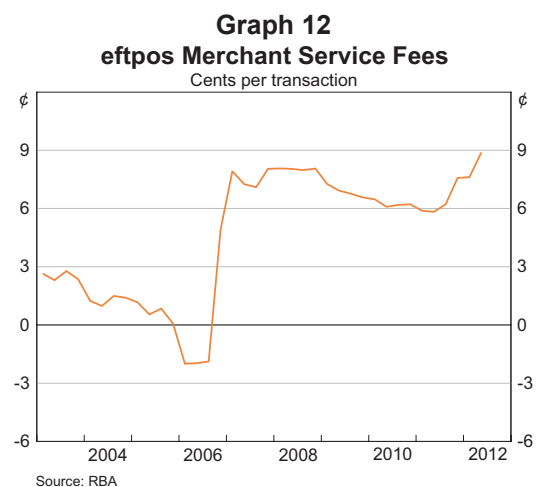
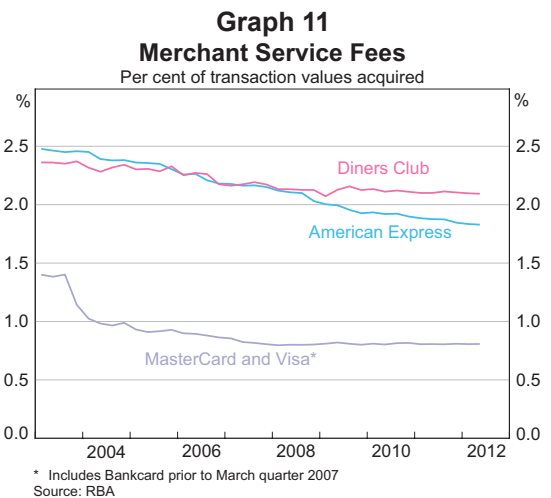
- differential point of sale (POS), with interchange fees ranging between 0 and 4.5 cents per transaction, flowing from the acquirer to the issuer
- differential cash-out, with interchange fees ranging between 13.6 and 22.7 cents per transaction, paid from the issuer to the acquirer.<sup>6</sup>

### Merchant service fees

The average fee paid by merchants to acquiring institutions for transactions on MasterCard and Visa credit and debit cards has been little changed over the past five years; in 2011/12 the average fee was 0.81 per cent of the value of transactions (Graph 11). Taking a longer-term perspective, however, the combined average merchant service fee on MasterCard and Visa cards has fallen by 59 basis points since the September quarter 2003 (just prior to the introduction of the benchmark on credit card interchange fees). This is larger than the decline in average interchange fees for MasterCard and Visa credit card transactions of around 45 basis points over the same period. The margin between the average merchant service fee and average interchange fees has narrowed from around 45 basis points in the September quarter 2003 to around 30 basis points currently.

The average merchant service fee for transactions on American Express cards has also declined steadily since the introduction of the 2003 reforms. In 2011/12, the average merchant service fee for American Express cards declined by 5 basis points, to 1.83 per cent of the value of transactions, and is now 62 basis points lower than prior to the reforms – a little more than the decline in merchant service fees in the MasterCard and Visa credit card systems, which are subject to the interchange fee benchmark. By contrast, the average merchant service fee for Diners Club has been more stable at around 2.10 per cent in 2011/12.

Following a period of decline, the average merchant service fee for eftpos transactions rose in 2011/12, from 5.8 cents to 8.9 cents per transaction (Graph 12). The increase in the average fee reflects recent developments in the eftpos system, in particular the decision made by the scheme's governing



5 These rates apply to merchants or merchant groups that meet performance metrics and requirements, as determined by ePAL.

6 Includes cash-out only and combined purchased/cash-out transactions. The standard cash-out interchange rate is 13.6 cents per transaction, paid from the issuer to the acquirer.

body – ePAL – to introduce a multilateral interchange fee schedule for the system. This schedule, which took effect from October 2011, reversed the direction of interchange fees on most purchase transactions so that acquiring institutions now pay, rather than receive, an interchange fee (see discussion in ‘Interchange fees’, above, and ‘eftpos Developments’ in the next chapter). Accordingly, since the schedule has come into effect, some acquirers have begun passing on at least part of the increase in eftpos interchange fee costs to merchants through higher merchant service fees. Preliminary data suggest that for an average-sized transaction, eftpos merchant service fees remain below those on a MasterCard or Visa debit card transaction. The Reserve Bank intends to publish data on eftpos, and MasterCard and Visa debit card merchant service fees as part of its regular Retail Payment Statistics collection in the near future.

### **Pricing and product offerings to cardholders**

Card issuers typically offer a range of credit card products. Each card has a different mix of annual fees, features and rewards to appeal to different customer types. For example, low-rate cards may attract cardholders who carry outstanding balances accruing interest from month to month (‘revolvers’), while low-fee cards may be more attractive to consumers who pay their credit card balance in full each month (‘transactors’) or those who use their card infrequently. On the other hand, customers who use their cards frequently may be attracted to cards that offer reward points and other benefits, such as extended warranties for goods purchased on the card. Cards that offer rewards (rewards cards) are typically classified into standard, gold, platinum or super-premium cards, with each tier generally commanding higher annual fees but also attracting more generous rewards and benefits.

The range of credit card products offered by issuers has evolved significantly in recent years as card issuers have adopted new strategies driven by interchange fee differentials. A key driver for these changes has been the introduction of interchange categories with relatively high fees by the card schemes, making it more attractive for financial institutions to issue some card types over others (see ‘Interchange fees’, above). For example, in both the MasterCard and Visa card schemes, platinum card transactions attract an interchange fee of 1.0 per cent of the value of the transaction, compared with 0.35 per cent and 0.40 per cent, respectively, for a transaction on a standard card. This means that the card issuer receives considerably greater interchange fee revenue for transactions on platinum cards than for standard or gold cards, and may use this revenue to fund more generous rewards programs for cardholders. For example, in June 2012, the average spending required to obtain a \$100 shopping voucher was \$18 100 for standard cardholders, compared with \$15 800 for platinum cardholders (Table 7). Consequently, there has been significant growth in the premium segment of the credit card market. The various strategies adopted by card issuers in relation to this segment include cardholder upgrades, the introduction of merchant-branded platinum cards and the introduction of super-premium cards.

The first example of card issuers altering their card portfolio to take advantage of higher interchange fees has been the upgrading by several financial institutions, including the major banks, of their standard and/or gold cardholders to platinum cards since the second half of 2010. Effectively, the cardholder receives a new platinum card product (or offer) in the mail to replace their existing standard or gold card, often for no additional cost or annual fee. While upgraded cardholders may receive greater benefits (such as complimentary travel insurance or extended warranties), in many cases they continue to earn reward points at the same rate as for their previous card. In the case of at least one issuer, the new platinum card products are intended to replace the institution’s entire gold card product range.

**Table 7: Typical Features of Personal Credit Cards, by Type<sup>(a),(b)</sup>**

	Number	Average annual fee	Average interest rate	Average spending for \$100 voucher (primary card) <sup>(c)</sup>	Average spending for \$100 voucher (primary and companion card) <sup>(d)</sup>	Range of rewards benefit (primary and companion card)
		\$	%	\$	\$	%
<b>No rewards</b>						
<b>Low rate</b>						
June 2010	8	58	13.4	–	–	–
June 2012	9	58	13.5	–	–	–
<b>Low fee</b>						
June 2010	8	15	19.8	–	–	–
June 2012	11	27	20.4	–	–	–
<b>Gold or platinum</b>						
June 2010	13	83	16.1	–	–	–
June 2012	13	83	16.4	–	–	–
<b>Rewards</b>						
<b>Standard</b>						
June 2010	21	67	19.7	18 500	16 300	0.32–1.13
June 2012	20	71	19.6	18 100	15 700	0.46–1.00
<b>Gold</b>						
June 2010	14	130	19.9	22 600	18 800	0.16–1.13
June 2012	8	142	20.2	18 300	15 600	0.37–0.93
<b>Platinum</b>						
June 2010	11	289	20.0	17 000	11 400	0.58–1.23
June 2012	20	232	20.3	15 800	11 600	0.56–1.18
<b>of which:<sup>(e)</sup></b>						
<i>Bank-branded</i>						
June 2012	12	222	20.9	19 100	12 000	0.56–1.18
<i>Merchant-branded</i>						
June 2012	4	148	20.5	12 600	12 600	0.74–0.93
<b>Super-premium</b>						
June 2012	3	507	20.7	11 300	9 400	0.87–1.22

(a) Reported averages are calculated as a simple average of relevant products' features. The total sample comprises over 80 credit card products offered by the top nine credit card issuers and selected major merchants; the top nine issuers are based on issuing market shares calculated from the Reserve Bank's Retail Payments Statistics collection; only products which are available to all new cardholders are included in the sample

(b) For the purposes of this table, a rewards card involves the cardholder having the ability to accumulate a store of points, which may be redeemed for goods or services – other benefits such as instant cash-backs, overseas travel insurance and extended warranties are not included; only rewards programs where a \$100 shopping voucher can be redeemed are included in the calculations for rewards spending and benefits, but all rewards cards are included in the calculations for the number, annual fee and interest rate

(c) Average of the sum of the required spend for each applicable card; figures do not take into account the ability to earn additional reward points at certain merchants

(d) The value of spending required to obtain a \$100 shopping voucher assumes cardholders with a credit card product containing a companion American Express card spend equal amounts on their MasterCard/Visa card and companion American Express card

(e) Scheme-branded credit cards are not shown

Sources: RBA; card issuers' websites



A similar development has been the introduction of a number of merchant-branded platinum card products (e.g. the Woolworths Everyday Rewards (Qantas) card). For some merchants, these platinum card products are offered instead of, rather than in addition to, a gold card product. Merchant-branded cards typically have relatively generous rewards programs, particularly for spending at the merchant, and may include reward structures not traditionally encountered – for example, a number of significantly discounted flights per year, irrespective of points earned. The average spend required on these merchant-branded platinum cards for a \$100 shopping voucher is \$12 600, compared with \$19 100 for a bank-branded platinum card.<sup>7</sup> Some merchant-branded cards have annual fees of a level typically associated with non-premium cards, but do not offer additional benefits.

At the same time, some card issuers have introduced super-premium cards, which attract an even higher interchange fee than platinum cards, at 1.60 per cent and 1.70 per cent of the value of MasterCard and Visa transactions, respectively. Typically these cards have very high annual fees and more generous rewards than the platinum credit cards in the same card range. On average, cardholders must spend \$11 300 to obtain a \$100 shopping voucher on a super-premium card, compared with \$15 800 on a platinum card. Super-premium cards also tend to offer benefits beyond those associated with traditional platinum cards, for example access to exclusive experiences (such as cooking classes with celebrity chefs).

Overall, these developments have resulted in a substantial change in the nature of credit card products available. Platinum cards, in the traditional sense, were originally designed to attract high-spending customers; these cards were previously few in number and offered both relatively generous reward points and other benefits. However, as a result of the changes described above, platinum cards have become much more widespread. The number of platinum card programs offered by the top nine card issuers and selected merchants increased from 17 to 26 between June 2010 and June 2012, while the number of gold card programs offered declined from 21 to 15 over the same period. Further evidence of the erosion of the exclusivity of platinum cards can be seen in the average annual fee for rewards platinum cards, which declined from around \$290 in June 2010 to just over \$230 in June 2012. By contrast, the average annual fees for the majority of other card types were broadly steady. As discussed, the place of platinum cards as the premium card in the portfolio of some card issuers has been replaced by super-premium cards, which have an average annual fee of just over \$500. In June 2012, there were several super-premium card programs offered by Australian issuers, one of which was available on an invitation-only basis (i.e. it is not open to all new cardholders).<sup>8</sup>

Since late 2009, American Express cards have also become more widespread in the personal credit card market through the issuance of ‘companion’ cards. Under this model, cardholders are provided an American Express card as part of the package with their primary MasterCard or Visa credit card, with both cards accessing the same line of credit. However, cardholders are offered more reward points for spending on the American Express card, creating an incentive for the cardholder to use this card more heavily. Unlike the developments related to platinum cards, the issuance of companion cards is not related to interchange fees as there are no interchange fees in a three-party card scheme; there are, however, alternative commercial arrangements in place that give financial institutions an incentive to issue companion cards. While companion American Express cards were first introduced in 2004, they have now become a standard feature on rewards credit card

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7 This does not take into account spending on companion cards.

8 Given this card is not open to all new cardholders, it is not shown in Table 7.

accounts at the four major banks; in June 2012, only three credit card products with a rewards program across the four major banks did not feature an American Express companion card.

More recently, Diners Club has also introduced companion cards. Cardholders with a Diners Club charge card (their primary card) are now able to add a companion MasterCard card to their account. However, in contrast to the arrangements with American Express companion cards, cardholders must pay an additional fee for a companion card, and earn less generous rewards for spending on the companion MasterCard card than the Diners Club card.

In line with these changes to the platinum segment of the market, there has been a slight overall decline in the value of rewards in that segment over the past two years. Specifically, the spending required on platinum cards to earn a \$100 shopping voucher increased from \$11 400 to \$11 600 (assuming spending is split evenly between the platinum card and the companion card), likely reflecting the introduction of platinum cards with less generous rewards – for example, where they have replaced a gold card without changes to the reward points program. As discussed above, however, some cardholders are receiving additional premium benefits that were not previously available on their gold card product.

For other segments of the market, however, there has been an increase in the value of rewards. For example, between June 2010 and June 2012, the average spending required for a \$100 shopping voucher declined from \$18 800 to \$15 600 for a gold card holder.

In contrast to developments in the credit card market, the pricing arrangements for deposit accounts and debit cards to cardholders have been little changed in recent years. Debit cardholders are typically charged an account-keeping fee of around \$3 per month for access to an unlimited number of electronic transactions, including transactions made on eftpos, MasterCard and/or Visa debit cards, own-ATM withdrawals, and internet/telephone banking transactions. A number of institutions waive this monthly account-keeping fee in each month the cardholder deposits sufficient funds.

## Fraud

According to APCA data, total payments fraud in Australia rose to 16.2 cents per \$1 000 transacted in the year to December 2011 from 11.4 cents per \$1 000 in the preceding year (Table 8).<sup>9</sup>

**Table 8: Fraud on Australian-issued Payment Instruments**  
Cents per \$1 000 transacted

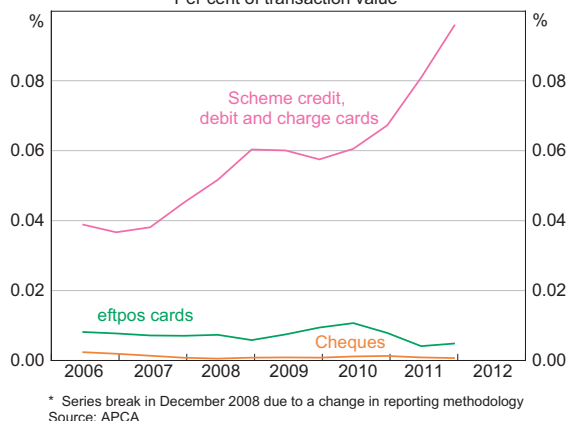
	2010	2011
All instruments	11.4	16.2
All cards	37.9	51.1
Scheme credit, debit and charge cards <sup>(a)</sup>	67.2	96.0
eftpos and ATM cards <sup>(b)</sup>	7.9	4.9
Cheque	1.3	0.7

(a) Fraud statistics for the scheme credit, debit and charge card fraud statistics are provided to APCA each quarter by the international card schemes operating in Australia; the schemes included in the collection (Visa, MasterCard, American Express, Diners Club and JCB) cover nearly all credit card activity in Australia as well as a proportion of debit card activity

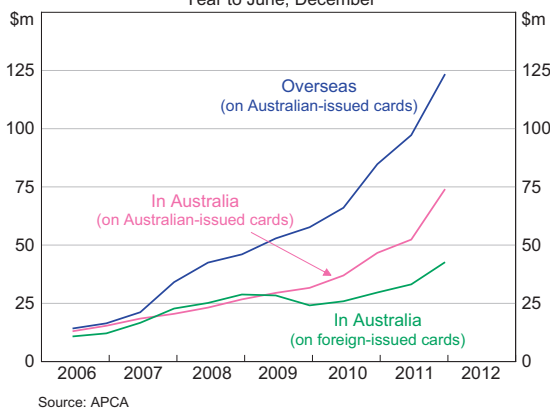
(b) Includes all transactions in which 'savings' or 'cheque' is selected at point-of-sale terminal or ATM  
Source: APCA

<sup>9</sup> Australian statistics for payments fraud include fraud on cheques; credit and charge cards; MasterCard and Visa debit cards (referred to as scheme debit cards in the APCA statistics); and eftpos and ATM cards.

**Graph 13**  
**Fraud Rates on Australian Payments**  
 Per cent of transaction value\*



**Graph 14**  
**Card-not-present Fraud on Scheme Credit, Debit and Charge Cards**  
 Year to June, December



The rate of fraud on credit, MasterCard and Visa debit, and charge cards increased from 67.2 cents to 96.0 cents per \$1 000 transacted in 2011 (Graph 13). As a consequence, fraud on these cards accounted for 93 per cent of the total value of measured payments fraud, up from 82 per cent in 2010. Over the same period, the rate of fraud on eftpos and ATM cards fell from 7.9 cents to 4.9 cents per \$1 000 transacted and cheque fraud fell to less than 1 cent per \$1 000 transacted.

The rise in fraud levels is mostly taking place in the card-not-present (CNP) environment. CNP fraud typically involves the theft of genuine card details, which are then used to make a fraudulent purchase over the internet, by phone or by mail order. This type of fraud has grown substantially, rising from \$32 million in 2006 to \$198 million in 2011 for Australian-issued cards. CNP fraud now accounts for over 70 per cent of all credit, Visa and MasterCard debit, and charge card fraud on Australian-issued cards. Nearly two-thirds of this fraud is perpetrated overseas, reflecting the increasingly borderless nature of payments fraud (Graph 14).

Efforts to control rising CNP fraud have been initiated by the industry. For online merchants, secure data storage is a prominent concern and there have been a number of high-profile cases in which card details have been stolen from databases, both in Australia and overseas. In response to the risks of insecure data storage,

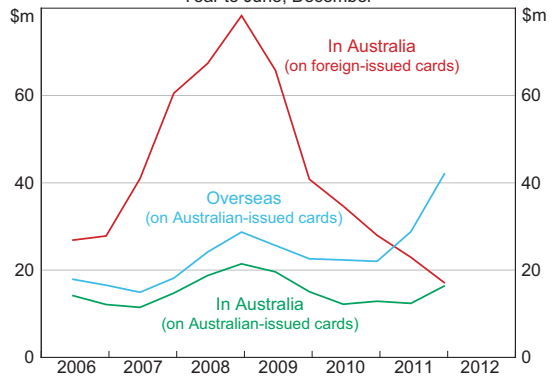
the card schemes developed the Payment Card Industry Data Security Standard (PCI DSS). The PCI DSS set data storage security standards that must be observed by any party that collects or stores payment card data. If a merchant is found to be non-compliant, the schemes can impose a fine on that merchant's acquirer, which can then pass the fine on to the merchant. Any merchant that is not PCI DSS compliant can potentially be prevented from processing card payments. A further initiative to assist retailers in preventing CNP fraud is a free online training facility that aims to inform retailers on steps they can take to protect themselves when using the internet to do business. The facility is being developed by APCA and will be released in the coming months.

Another initiative being introduced at the cardholder level is online authentication services: Visa offers 'Verified by Visa' and MasterCard offers 'SecureCode'. Both systems add an extra level of security to a typical online transaction by asking registered cardholders to provide a personal identification number (PIN). Both Visa and MasterCard have put in place strategies to increase the use of their online verification systems.

Apart from CNP fraud, the other major component of payments fraud is counterfeit or skimming fraud. This type of fraud involves the theft of card details from a genuine card, which are then used to create a fake card. One response to this type of fraud has been the introduction of chip-based cards and terminals, as well as PIN authorisation at the point of sale (POS) for credit and charge card transactions.<sup>10</sup> Nonetheless, counterfeit/skimming fraud on Australian-issued credit, MasterCard and Visa debit, and charge cards increased over the year from \$35 million to \$59 million, driven by the use of skimmed Australian-issued cards overseas (Graph 15). Over the same period, the value of counterfeit/skimming fraud on foreign-issued cards used in Australia fell from \$28 million to \$17 million, and has fallen by almost 80 per cent since 2008. These figures suggest that the continuing rollout of chip and PIN has made it harder to use skimmed cards in Australia.

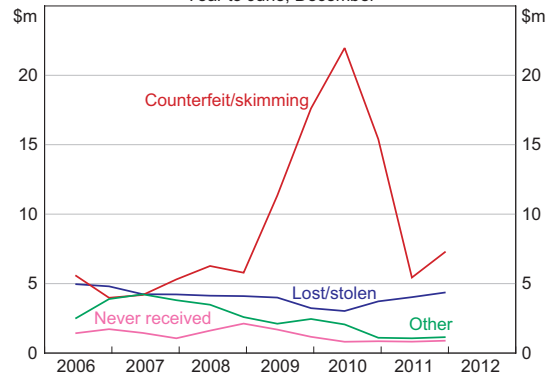
Counterfeit/skimming fraud on eftpos and ATM cards in Australia declined in 2011, following an earlier increase attributed to a series of skimming attacks at certain ATMs and POS terminals. Counterfeit/skimming fraud on eftpos and ATM cards rose from around \$6 million at the end of 2008 to a peak of \$22 million over the year to June 2010, but is now around \$7 million (Graph 16). This decline has been attributed to enhanced security around ATMs and POS terminals and greater merchant and consumer awareness. The industry continues to develop ways of addressing skimming fraud and raising consumer and merchant awareness, for example through APCA's 'Protect Your PIN' and 'Safeguard Against Skimming' campaigns.

**Graph 15**  
**Counterfeit / Skimming Fraud on Scheme Credit, Debit and Charge Cards**  
 Year to June, December



Source: APCA

**Graph 16**  
**Fraud on eftpos and ATM Cards**  
 Year to June, December



Source: APCA

10 eftpos transactions in Australia have always been based on PIN authorisation.



# Regulatory Developments in Retail Payments

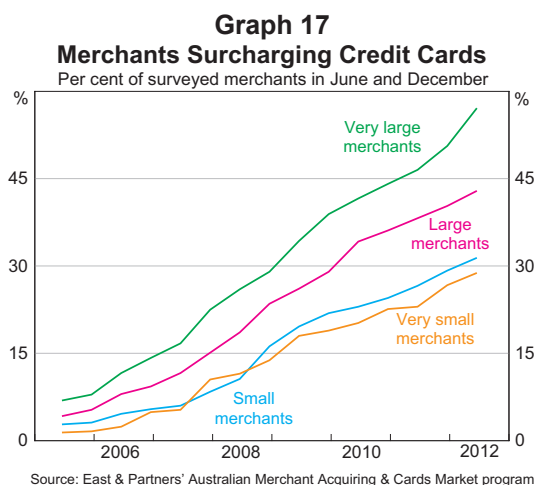
Regulatory developments in Australia during 2011/12 included the Payments System Board's decision to vary the surcharging Standards to allow scheme rules to limit surcharges to the reasonable cost of card acceptance, and its decision to undertake a review of the regulatory framework for the eftpos system. More recently, the Payments System Board decided at its August 2012 meeting to vary the ATM Access Regime to expand its power to grant exemptions to arrangements that would otherwise be counter to the interchange fee provisions. This chapter also discusses a number of regulatory reviews related to retail payment systems that are being undertaken in other jurisdictions.

## Surcharging

The removal of 'no-surcharge' rules by the Reserve Bank as part of the reforms starting in 2003 allowed merchants to pass on the cost of credit and debit card transactions, with merchants having previously been prevented from doing so by rules of the international card schemes. These rules had masked price signals to cardholders about the relative costs of different payment methods. They had also contributed to the cross-subsidisation of credit card users by all other customers, as merchants could recover the costs of accepting card payments only by incorporating them into the overall prices of their goods and services. Finally, by preventing the possibility of surcharging, these rules limited the ability of merchants to put downward pressure on their merchant service fees.

Following the removal of these rules, the proportion of merchants that surcharge credit card transactions has risen substantially. According to the latest data from East & Partners' semi-annual survey of the merchant acquiring market for June 2012, around 36 per cent of merchants surveyed applied a surcharge on at least one of the credit cards they accepted (Graph 17). Surcharging is more common among very large merchants, with over half now surcharging credit cards.<sup>11</sup>

As reported in the 2011 Payments System Board Annual Report, the Reserve Bank issued an initial consultation paper on surcharging practices in June



<sup>11</sup> Very large merchants are classified in these data as those with annual turnover of more than \$530 million.

2011.<sup>12</sup> The catalyst for this review was the Bank's concerns that several types of surcharging practices that have the potential to reduce the effectiveness of previous surcharging reforms were becoming increasingly commonplace. These practices included excessive surcharging (where surcharges are set well above the cost of acceptance) and blended surcharging (where cards from multiple schemes are surcharged at the same rate despite significant differences in acceptance costs). This initial consultation paper sought feedback on several possible modifications to the Standards, including various ways in which the Standards could allow for card schemes' rules to impose caps on surcharges; the need to provide clarification on the ability of merchants to differentially surcharge across card types; and the scope for greater disclosure of merchant service fees.

After considering the views put forward in the initial consultation, the Board decided at its November 2011 meeting to undertake a public consultation on a draft variation to the surcharging Standards that would allow scheme rules to impose a limit on surcharges based on the 'reasonable cost of acceptance'. The draft Standards made clear that merchants would have the ability to differentially surcharge across card schemes and card types, though the Board noted that it would not require merchants to disclose their merchant service fees after a large number of submissions raised concerns about commercial confidentiality issues.

Accordingly, the Reserve Bank released a second consultation paper in December 2011, setting out the issues raised from the previous consultation, and seeking comment on the specific form of the proposed variation to the Standards.<sup>13</sup> There was general support for the Bank's proposed approach to varying the Standards, though a number of submissions sought further clarification around the definition of the 'reasonable cost of acceptance' and raised some concerns about implementation and compliance.

Taking into account the views expressed in both consultation rounds, the Board decided to vary the Standards relating to merchant surcharging on credit and scheme debit cards.<sup>14</sup> The variation, which will come into effect in January 2013, will allow card scheme rules to limit surcharges to the reasonable cost of acceptance, but will continue to ensure that merchants cannot be prevented from fully recovering their costs. The Board also noted that it would investigate ways to enhance transparency around costs – for instance, through the publication of more detailed data on merchant service fees by the Reserve Bank. To provide some further clarification of the meaning of the 'reasonable cost of acceptance', the Bank issued a draft guidance note to assist in interpreting the Standards. The Bank is currently consulting on the form of the guidance note and intends to publish the final version in early October.

## eftpos Developments

In September 2011, the Board announced that it would undertake a review of the regulatory framework for the eftpos system. A review has become necessary because of industry developments in the system in recent years, most notably the establishment of a new governing body for the eftpos system – ePAL – in 2009 and its recent decision to introduce a multilateral interchange fee schedule for the system (see the section on 'Interchange fees' in the previous chapter). Alongside these changes to the governance framework, the underlying architecture of the eftpos system has also undergone significant change: the industry, with encouragement by the Reserve Bank, has migrated to simpler connection arrangements under the Community of Interest

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12 See RBA (2011), *Review of Card Surcharging: A Consultation Document*, June. Available at <<http://www.rba.gov.au/publications/consultations/201106-review-card-surcharging/index.html>>.

13 See RBA (2011), *A Variation to the Surcharging Standards: A Consultation Document*, December. Available at <<http://www.rba.gov.au/publications/consultations/201112-variation-surcharging-standards/index.html>>.

14 See RBA (2012), *A Variation to the Surcharging Standards: Final Reforms and Regulation Impact Statement*, June. Available at <<http://www.rba.gov.au/payments-system/reforms/cards/201206-var-surcharging-stdns-fin-ref-ris/index.html>>.

Network (COIN). Given these significant developments, the aim of the review is to ensure that regulation for the eftpos system continues to support competition and efficiency in the payments system as a whole, and provides fair access to new participants.

As the first public element of the review, the Reserve Bank released a consultation paper in March 2012, seeking views on the appropriate form of designation for the eftpos system.<sup>15</sup> The Board had formed the view that the existing designation, put in place in 2004, no longer clearly or accurately defined the eftpos system. Specifically, the 2004 eftpos designation relied on a description of the eftpos system as set out in the Australian Payments Clearing Association's (APCA) Consumer Electronic Clearing System (CECS) Manual and Regulations. With the establishment of ePAL, the CECS Manual and Regulations were modified, with the description of the eftpos system removed and replaced by a reference to ePAL's Scheme Rules.

The consultation paper sought views on two options for defining the eftpos system for the purpose of designation: a narrow definition based on ePAL membership and Scheme Rules, or a broader definition to capture those parts of the eftpos system that lie outside the scope of ePAL's membership and Scheme Rules. Nearly all submissions were of the view that the 2004 designation was no longer appropriate and should be revoked. The views, however, were more divergent on the form of a new designation.

Taking into account the various views, at its meeting in May 2012, the Board decided that it was in the public interest to put a new designation in place and to adopt a narrow definition of the eftpos system based on ePAL's Scheme Rules. A key consideration in the Board's decision was a desire to remove any uncertainty regarding the participants subject to the Bank's regulatory framework. The new designation was put in place in June 2012; the 2004 designation will be revoked once the broader regulatory framework has been put in place.

With the new designation in place, the Reserve Bank began the second phase of its review – a consultation on the future regulatory framework for the eftpos system – releasing a paper in June 2012.<sup>16</sup>

This consultation sought views on options for the Reserve Bank's future regulation of:

- eftpos interchange fees – such as whether regulation of bilateral and multilateral interchange fees should be brought under a common benchmark
- access to the eftpos system – such as whether 'no discrimination' provisions regarding interchange fees are required to ensure existing participants are entitled to interchange fees that are in line with existing arrangements and whether a cap on connection charges is required if industry were able to put in place acceptable and appropriate access arrangements.

The Reserve Bank also sought views on the form of any transitional arrangements that might be appropriate, acknowledging that there have been large shifts in the governance and regulatory framework and that the decision by ePAL to reverse the direction of interchange fee flows has potentially affected some business models more than others.

The Reserve Bank is reviewing submissions and considering the possible policy options. At this stage, the Bank anticipates that a final decision on the regulatory framework for the eftpos system will be made towards the end of 2012.

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<sup>15</sup> See RBA (2012), *Review of the Regulatory Framework for the eftpos System: Consultation on Designation*, March. Available at <<http://www.rba.gov.au/publications/consultations/201203-replacing-efpos-designation/index.html>>.

<sup>16</sup> See RBA (2012), *Review of the Regulatory Framework for the EFTPOS System: Consultation on Options for Reforms*, June. Available at <<http://www.rba.gov.au/publications/consultations/201206-rev-reg-frmwrk-efpos-sys/index.html>>.



## ATM Taskforce

In December 2010, the Australian Government established a joint Treasury/Reserve Bank ATM Taskforce, which submitted two reports to the Government:

- *Report on Transparency and Competition*
- *Report on Indigenous ATM Issues.*

The Government released both of these reports in May 2012.<sup>17</sup>

For the report on transparency and competition, the Taskforce found that in most regions of Australia there appears to be a reasonable amount of competition in the market for the services provided by ATMs, and most Australians have access to a range of free or low-cost options for accessing cash and making balance enquiries (with the notable exception of very remote Indigenous communities). Accordingly, for most Australians the payment of a direct charge to use a 'foreign ATM' (an ATM not owned by the account holder's institution) is generally a matter of convenience rather than necessity. The Taskforce concluded that the industry-led ATM reforms in 2009 have been positive for both the ATM market and for consumers:

- On the demand side, consumers have responded to the increased transparency of fees by shifting away from transactions at foreign ATMs, saving an estimated \$270 million on cash withdrawal fees in the two years following the reforms.
- On the supply side, there has been a continued increase in the number of ATMs deployed (including to non-metropolitan regions), with much of the expansion attributable to independent deployers, which have benefited from the shift to direct charging.

Nonetheless, the Taskforce recommended two further measures to enhance transparency and competition: improved disclosure of direct charges through upfront advertising of prices on ATMs – that is, without the need to insert a card in the machine – and increased collection and dissemination by the Reserve Bank of more comprehensive data from ATM deployers.

For the report on Indigenous ATM issues, the Taskforce found that residents in very remote Indigenous communities are generally more reliant on ATMs than other Australians because of their lack of access to alternative means to withdraw cash and make balance enquiries. Moreover, these residents typically only have access to an independently owned ATM and have no alternative to paying a direct charge for cash withdrawals and balance enquiries. Although the level of direct charges for ATMs in very remote Indigenous communities was found to be generally similar to those in metropolitan areas, a range of social and economic factors means that residents in the communities tend to access ATMs for withdrawals and balance enquiries much more frequently than their urban counterparts – this results in sizeable expenditure on ATM fees by these communities. To reduce the impact of ATM fees on these residents, the Taskforce recommended examining the scope for foreign-ATM fees to be reduced in very remote Indigenous communities – including through voluntary action by the industry – together with complementary measures to address the high usage of ATMs in these communities. The Taskforce and the Government have since been facilitating negotiations among industry participants on a scheme to help reduce the sizeable expenditure on ATM fees by residents of very remote Indigenous communities.<sup>18</sup>

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<sup>17</sup> The Treasury and RBA (2011), *ATM Taskforce – Report on Indigenous ATM Issues*, released on 25 May 2012; The Treasury and RBA (2011), *ATM Taskforce – Report on Transparency and Competition*, released on 25 May 2012. Available at <<http://archive.treasury.gov.au/banking/content/reports.asp>>.

<sup>18</sup> See The Treasury (2012), *Very Remote Indigenous Communities Benefiting from ATM Initiative*, May. Available at <<http://archive.treasury.gov.au/banking/content/atms.asp>>.

Related to this work, in May 2012, the Reserve Bank released a consultation paper setting out a proposal to vary the ATM Access Regime.<sup>19</sup> The variation would provide the Bank with greater flexibility to grant exemptions for ATM arrangements that would otherwise be prohibited by the interchange fee provisions of the Access Regime. Taking into account views expressed during the consultation process, the Board decided at its August 2012 meeting to proceed with the variation to the ATM Access Regime. The Board also decided to use the expanded exemption power to grant an exemption to the ATM scheme for very remote Indigenous communities, discussed above.<sup>20</sup>

## Operational Incidents in Retail Payments Systems

Over the past few years, there have been a number of prominent operational incidents causing considerable disruption and denting public confidence in retail payments systems. Meanwhile, the value of payments settled in these systems has continued to grow rapidly and, as a consequence, the importance of retail payments systems in the Australian economy continues to grow. Accordingly, given the Reserve Bank's responsibility for promoting an efficient and stable payments system, the Bank is considering possible approaches to strengthening the handling of any future disruptions. In doing so, the Bank is conscious of the need to coordinate with the Australia Prudential Regulation Authority and industry bodies to avoid duplication.

In February 2012, the Reserve Bank began an informal consultation with industry participants to deepen its understanding of authorised deposit-taking institutions' retail payments operations.<sup>21</sup> This consultation, in which all four major banks have participated, spans a number of areas, including: sources of vulnerability; existing controls; safeguards and contingencies; change management; and plans for upgrade and enhancement of supporting technology. The Board will consider the information gathered in this consultation and establish whether the incident reporting should be supplemented with additional measures.

In addition, as of April 2012, the Reserve Bank has formalised its requirements of Reserve Bank Information and Transfer System (RITS) Members that operate an Exchange Settlement Account (ESA) for reporting of major retail payments system incidents. Providers of retail payments services that operate ESAs are required to report significant incidents in their retail payments operations to the Bank. The Bank is in the process of eliciting feedback on the scope of this reporting requirement and plans to supplement the detailed reporting on major incidents with periodic statistical reporting.

## International Developments

Work on existing and forthcoming regulatory reform – intended to improve competition, enhance governance, and restrict excessive surcharging – has continued internationally. Regulators in the United States, Canada and the European Union (EU) have continued to examine competition at all levels of the payments system – between issuers, acquirers, payment card networks, processors and clearing and settlement systems. Relatedly, governance in payment systems has also been an important issue, with Canada, the United Kingdom and the EU each in the process of examining the efficacy and representativeness of governance structures of their respective industry organisations. Additionally, as has just been undertaken in Australia, authorities in

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19 RBA (2012), *A Variation to the Access Regime for the ATM System: Consultation Document*, May. Available at <<http://www.rba.gov.au/publications/consultations/201205-acc-reg-atm-sys-cons-doc/pdf/201205-acc-reg-atm-sys-cons-doc.pdf>>.

20 RBA (2012), 'Payments System Issues: Variation to the Access Regime for the ATM System', Media Release 2012-24, 29 August. Available at <<http://www.rba.gov.au/media-releases/2012/mr-12-24.html>>.

21 For more information, see RBA (2012), 'Payment System Issues: Retail Operational Incidents', Media Release 2012-03, 20 February. Available at <<http://www.rba.gov.au/media-releases/2012/mr-12-03.html>>.

the United Kingdom have commenced consultation on the matter of excessive surcharging by merchants, with an intention to restrict the practice. The same issue is also being considered by the EU as part of a wider consultation on card payment issues in the Single European Payments Area (SEPA).

## United States

During the course of the year, the debit card interchange fee restrictions and network exclusivity provision of section 1075 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act 2010* (the Durbin Amendment), as implemented by the Federal Reserve Board, came into effect. Effective from October 2011, debit card interchange fees have been capped at US\$0.21 plus 0.05 per cent of the transaction value (plus US\$0.01 if the issuer undertakes steps to limit fraud). The Federal Reserve has since published a report examining debit card interchange fees pre- and post-Durbin Amendment. It found that interchange fees for non-exempt issuers have fallen from an average of US\$0.50 in the March to September quarters 2011 to US\$0.24 in the December quarter 2011, in line with the regulated level of interchange fees.<sup>22</sup> The exclusivity provisions require issuers and networks to have at least two non-affiliated networks enabled on a debit card; these became effective from October 2011 for networks and from April 2012 for issuers. Under these provisions, merchants must also not be restricted from routing a transaction over any of the networks enabled on a debit card or from promoting the use of a particular network.

In November 2011, merchant groups filed a lawsuit against the Federal Reserve, alleging that its implementation of the Durbin Amendment was against the wording and intent of the legislation. Specifically, they contended that the current debit card interchange cap is too high due to the inclusion of extraneous costs in the calculation of the cap. The merchant groups also argue that the current implementation of the network exclusivity provision requiring at least two unaffiliated networks to be enabled on each debit card do not provide sufficient choice of routing. They believe the provision should be applied with respect to each authorisation method; that is, each debit card should have at least two PIN and two signature networks – a proposal that was initially considered. The case is ongoing.

## Canada

In March 2012, the 'Task Force for the Payments System Review' released a series of discussion and policy papers recommending reforms to the Canadian retail payments system. Convened by the Minister of Finance, the taskforce had a mandate to review and assess issues of safety, soundness, competition and innovation in the payments system; identify public policy objectives with respect to these issues; and formulate and assess regulatory and institutional structures best suited to achieving the policy objectives identified.

The key recommendations of the taskforce include:

- *Governance.* The establishment of a public oversight body (POB) and self-governing organisation (SGO). Reporting directly to the Minister of Finance, the POB would be responsible for broad monitoring of risk, competition and developments in the payments industry. It would also have statutory authority to regulate the payments system and its participants, and would serve as an arbiter of disputes that the SGO could not resolve. The SGO would be an industry-chaired organisation with delegated powers (from the POB) to develop and enforce standards, codes and policies. All payment service providers would be required to become members of the SGO.

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<sup>22</sup> Exemptions apply to issuers with assets under US\$10 billion, three-party networks, transactions made using cards issued under government-administered programs, and certain reloadable prepaid cards. Interchange fees for exempt issuers were found to have been essentially unchanged over the period examined.

- *Legislative framework and Code of Conduct.* Legislation should be drafted to provide the powers necessary for the establishment and functioning of the POB and SGO, and to bring all relevant institutions under the new governance framework. Furthermore, the existing *Code of Conduct for the Credit and Debit Card Industry in Canada* should be amended to allow merchants and cardholders to identify premium cards; require disclosure of minimum spending and income limits for premium cards; allow merchants to provide differential discounting for different card categories; and clarify steering rules.<sup>23</sup> Under the proposed governance framework, enforcement of the Code of Conduct would be the responsibility of the SGO.
- *System architecture.* The Canadian Payments Association, a not-for-profit entity that currently manages the low- and high-value clearing and settlement systems, should be restructured into a 'core infrastructure entity' that will also manage the cheque system (processing is currently handled by over 30 separate financial institutions) and the Interac debit card network. Additionally, the taskforce recommends that the industry write an implementation plan to replace the low-value clearing and settlement system with a multilateral (hub and spoke) Small Value Transaction System, and upgrade the high-value Large Value Transfer System clearing and settlement system.
- *Other recommendations.* The taskforce advised against direct regulation of interchange fees, considering it administratively complex and difficult to enforce, particularly in an evolving payments environment. Additionally, the industry and SGO should be tasked with establishing an e-invoicing system, utilising a Canadian-specific schema for the ISO 20022 standard; a framework for (Near field communication-focused) mobile payments; and a system to allow verification of electronic identities in payments.

Separate from the work of the taskforce, a Competition Tribunal case seeking the removal of Visa's and MasterCard's honour-all-cards, no-surcharging and no-steering rules, which was launched in December 2010, commenced hearings in May 2012. The case remains in progress.

## Europe

In December 2011, the European Parliament passed legislation regarding direct entry systems within SEPA. First proposed by the European Commission (EC) in December 2010, the key provisions of the legislation require that euro-denominated direct entry systems which are not compliant with SEPA rules be shut down by February 2014; euro-denominated direct entry systems use International Bank Account Number (IBAN) and ISO 20022 messaging standards from February 2014; and multilateral interchange fees for direct debits be abolished from February 2017.

In January 2012, the EC released a consultation paper, 'Towards an Integrated European Market for Card, Internet and Mobile Payments'. The consultation was motivated by what the EC perceives to be slow implementation of the SEPA framework for card-based payments. The key issues considered in the paper include:

- *Governance.* In addition to expressing concern over the European Payments Council's (EPC) progress in implementing the SEPA Cards Framework, the EC sought comments on a potential change to the EPC's governance model as a way of addressing the EPC's lack of enforcement powers and bank-centric representation.
- *Market fragmentation, access and entry.* The paper raised concerns about the effect of interchange fees on competition, as well as distortions caused by cross-border differences in multilateral interchange fees. The

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<sup>23</sup> The Code of Conduct is a voluntary set of standards enforced by the Consumer Financial Agency of Canada, which is currently adopted by all card networks in Canada. It currently provides for, among other things, enhanced disclosure of merchant service fees, differential discounting for different payment card networks and merchant choice in accepting or declining different payment methods from the same payment card network.

EC viewed co-badged cards (multi-network cards) as generally beneficial to competition, provided that issuers are not permitted to choose the network-routing priority.

- *Transparency and cost-effective pricing.* The EC sought views on the harmonisation of steering practices (e.g. surcharges, discounts and rebates) across European countries, along with whether surcharges should be limited to the 'real cost of using a payment instrument'. Additionally, the EC is consulting on ways to improve the transparency of pricing to merchants, including by allowing merchants to report their cost of accepting a payment method to consumers.
- *Security.* The EC also sought comments on additional security requirements for remote transactions, in the context of concerns about fraud moving from physical to remote transactions as the migration from magnetic-stripe cards with signature authorisation to chip-based cards with PIN authorisation nears completion.

The consultation closed on 11 April 2012; the EC has indicated that further reports are likely to be forthcoming in late 2012 and early 2013.

In April 2012, the European Central Bank released for consultation its paper 'Recommendations for the Security of Internet Payments'. The recommendations cover internet payments issues with respect to governance; risk identification, monitoring and reporting; authentication procedures; transaction monitoring; data protection; consumer education; and transaction limits and notifications. Notable recommendations include the requirement for payment service providers to use 'two-factor' authentication for internet payments, and a shift in liability to any party failing to comply with this requirement. If implemented, the recommendations – which are applicable to all payment service providers that process internet payments – would be expected to come into effect by mid 2014.

## United Kingdom

In December 2011, the UK Government announced an intention to ban excessive surcharging, following the release of an Office of Fair Trading (OFT) report on surcharging in the travel industry.<sup>24</sup> The ban will apply to all payment instruments and across most sectors, and is intended to be put in place by the end of 2012.<sup>25</sup> In this context, the UK Government has recently released a consultation paper seeking views on the proposed ban.

In April 2012, the UK Payments Council released the results of, and their response to, an independent governance review conducted by an independent director of the Council's board. The self-assessment was recommended as part of the OFT's review of the Council in 2009. Seven recommendations were made in the self-assessment, namely to improve transparency of decision processes; communication with stakeholders; engagement with small and medium enterprises; the role and powers of independent directors; clarity regarding the boundaries of the Council's role in competitive markets; staff resources and competencies; and the relationship with Visa and MasterCard. The Council has accepted the self-assessment's findings and outlined the steps it is currently undertaking to implement the recommendations.

Separately, the UK Government has signalled the possibility of bringing the UK Payments Council under the regulatory regime, following recommendations from the House of Commons Treasury Select Committee. To this effect, a consultation on reforms to the process of setting strategic direction for the payments system was

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<sup>24</sup> Subsequent to the OFT's investigation into surcharging, it announced in July 2012 that it had reached an agreement with the airline industry to cease surcharging of debit cards, and to incorporate the debit card cost of acceptance into headline prices. Surcharging of credit card transactions in the airline industry will continue to be permitted, but will be subject to transparency and disclosure requirements.

<sup>25</sup> This essentially fast-tracks the implementation of a provision in the EU Consumer Rights Directive, that must be implemented by all EU countries by 2014.

announced in July 2012. The consultation gives consideration to three options: enhancing the governance of the UK Payments Council and retaining the self-regulatory approach; setting up a Payments Strategy Board to guide strategic decisions in the payments system; or establishing a new payments system regulatory body with a similar model to utilities regulation.



# Strategic Review of Innovation

## Consultation and Review

In June 2012, the Reserve Bank published the *Strategic Review of Innovation in the Payments System: Conclusions* (Conclusions Document).<sup>26</sup> The document sets out the Payments System Board's conclusions and recommendations, following an extensive period of review and consultation examining innovation in the Australian payments system. First announced in May 2010, the objective of the Strategic Review has been to identify areas in which innovation in the Australian payments system could be fostered through more effective cooperation between stakeholders and regulators. The focus of the Review has been medium term, looking at possible gaps in the Australian payments system that might need to be filled through innovation over a time horizon of five to ten years.

Over the two years during which the Board conducted the Strategic Review, a number of documents were published and two sets of consultations took place. The first period of consultation was initiated in July 2010 when the Board called for initial submissions and informally consulted with interested parties. These initial consultations suggested that while innovation in the Australian payments system was occurring in some areas, deficiencies remained in others.

In June 2011, *Strategic Review of Innovation in the Payments System: Issues for Consultation* was released.<sup>27</sup> This document drew on feedback from the initial consultation phase, as well as a study on the use of retail payments and the work of the Bank for International Settlements Committee on Payment and Settlement Systems (CPSS) Retail Working Group on Innovation in Retail Payments, in which the Reserve Bank participated (see 'CPSS Retail Working Group on Innovation in Retail Payments', below).<sup>28</sup> It provided the basis for a second round of consultation by setting out 51 specific questions for industry to comment on, covering issues such as whether there is the need to manage the decline of certain payment methods; whether the current industry governance arrangements promote innovation; the role of the Board and the Reserve Bank in setting an agenda for payment systems innovation; what functions a central hub could provide the Australian payments system; and how strong the demand is for payment options that will provide availability of funds 24 hours a day, seven days a week. A summary of the submissions was published in February 2012.<sup>29</sup>

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26 RBA (2012), *Strategic Review of Innovation in the Payments System: Conclusions*, June. Available at <<http://www.rba.gov.au/payments-system/reforms/strategic-review-innovation/conclusions/index.html>>.

27 RBA (2011), *Strategic Review of Innovation in the Payments System: Issues for Consultation*, June. Available at <<http://www.rba.gov.au/publications/consultations/201106-strategic-review-innovation/issues/index.html>>.

28 Bagnall J, S Chong and K Smith (2011), *Strategic Review of Innovation in the Payments System: Results of the Reserve Bank of Australia's 2010 Consumer Payments Use Study*, RBA, June. Available at <<http://www.rba.gov.au/publications/consultations/201106-strategic-review-innovation/results/index.html>>.

29 RBA (2012), *Strategic Review of Innovation in the Payments System: Summary of Consultation*, February. Available at <<http://www.rba.gov.au/payments-system/reforms/strategic-review-innovation/summary-consultation/index.html>>.



As well as the two consultations, the Reserve Bank hosted a roundtable for stakeholders to discuss the issues raised in the Strategic Review. The roundtable took place on 16 February 2012 and was attended by 34 industry participants; members of the Payments System Board also attended. The discussion was centred around the three main topics raised in the consultation process, namely industry governance, the potential innovation gaps and payments system architecture.

## Conclusions of the Strategic Review

Following this extensive period of consultation and research, the Board concluded that the removal of some of the barriers to cooperative innovation in the Australian payments system has the potential to deliver significant public benefits over time. The Board proposed two means by which it would seek to improve cooperative outcomes.

First, the Board intends to be more proactive in setting out strategic objectives for the payments system. These will identify services or attributes that the Board believes the payments system should be able to provide by a specified time and will take into account the interests of all stakeholders, including end users of the payments system. In general, the industry would be expected to determine how those objectives could be met most efficiently. A review of the strategic objectives will be conducted every three years, at which time the Board will establish new or revised strategic objectives, or confirm existing ones. The initial set of strategic objectives is outlined below.

Second, the Board proposes that there be more direct dialogue on a regular and ongoing basis between itself and the industry. As part of this effort, the Reserve Bank will work with the industry to constitute an enhanced industry coordination body that is suited to engaging in this dialogue.

The Reserve Bank sought input by end August 2012 from the industry on the strategic objectives and timelines identified in the Conclusions Document, as well as on the approach to the provision of real-time retail payments. The Bank is currently engaged in an ongoing dialogue with stakeholders on these issues and has also started to work with industry on an enhanced industry coordination body.

### Initial strategic objectives

Having concluded that it should set high-level strategic objectives for the payments system, based on its assessment of the public interest, the Board has proposed an initial set of five strategic objectives. These objectives reflect deficiencies identified over the course of the consultation period. In summary, the Board is of the view that the payments system should be able to provide:

- *Same-day settlement of all direct entry (DE) payments*

In the Board's view, the industry should move to same-day settlement of all five DE file exchanges to reduce risk and allow end users to access funds in a timely manner. The industry recently indicated that it is intending to amend industry policy – it had previously proposed settlement of the first three exchanges – to implement this.

- *The ability to make real-time retail payments*

The ability of individuals, government agencies and businesses to make retail payments, with the recipient having visibility and use of those funds in near to real time, is an objective that seems likely to become more pressing. Indeed, one of the key trends identified by the CPSS Working Group on Innovations in Retail Payments was an increased focus globally on speeding up payment processing through faster settlement or payment initiation. The capacity for real-time retail payments could be used by government agencies to make

emergency payments, by individuals to make personal payments and potentially by businesses to make better use of cash balances. Some financial institutions have recently been promoting various elements of real-time payments, including the capacity to make real-time mobile payments to customers of the same bank. To the extent that this is valued by customers, it makes sense that this type of functionality should be available across financial institutions.

- *The ability to make and receive low-value payments (DE, real-time payments and crediting of card payment receipts) outside normal banking hours*

It is desirable that the payments system be available when and where needed by users. In the Board's view, the one area of accessibility that is clearly lagging is the availability of low-value payment systems out of hours, particularly during weekends and public holidays. Elements of some systems continue to operate during these times, for instance the clearing of card payments continues to operate, consumers can initiate 'pay anyone' or BPAY payments via online or phone banking, and ATMs continue to operate. However, the systems used for the exchange of non-card payment instructions between institutions do not generally operate on weekends, meaning that no DE files are exchanged between banks and no interbank settlement occurs. Banks' accounting systems also do not generally recognise weekends for account-posting purposes. Together, these factors mean that the recipient of a DE payment initiated after a bank's cut-off time on a Friday night might not receive those funds until Tuesday. The same might be true for a merchant accepting a payment via eftpos on a Friday night. These delays are of course longer during long weekends.

- *The ability to send more complete remittance information with payments*

The Board considers that providing the capacity to carry additional remittance information with payments could result in a significant improvement to business efficiency. Currently, the DE system, which is the principal business payment system, can carry a maximum of 18 characters of additional remittance data with the payment message. This is insufficient for many business purposes, and can also be a constraint for personal use. Businesses might, for instance, wish to incorporate detailed information about an invoice, for example an indication of which items on the invoice are being paid.

- *The ability to address payments in a relatively simple way*

A key element determining the ease of use of a payment system is the process by which the payee's details are provided by the payer. Currently, in order for a payment to be made into a bank account, the payee's BSB number and account number must be provided. In many cases, individuals will not remember these details themselves and in other cases individuals are reluctant to provide them because they are concerned that they might somehow be used fraudulently. The need to enter up to 15 digits correctly is a further problem. Errors are easily made and the consequences can be uncertain. The Board believes that an easier means of addressing payments could improve the efficiency of the payments system. It may also have a by-product of increasing competition in the provision of financial services to the extent that it makes it easier for customers to switch accounts between financial institutions.

## **Enhanced industry self-governance**

The Board considers the constitution of an enhanced industry-level governance body as important for two key reasons. First, engagement between the industry and the Board will be crucial in helping to both identify and achieve strategic objectives. Second, there will also be many issues not covered by the Board's strategic objectives, but which nevertheless require industry coordination.

Currently, the main body for industry coordination is the Australian Payments Clearing Association (APCA). APCA's genesis was in governing the cooperative clearing arrangements between member institutions; however, in recent years APCA has sought to play a greater role in industry-wide cooperation, for instance through the Australian Payments Forum. APCA has also recently proposed its own new governance arrangements. The Board welcomes these efforts, but considers they should be built upon to encourage the broadest possible participation in, and coverage of, industry coordination arrangements.

The Board has proposed that the Reserve Bank convene discussions with stakeholders on constituting an enhanced industry body. The body would have broad industry coverage and would be responsible for industry coordination, as well as being the principal industry voice in liaison with the Bank and the Payments System Board.

As a starting point, the Board has outlined some desirable features of an enhanced industry body. The body should have a clearly stated obligation to consider both the interests of the industry and the public. The peak level of the body should also be small enough to be effective, with sufficiently senior representatives to be able to promote a strategic approach and commit resources where appropriate. Membership of the body should also be representative of those that have a genuine stake in the outcomes and should not be dominated by any class of participant. End users' views should be represented either explicitly or through independent directors.

## **Payments system architecture**

Payments system architecture is the set of physical and logical structures that allow institutions to exchange payment instructions, initiate settlement and perform any additional functions associated with a payment. Payments system architecture is an important part of the Review as it is relevant to how well and how easily the types of gaps identified can be addressed. Also, some forms of architecture appear to be more conducive to innovation than others.

As outlined in the Conclusions Document, payment systems can be arranged in two ways. Traditionally, Australian payment systems have often been bilateral systems, with physical connections, and logical and business arrangements, between pairs of participants. By contrast, many systems around the world (and some operating in Australia) operate via a central hub, with messages passing via the hub to recipients. Recently, the implementation of internet protocol technology, such as in the Community of Interest Network (COIN) in Australia, has blurred the lines between the two architectures. The COIN rationalises the physical links – participants need only one link to the COIN to establish physical connectivity with all other participants – but participants must still have bilateral logical and business relationships with each other.

The Board notes three roles for centralised architecture such as a hub: simplifying connections; enabling additional processing functions (e.g. holding a database of account identifiers and potentially accommodating remittance data) to provide more sophisticated payment products or greater interoperability; and facilitating real-time, or near real-time, settlement of retail transactions. The Board believes that there should be a general presumption in favour of establishing more centralised systems, particularly in the establishment of new systems.

## **Real-time payments hub**

As noted above, the Board has indicated there should be the capacity for businesses and consumers to make payments in real time, with near-immediate availability of funds to the recipient, by the end of 2016. The

Board believes that the critical element of real-time messaging should logically be provided via a payments messaging hub ('payments hub').

A payments hub could be linked to a settlement system providing real-time settlement of retail transactions. While the settlement system would most likely be provided by the Reserve Bank as a separate module of Reserve Bank Information and Transfer System (RITS), the Board has an open mind about how the payments hub could be provided. The payments hub could potentially be provided by the industry, either on a commercial basis or operating as a utility, or by the Bank. If provided by the Reserve Bank it could either be owned and operated by the Bank, or potentially be transferred to a private entity once it reached sufficient scale.

Regardless of the ownership structure of the payments hub, the Board has outlined some desired characteristics of a real-time retail payments hub. These include:

- initially providing credit transfers, with future capability for debits, future-dated payments and other payment types. It would also provide for future capability to use customer identifiers (e.g. mobile phone number) for ease of addressing payments and to assist in account switching
- payment messages based on ISO 20022 standards capable of carrying additional remittance information
- open access for financial institutions and payment service providers; that is, potentially accessible to consumer and business customers of all authorised deposit-taking institutions (ADIs) offering retail transaction banking
- resilient connectivity to all ADIs, and 24 x 7 resilient operation with high levels of security
- the receiving bank to provide real-time funds availability – required by the end of the first year of operation
- the sender (payer) to have confirmation of the funds destination before committing a payment, and confirmation that the payment has been made into a valid recipient account
- settlement of each payment in central bank funds (through an enhanced 'fast' settlement service in RITS)
- support for a range of secure payment channels, including the use of mobile devices.

## **CPSS Retail Working Group on Innovation in Retail Payments**

As noted above, the Board's review of innovation drew upon the work of the CPSS Retail Working Group on Innovation in Retail Payments, in which the Reserve Bank participated.<sup>30</sup> The Working Group's mandate was to provide an overview of innovative retail payment activity in CPSS countries. The work involved a fact-finding exercise in which participating central banks identified influential innovations in their respective jurisdictions, with the outcomes of this exercise documented and analysed in the Working Group's report, which was published in May 2012. All up, the Working Group considered 122 retail payment innovations from 30 countries. The Report identified a number of key innovation themes across countries including an increasing desire to speed up retail payments, either through faster settlement or faster payment initiation; an increasing focus on innovations that improve the reach of payment products, either by facilitating financial inclusion for unbanked populations or by meeting urgent payment needs (e.g. through mobile networks or prepaid cards); and the changing role of non-bank entities in retail payments. The Report identified security, standardisation and interoperability as some of the key challenges faced by central banks in relation to payments innovation.

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<sup>30</sup> CPSS (2012), *Innovations in Retail Payments, Report of the Working Group on Innovations in Retail Payments*, May. Available at <<http://www.bis.org/publ/cpss102.pdf>>.



# Oversight of High-value Payments Systems

## Reserve Bank Information and Transfer System

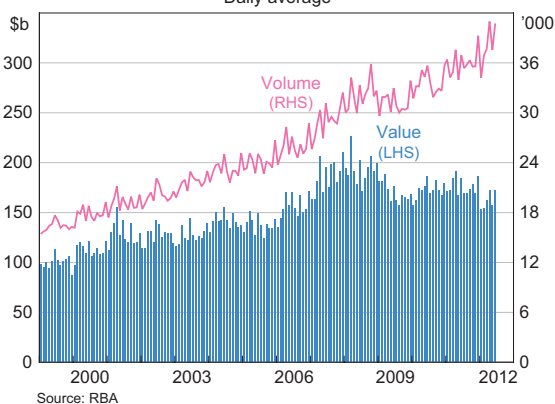
Australia's high-value payments system is the Reserve Bank Information and Transfer System (RITS), owned and operated by the Bank. RITS is a real-time gross settlement (RTGS) system that settles transactions on an individual basis, sequentially, in real time across Exchange Settlement Accounts (ESAs) held at the Bank. RITS also provides multilateral settlement functionality (where a number of linked payments settle simultaneously).

A key element of the Payments System Board's responsibility for the safety and stability of the payments system in Australia is oversight of RITS. An important part of this is for the Board to satisfy itself that RITS meets relevant international principles. To this end, the Reserve Bank periodically conducts self-assessments of RITS, which are subject to review by the Board, with any material changes occurring between assessments being reported to the Board. In April 2012, the Bank for International Settlements Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) released *Principles for Financial Market Infrastructures* (the Principles). These update, harmonise and strengthen the pre-existing standards for payments, clearing and settlement systems, including the CPSS's *Core Principles for Systemically Important Payment Systems* against which self-assessments of RITS have to date been carried out. The Bank intends to adopt the Principles for future self-assessments, with a review planned in the calendar year 2013.

RTGS payments account for around 74 per cent of the value of total recorded payments in Australia.<sup>31</sup> While the remaining 26 per cent of payments are settled on a deferred net basis, the interbank obligations arising from these payments are settled in RITS. Currently, this occurs in the daily 9.00 am batch. In 2011/12, the average size of this batch (i.e. the sum of credit and debit positions) was \$4 billion, slightly higher than in the previous year.

Prior to the global financial crisis, both the value and number of RTGS transactions settled in RITS grew steadily (Graph 18). Since 2007/08, the value of RTGS transactions has stabilised at a daily average of just over \$170 billion. In contrast, the number of

**Graph 18**  
**RTGS Transactions**  
Daily average

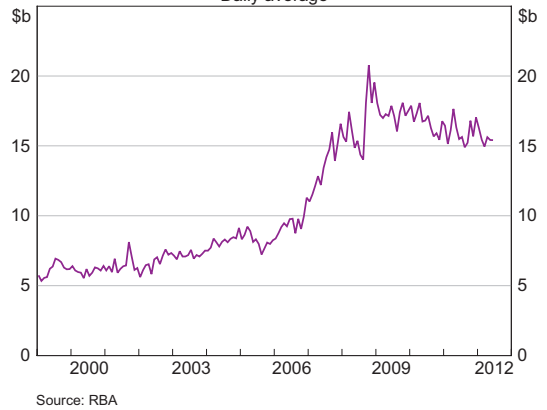


<sup>31</sup> This measure of payments is broader than interbank settlements as it includes retail payments settled across the books of a commercial bank, such as payments between two customers of the same institution.

RTGS transactions have maintained a fairly steady growth rate of approximately 7 per cent per annum, interrupted only briefly in 2009/10. The decline in the average value of individual RITS transactions, from over \$6 million to around \$4.7 million, would seem to reflect a combination of factors, including a tightening of financial institutions' credit controls and the decline in asset prices.

Although the value of RTGS payments is a little below earlier peaks, liquidity in RITS – as measured by the sum of opening ESA balances and intraday repurchase agreements – remains substantially above pre-crisis levels (Graph 19). This has contributed to a greater proportion of transactions being settled earlier in the day. During the last three years, on average at least 50 per cent of payments by value have been settled by 1.30 pm, more than an hour earlier than in 2006/07.

**Graph 19**  
**Liquidity in RITS**  
Daily average



## Exchange Settlement Accounts

The Board has ongoing responsibility for the Reserve Bank's policy on access to ESAs. These accounts provide a means for ultimate settlement of interbank obligations via the exchange of a settlement asset – a deposit held with the Bank – that carries no credit risk.

Under current policy, to be eligible to hold an ESA, an institution must be a provider of third-party (customer) payment services with a need to settle clearing obligations with other providers. An institution should also be able to demonstrate that it has the liquidity to meet its settlement obligations under routine conditions, during seasonal peaks and under periods of stress. In general, applicants must be current or prospective members of a payments clearing arrangement. At present, all banks that are licensed by the Australian Prudential Regulation Authority (APRA) are required to have an ESA. Other authorised deposit-taking institutions can apply to have an ESA under the general policy outlined above. However, any entity that accounts for 0.25 per cent or more of all RTGS payments must use its own ESA to settle its high-value transactions, whereas smaller entities may elect to settle using another ESA holder as an agent. A full list of ESA holders, which also includes a number of financial market infrastructures (FMI)s, is available on the Reserve Bank's website.<sup>32</sup>

Shortly after the financial year under review, the Reserve Bank announced an amendment to its ESA policy creating a specific category of ESA for central counterparties (CCPs) for which Australian-licensed CCPs with Australian dollar obligations are eligible.<sup>33</sup> In addition, any Australian-licensed CCP determined by the Bank to be systemically important will be required to operate an ESA to assist in the management of its Australian dollar obligations. Australian-licensed securities settlement facilities with payment arrangements that require Australian dollar settlement are also eligible to hold an ESA.

<sup>32</sup> Available at <<http://www.rba.gov.au/payments-system/rits/membership/membership-list.html>>.

<sup>33</sup> For more information, see RBA (2012), 'Payments System Issues: Exchange Settlement Account Policy for Central Counterparties', Media Release 2012-17, 31 July 2012. Available at <<http://www.rba.gov.au/media-releases/2012/mr-12-17.html>>.

An institution may be subject to collateral requirements as a condition of holding an ESA; this will typically depend on several factors, such as whether it is subject to supervision by APRA, the nature of its operations, and the extent of its payments experience.

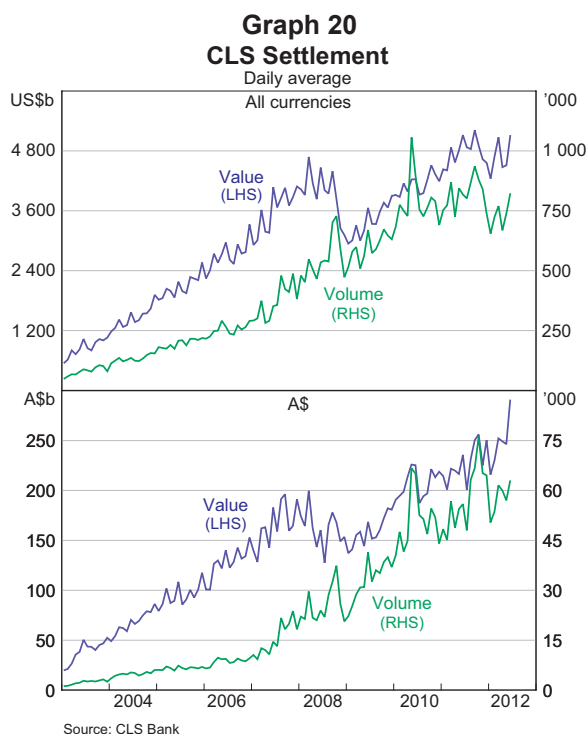
## Oversight of Continuous Linked Settlement (CLS) Bank

CLS Bank (CLS) is primarily a settlement system for foreign exchange transactions that involve an exchange of currencies. Since CLS operates on a payment-versus-payment basis (PvP, i.e. settlement of one side of the transaction occurs simultaneously with the other), it eliminates the principal risk that would arise if one party settled its obligation while the other did not. CLS also settles some one-sided payments related to non-deliverable forwards and credit derivatives, and offers an aggregation service that compresses large volumes of low-value foreign exchange trades for settlement.<sup>34</sup>

CLS is chartered in the United States and is regulated and supervised by the Federal Reserve System. The Federal Reserve also coordinates the CLS Oversight Committee, which provides for cooperative oversight by the central banks of issue of the currencies that settle in CLS. Currently, 17 currencies are eligible for settlement in CLS, including the Australian dollar.

The Reserve Bank is represented on the CLS Oversight Committee and through this contributes to discussions and assessment as to how well CLS meets the requirements of the relevant international principles – currently, the CPSS Core Principles for Systemically Important Payment Systems – including the ongoing adequacy and robustness of its risk controls, processes and settlement arrangements. Settlements in CLS give rise to significant flows in Australian dollars. Any potential disruption to these flows, or to its PvP arrangements, could have implications for the smooth functioning of RITS, and indeed the wider Australian financial system. Accordingly, CLS constitutes an important component of the Australian financial market infrastructure.

CLS settled an average of \$241 billion of foreign exchange transactions involving the Australian dollar per day in 2011/12 (bottom panel of Graph 20). These settle on a PvP basis across accounts in CLS. Under this process, settlement members either receive or pay a net settlement amount vis-à-vis CLS in each currency. Members meet any Australian dollar settlement obligation by paying into CLS’s ESA in RITS. These funds are then paid out to those settlement members with long positions in Australian dollars. The value of these payments in RITS is a fraction of the gross value of transactions involving the Australian dollar settled by CLS.



<sup>34</sup> The aggregation service works by bundling together into one transaction all buy sides and sell sides in a particular currency pair between two counterparties over an agreed period of time.



Having experienced an extended phase of growth due to the addition of new currencies, settlement members and services, as well as the progressive migration of settlements away from traditional settlement arrangements, CLS is now a relatively mature system. Across all currencies, the average daily value of foreign exchange trades settled in CLS in 2011/12 was US\$4.8 trillion.

## Oversight of SWIFT

During the period, the Reserve Bank accepted an invitation to participate in a new cooperative oversight arrangement for SWIFT, a Belgian-headquartered member-owned cooperative that provides a communications platform and secure messaging standard to facilitate the global exchange of information on financial transactions. SWIFT messaging is employed by more than 9 500 financial institutions globally, including many financial market infrastructures such as RITS. Given the prominent role played by SWIFT, including in the domestic market, participation in this oversight arrangement was seen as an important complement to the Board's direct oversight of RITS.

To date, SWIFT has been overseen by a Cooperative Oversight Group chaired by the National Bank of Belgium (NBB) and comprising senior level central bank overseers from each of the G-10 countries. This Group oversees SWIFT on an ongoing basis against a set of High Level Expectations spanning risk identification and management; information security; reliability and resilience; technology planning; and communication with users.

In part, in response to the increasing economic influence of countries outside of the G-10, the NBB has sought to broaden the reach of its oversight framework by establishing an additional tier to its structure. This new tier – the SWIFT Oversight Forum – comprises representatives from 25 central banks and monetary authorities, plus the chair of the CPSS secretariat. A key function of the SWIFT Oversight Forum will be to facilitate the sharing of oversight information relevant to this broader group of stakeholders by both the existing G-10 Oversight Group and SWIFT. It is anticipated that the Forum will meet in person once a year, with ad hoc meetings organised as necessary and occasional conference calls. The SWIFT Oversight Forum met for the first time in May 2012.

# Oversight of Clearing and Settlement Facilities

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The *Corporations Act 2001* assigns to the Reserve Bank a number of powers and functions related to the oversight of clearing and settlement (CS) facilities. Under the *Reserve Bank Act 1959*, it is the responsibility of the Payments System Board to ensure that these are exercised in a way that ‘will best contribute to the overall stability of the financial system’.

Under the Corporations Act, CS facilities licensed to operate in Australia are required to comply with the Financial Stability Standards (FSSs) set by the Reserve Bank.<sup>35</sup> Four licensed CS facilities, all owned by the ASX Group, are currently required to meet the FSSs.<sup>36</sup>

- ASX Clear Pty Limited (ASX Clear), which provides central counterparty (CCP) services for a range of financial products traded on the ASX market, including cash equities and equity options.
- ASX Clear (Futures) Pty Limited (ASX Clear (Futures)), which provides CCP services for derivatives traded on the ASX 24 market, including futures and options on interest rate, equities, energy and commodity products.
- ASX Settlement Pty Limited (ASX Settlement), which provides for the settlement of equities and other deliverable products traded on the ASX market.
- Austraclear Limited (Austraclear), which offers securities settlement services for trades in debt securities.

While oversight is ongoing throughout the year, the Board conducts a formal assessment of each facility's compliance with the FSSs once a year. The assessments covering the 2010/11 financial year were published in October 2011.

## Developments in the Licensed Clearing and Settlement Facilities

In 2011/12, markets cleared and settled by ASX facilities exhibited periods of increased price volatility. Trends in daily average trading value varied, falling for cash equities while increasing slightly for debt securities settled by Austraclear. The level of risk faced by the ASX CCPs, as indicated by margin held, increased in 2011/12, although peak levels remained well below those of 2008. The ASX CCPs also handled their first ever default of an active clearing participant when the subsidiaries of MF Global Holdings Limited (MF Global) went into administration in November 2011. The ASX CCPs were well collateralised against MF Global exposures at all times, and these exposures were able to be closed out within two weeks.

The average volatility in equity prices, as measured by the average of absolute daily percentage changes in the S&P ASX All Ordinaries Index, increased from 0.6 per cent in 2010/11 to 0.9 per cent in 2011/12

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<sup>35</sup> These FSSs, along with minimum measures relevant to meeting the FSSs and guidance regarding their interpretation, are available at <<http://www.rba.gov.au/payments-system/clearing-settlement/standards/index.html>>.

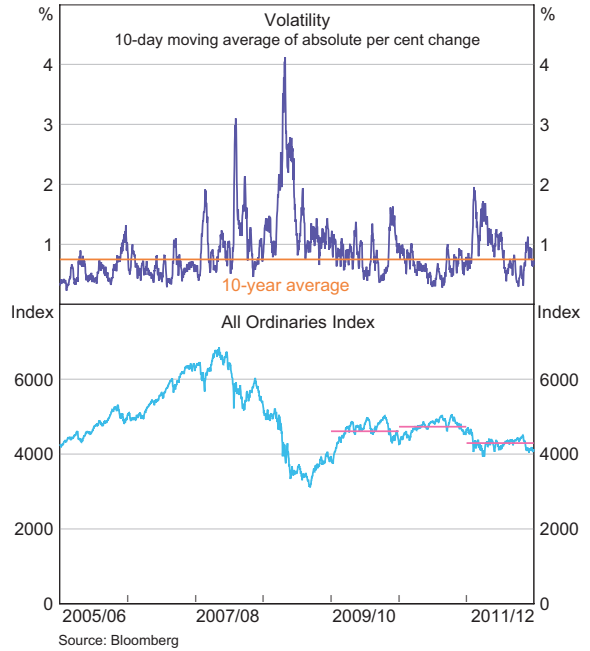
<sup>36</sup> An additional licensed facility, operated by IMB Limited, falls outside the scope of the Financial Stability Standard for Securities Settlement Facilities due to its small size and the limited nature of its operations.

(Graph 21, top panel). Although volatility increased significantly in August 2011, as a result of global market factors such as the legislative gridlock over the US debt ceiling and continuing European sovereign debt concerns, its peak at this time was around half that observed in 2008. Volatility returned to around the 10-year average in early 2012, before increasing again as markets reacted to renewed concerns over events in Europe.

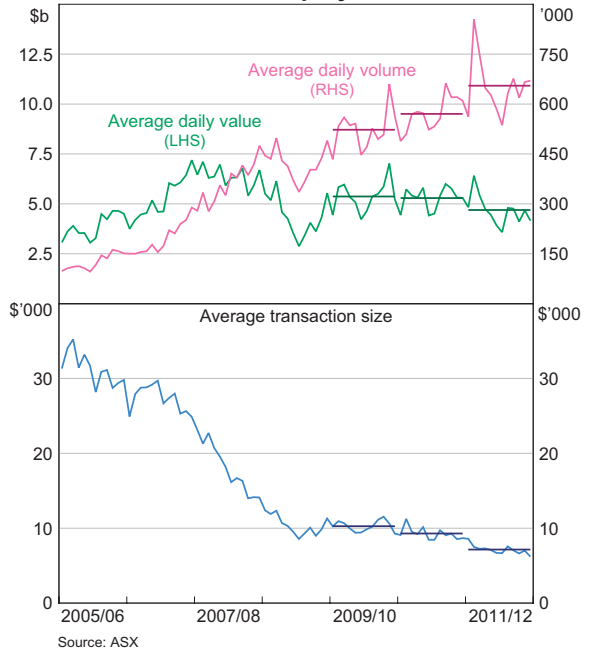
Trends in the growth of the number and value of cash-equity trades continued to diverge over 2011/12. The daily average number of these trades increased by 15 per cent in 2011/12, while the daily average value fell by 11 per cent (Graph 22). The average daily value of securities transactions settled by ASX Settlement decreased by 10 per cent in 2011/12, to \$7.3 billion; some difference between traded values and settlement values is to be expected owing to settlement of non-market transactions and multilateral netting of participants' obligations. The average size of trades declined by 23 per cent; in part this reflects falls in equity prices, with the All Ordinaries down 9 per cent on a financial year average basis (Graph 21, bottom panel). Other factors in the decline in the average size of trades since 2005 are the growth in algorithmic trading and the increasingly common practice of breaking up large orders for gradual release into the market.

The average daily number of equity derivatives contracts traded on the ASX market increased by 19 per cent in 2011/12.<sup>37</sup> This increase in volume, as well as increases in margin rates in the second half of 2011 as market volatility picked up, contributed to a lift in the average daily total margin (initial and variation) collected on these positions by ASX Clear – up 6 per cent in 2011/12 (Graph 23, top panel). By contrast, notional initial margins calculated by ASX Clear for the cash-equity market decreased by 30 per cent in 2011/12, reflecting a number of factors including lower share prices and smaller net end-of-day positions (on which margin is calculated).<sup>38</sup>

**Graph 21**  
**All Ordinaries**



**Graph 22**  
**ASX Cash-equity Trades**



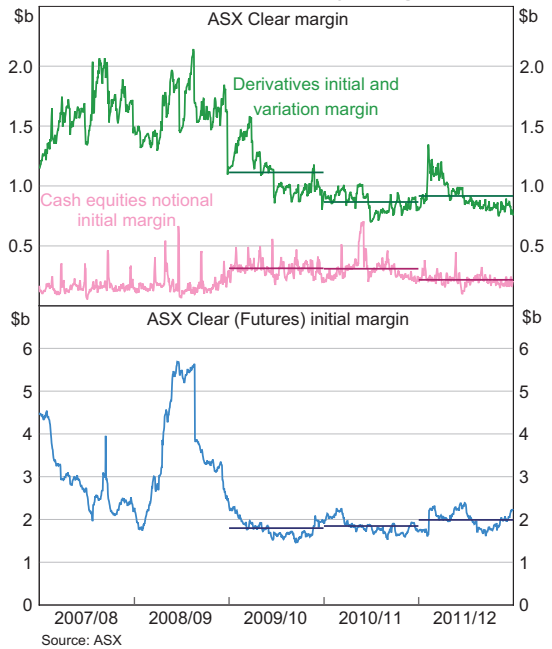
37 In May 2011, the standard equity-derivative contract size was changed from 1 000 shares to 100 shares. To calculate a consistent measure of equity derivatives growth, the data have been adjusted to reflect trading volumes based on the earlier contract size.

38 Notional initial margins are calculated by ASX Clear for risk management purposes, but are not assessed on participants.

The daily average number of derivatives contracts traded on the ASX 24 market grew by 6 per cent in 2011/12. Although there were decreases in the daily average for many of the less heavily traded contracts, this was more than offset by significant increases for several major contracts, most notably the 10-year Treasury bond futures (up 13 per cent), ASX SPI 200 index futures (up 12 per cent), and 3-year Treasury bond futures (up 9 per cent). The overall rise in average number of contracts traded, as well as increases in margin rates in late 2011, contributed to an increase in average daily initial margin collected by ASX Clear (Futures) of 8 per cent (Graph 23, bottom panel), although the total initial margin held remained significantly below the levels at the height of the global financial crisis in 2008/09. Margin rates for derivatives traded on ASX 24 were lowered in early 2012, but generally remained at or above the levels of 2010/11 for the remainder of 2011/12.

In 2011/12, the average daily value of debt securities settled through Austraclear increased slightly, by around 1 per cent, to \$40 billion, which includes outright purchases and sales of securities, and securities transferred to effect repurchase agreements (other than intraday repurchase agreements with the Reserve Bank).

**Graph 23**  
**Central Counterparty Margins**



## 2010/11 Assessment

In October 2011, the Reserve Bank published its Assessment of the four licensed CS facilities against the relevant FSSs, covering the year to end June 2011.<sup>39</sup> The Bank concluded that all four facilities met the relevant standards over this period.

The 2010/11 Assessment included a detailed evaluation of the CCPs' default management arrangements. The Reserve Bank concluded that the ASX CCPs have developed comprehensive and legally robust rules and procedures to deal with the default of a clearing participant. These rules and procedures satisfy the requirements of the relevant measure of the FSS for CCPs.

Other developments examined included:

- *Improvements to participant-monitoring arrangements.* ASX made a number of changes to its arrangements for monitoring the capital and liquidity of ASX Clear and ASX Clear (Futures) participants. This included a new system for the lodgement of participants' monthly financial reports. ASX also conducted spot checks on participants' business continuity arrangements.
- *System changes to implement intraday margin calls on equity derivatives positions.* From September 2010, enhancements to systems have enabled ASX Clear to make intraday margin calls that reflect changes in participants' positions.

<sup>39</sup> The 2010/11 Assessment of Clearing and Settlement Facilities in Australia is available at <<http://www.rba.gov.au/payments-system/clearing-settlement/compliance-reports/2010-2011/index.html>>.

- *Refinement of the treatment of promissory resources.* ASX Clear (Futures) has recognised that promissory resources may not be available on a sufficiently timely basis, if called upon in the manner contemplated by the ASX Clear (Futures) rules. So while they provide some level of additional comfort, ASX has agreed not to include those resources as default resources when determining stress-testing limits for participants.
- *Improvements to the liquidity requirements of ASX's treasury investment policy.* ASX has modified its liquidity stress tests to be better aligned with worst-case default scenarios, increased the robustness of the threshold it uses to assess whether it holds sufficient liquid assets to meet ordinary requirements, and changed its definition of liquid assets so that it is more focused on market liquidity than investment maturity.
- *Publication of standards and pricing options for the Trade Acceptance Service (TAS).* In June 2011, ASX published final legal terms together with operational and technical standards and pricing options for the TAS, ahead of Chi-X Australia Pty Ltd (Chi-X) commencing operations on 31 October 2011.<sup>40</sup>

The 2010/11 Assessment also highlighted important ongoing work in several other areas, much of which was subsequently completed in 2011/12:

- *Business continuity planning.* In early 2012, ASX completed the migration of all key systems to its new operations centre, which is now its primary site for IT infrastructure. ASX's Bridge Street office in Sydney remains its primary site for staff and ASX has retained its original backup site. Each core system is replicated at both sites on multiple servers with spare capacity, delivering a high level of system redundancy. Additionally, should one level of redundancy be lost, ASX policy is to activate an additional tier of redundancy arrangements within 24 hours to meet the contingency of any further service interruption. ASX is able to fail over to its clearing and settlement backup systems within one hour in most circumstances. Operational staff are now located at both sites during business hours to support rapid recovery in the event of a disruption.
- *Derivatives margining.* ASX introduced the widely used CME SPAN margining system to ASX Clear (Futures) in early 2012, and also plans to introduce the system for derivatives cleared by ASX Clear in late 2012. This is expected to facilitate better calibration of exposures to ASX's risk tolerance, and places both CCPs' risk management for derivatives on a common platform.
- *Routine margining of cash equities.* In the 2008/09 Assessment, the Reserve Bank advised that introducing cash-equity margining at ASX Clear would bring its risk management into line with international best practice. This is a major project that has required considerable stakeholder consultation. ASX commenced calculating and reporting cash-equity margin requirements to participants in July 2012, and intends to start collecting margins before the end of June 2013.
- *An earlier deadline for the back out of settlement obligations in ASX Settlement.* In August 2012, ASX agreed an earlier deadline of 2.30 pm for Payment Providers (i.e. banks that settle funds obligations arising from batch settlement of cash equities) to authorise or reject payment obligations on behalf of settlement participants. The change was effective from 10 September 2012. In the event that the batch has to be recalculated, the earlier deadline accelerates this process, reducing the overall length of the settlement delay, and mitigating the uncertainty that could affect the market at large.
- *Participation requirements.* From 1 January 2012 the minimum 'core capital' requirement for ASX Clear participants that offer third-party clearing was increased from \$10 million to \$20 million. Subject to further review in late 2012, an increase in the minimum core capital requirement for all other participants, from \$5 million to \$10 million, is planned for January 2014.

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<sup>40</sup> Details of ASX's TAS are available at <<http://www.asx.net.au/clearing/trade-acceptance-service.htm>>.

# Regulatory Developments in Financial Market Infrastructures

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Throughout the year, the Payments System Board has remained engaged with a number of important domestic and international regulatory initiatives relevant to its responsibilities in relation to payments and clearing and settlement (CS) facilities. These include two ongoing initiatives of the Council of Financial Regulators (the Council) – a review of the regulatory framework for financial market infrastructures (FMIs) in Australia; and the development of a framework for over-the-counter (OTC) derivatives regulation – and an international initiative under the auspices of the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) to develop a strengthened and harmonised set of *Principles for Financial Market Infrastructures* (the Principles).<sup>41</sup>

## Review of the Regulatory Framework for Financial Market Infrastructures

In April 2011, the Council was asked by the Treasurer to consider possible changes to the regulation of FMIs to strengthen regulators' ability to provide effective oversight and manage risks to both stability and market integrity. In response, a Working Group, chaired by the Treasurer and comprising the Reserve Bank, Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA), developed a series of proposals which were released for consultation in October 2011.<sup>42</sup> Having reviewed submissions and engaged directly with stakeholders, the Council recommended to the Treasurer a program of legislative reform in line with the proposals in its original consultation paper. The Treasurer released the Council's advice publicly in March 2012, inviting further consultation with stakeholders on the final framework for implementation of the Council's proposals.<sup>43</sup> Three elements of the package under consideration are particularly worthy of note.

### Resolution of financial market infrastructures

One core concern of regulators is how to ensure the continuity of critical services when an FMI is in financial distress (and possibly insolvent). If an FMI is unable to implement an effective recovery plan, regulators may need to intervene in order to maintain continuity of services while organising a recapitalisation or orderly wind-down (resolution) of the FMI. The Council therefore recommended legislative change to provide for the appointment of a statutory manager to a distressed FMI (so-called 'step in'). A similar power is available to APRA with respect to authorised deposit-taking institutions (ADIs) under the *Banking Act 1959*. Under the

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41 CPSS-IOSCO (2012), *Principles for Financial Market Infrastructures*, April. Available at <<http://www.bis.org/publ/cpss101a.pdf>>.

42 Council of Financial Regulators (2011), *Review of Financial Market Infrastructure Regulation*, October. Available at <[http://archive.treasury.gov.au/documents/2201/PDF/CFR\\_review\\_of\\_FMI\\_regulation\\_issues.pdf](http://archive.treasury.gov.au/documents/2201/PDF/CFR_review_of_FMI_regulation_issues.pdf)>.

43 The Council of Financial Regulators' letter to the Deputy Prime Minister and Treasurer is available at <[http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/2012/Council%20of%20Financial%20Regulators%20Working%20Group%20on%20Financial%20Market%20Infrastructure%20Regulation/Key%20Documents/CoFR\\_Letter\\_to\\_Deputy\\_PM.ashx](http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/2012/Council%20of%20Financial%20Regulators%20Working%20Group%20on%20Financial%20Market%20Infrastructure%20Regulation/Key%20Documents/CoFR_Letter_to_Deputy_PM.ashx)>.

Banking Act, APRA is able to appoint itself or a third party as statutory manager of a distressed ADI, replacing the management and board and assuming their powers. Implementation of the Council's recommendation needs to be considered in the context of broader international work on resolution of FMIs. Particularly relevant here is a consultation paper released by CPSS and IOSCO in July 2012, which addresses key issues in the design of an effective resolution regime for FMIs.<sup>44</sup> The paper, which builds on the Financial Stability Board's (FSB) *Key Attributes of Effective Resolution Regimes for Financial Institutions*, identifies the power to appoint a statutory manager as one of a number of potential tools to be applied as part of a broader resolution plan.<sup>45</sup>

In conjunction with further development of policy on FMI resolution, the Reserve Bank will also continue to work with the other Council agencies to consider the implementation of enhancements to directions powers and sanctions under the *Corporations Act 2001*. These enhancements were also recommended in the Council's advice to the Treasurer.

### Regulatory influence over cross-border financial market infrastructures

Another important element of the package of regulatory reform measures recommended by the Council for FMIs is cross-border policy. This speaks to the question of how Australian regulators could ensure adequate influence – and continuity of service – in respect of a CS facility (or market operator) with cross-border operations; either an overseas licence holder, where Australian regulators would rely, at least to some degree, on the regulator in the facility's home jurisdiction, or a domestic licence holder seeking to outsource parts of its operations offshore.<sup>46</sup>

In order for the Reserve Bank and ASIC to carry out their regulatory responsibilities with respect to cross-border CS facilities, they must have sufficient influence over the activities and risk-management practices of such facilities, including in stressed circumstances. Accordingly, the Council recommended giving the regulators explicit powers under the Corporations Act to support a 'proportional and graduated' location policy that could require certain elements of a licensed facility's operations to be located in Australia. To give stakeholders further clarity on the specific measures that might be applied under such a policy, the Council issued a supplementary paper in July 2012 describing a framework within which incremental requirements could be imposed on cross-border facilities that are systemically important in Australia, or that have a strong connection to the Australian financial system and real economy.<sup>47</sup> Most of the specific measures envisaged under the framework are subject to ongoing consultation in the context of proposed revisions to the Bank's Financial Stability Standards (FSSs), as discussed below, and ASIC's Regulatory Guide 211 (RG 211) on Australian and overseas clearing and settlement facilities.

### Competition in clearing and settlement

In its advice to the Treasurer, the Council noted that it was continuing its work with the Australian Competition and Consumer Commission to develop further analysis of issues around competition in clearing and settlement. The first phase of the agencies' work on these issues comprised development of a discussion

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44 CPSS-IOSCO (2012), *Recovery and Resolution of Financial Market Infrastructures: Consultative Report*, July. Available at <<http://www.bis.org/publ/cpss103.pdf>>.

45 FSB (2011), *Key Attributes of Effective Resolution Regimes for Financial Institutions*, October. Available at <[http://www.financialstabilityboard.org/publications/r\\_1111104cc.pdf](http://www.financialstabilityboard.org/publications/r_1111104cc.pdf)>.

46 An overseas licence holder, in this context, is a facility licensed under section 824B(2) of the Corporations Act.

47 See Council of Financial Regulators (2012), *Ensuring Appropriate Influence for Australian Regulators over Cross-border Clearing and Settlement Facilities*, July. Available at <<http://www.treasury.gov.au/ConsultationsandReviews/Submissions/2012/cross-border-clearing>>.

paper on competition in the clearing of cash equities, which was released in June 2012.<sup>48</sup> While recognising the potential benefits, the paper acknowledges that the entry of competing CCPs could significantly alter the way in which key financial markets operate. Stakeholder feedback was therefore sought on a number of policy matters relevant to the responsibilities of the Council agencies, and possible responses. These include changes to the structure of and participation in trading and clearing markets, the stability and continuity of clearing services, and effective access to ASX Settlement (the vertically integrated settlement facility operated by the ASX Group) for competing CCPs.

Following consultation, the Council may make recommendations to the Australian Government. ASIC and the Reserve Bank may also publish regulatory guidance on assessment of CS facility licence applications, licence conditions and other relevant matters.

## CPSS-IOSCO Principles for Financial Market Infrastructures

In April 2012, CPSS and IOSCO released the final version of the Principles, a single set of standards for all FMI that is intended to replace three pre-existing sets of standards for payment systems, CCPs and securities settlement systems. The Principles aim to strengthen and harmonise the operational standards to which FMIs are held internationally.

The Reserve Bank proposes to implement the international standards set out in the Principles through revisions to its FSSs for CS facilities, and in carrying out its regular self-assessments of the Reserve Bank Information and Transfer System (RITS). A consultation paper outlining the Bank's intended approach was released in August 2012 for stakeholder feedback.<sup>49</sup> The new standards will be finalised as soon as possible following the consultation period.

Under this proposal, the structure of the FSSs will change significantly. The current FSSs create a broad requirement for CS facility licensees to conduct their affairs in such a way as to promote stability in the Australian financial system. More detailed accompanying measures identify relevant considerations in determining a CS facility's compliance with each FSS. To more clearly articulate the standard which CS facility licensees must meet, and to align closely with the structure of the Principles, the revised FSSs will adopt a more granular approach, replacing the overarching standard with a set of more specific standards covering risk management and other practices that a licensee must observe.

In adopting this more granular approach, the proposed new FSSs implement the requirements of the Principles in full, where relevant to issues of financial stability and the activities of the two CS facility types – CCPs and securities settlement facilities. Since the scope of the Principles is broader than that of the current FSS measures, it is proposed that new standards will be introduced in several areas. These include new requirements for segregation and portability of client positions and collateral; standards to address risks arising from interdependencies between FMIs and tiered participation; and expectations around the management of general business risks. Some existing requirements arising from the Reserve Bank's implementation of the current FSSs are, however, not explicitly covered in the Principles, and therefore the proposed new FSSs incorporate some modifications to the Principles to ensure that existing standards for CS facility licensees

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48 See Council of Financial Regulators (2012), *Competition in the Clearing and Settlement of the Australian Cash Equity Market: Discussion Paper*, June. Available at <<http://www.treasury.gov.au/ConsultationsandReviews/Submissions/2012/Competition-in-the-clearing-and-settlement-of-the-Australian-cash-equity-market>>.

49 See RBA (2012), *Consultation on New Financial Stability Standards*, August. Available at <<http://www.rba.gov.au/payments-system/clearing-settlement/consultations/201208-new-fin-stability-standards/index.html>>.



are upheld. The revised FSSs will also incorporate relevant aspects of the framework to enhance regulatory influence over cross-border facilities referenced above.

In parallel, ASIC is consulting on revisions to its RG 211 to integrate the Principles into its regulatory approach.

## Over-the-counter Derivatives

At the G-20 summit in Pittsburgh in 2009, the Australian Government joined other jurisdictions in committing to substantial reforms to practices in OTC derivatives markets; specifically:

- the reporting of all OTC derivatives to trade repositories
- the clearing of all standardised OTC derivatives through CCPs
- the execution of all standardised OTC derivatives on exchanges or electronic trading platforms, where appropriate.

In June 2011 the Council released a discussion paper on central clearing as the basis for detailed consultation with interested stakeholders.<sup>50</sup> Further to this consultation, the Council provided a report to the Australian Government outlining its view that, in the first instance, industry-led solutions should be the preferred route to increasing the use of central clearing within the Australian OTC derivatives market, but that the capacity to mandate central clearing should be developed through legislation.<sup>51</sup>

The Australian Government recently consulted on a proposed legislative framework to ensure the implementation of the three key G-20 commitments, through amendments to the Corporations Act.<sup>52</sup> An exposure draft bill was released for comment in July 2012.<sup>53</sup> Throughout the development of this policy framework, the Board has been regularly updated on policy matters and the Reserve Bank's involvement in this work stream.

The framework will require that, where a CCP seeks to be an eligible facility through which market participants might meet any clearing obligations, the CCP must be a licensed CS facility under Part 7.3 of the Corporations Act or a CCP of a kind prescribed by regulations. As a consequence, there may be an increase in the number of CCP licence applications for which the Reserve Bank must provide advice to the Minister, as well as an increase in the number of regular assessments of licensed CCPs it must consider. The Board is also likely to have a role in contributing to periodic assessments of market conditions that will support the provision of advice to the Minister on the need to introduce mandatory requirements.

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50 Council of Financial Regulators (2011), *Central Clearing of OTC Derivatives in Australia*, June. Available at <<http://www.rba.gov.au/publications/consultations/201106-otc-derivatives/index.html>>.

51 Council of Financial Regulators (2012), *OTC Derivatives Market Reform Considerations*, March. Available at <<http://www.rba.gov.au/payments-system/clearing-settlement/otc-derivatives/201203-otc-der-mkt-ref-con/index.html>>.

52 The Treasury (2012), *Implementation of a Framework for Australia's G20 Over-the-counter Derivatives Commitments*, April. Available at <[http://treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/2012/Over%20the%20counter%20derivatives%20commitments%20consultation%20paper/Key%20Documents/PDF/OTC%20Framework%20Implementation\\_pdf.ashx](http://treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/2012/Over%20the%20counter%20derivatives%20commitments%20consultation%20paper/Key%20Documents/PDF/OTC%20Framework%20Implementation_pdf.ashx)>.

53 The Treasury (2012), *Exposure Draft: Corporations Legislation Amendment (Derivative Transactions) Bill 2012*, July. Available at <<http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/2012/derivative%20transactions/key%20documents/pdf/ExposureDraft.ashx>>.

# Liaison Activity

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## Liaison with Industry

The Reserve Bank consulted widely on payments, clearing and settlement issues in 2011/12. It met with various stakeholders in retail payments systems – including financial institutions, merchants, payment service providers and consumer representatives – to discuss a range of matters. Many of these discussions related to the Strategic Review of Innovation, including hosting a roundtable, and consultations were held on surcharging, eftpos regulation and operational incidents in retail payments. Meetings were also held with stakeholders in financial markets to discuss clearing and settlement (CS) issues. These included discussions related to the oversight of the licensed CS facilities and prospective reforms to the over-the-counter (OTC) derivatives market.

The Reserve Bank continued to work closely with other regulatory and government agencies. Examples include continued work on the joint ATM Taskforce with Treasury, and work undertaken by the member agencies of the Council of Financial Regulators, such as the review of financial market infrastructure regulation and OTC derivatives reform.

In line with its liaison agreement with the Australian Payments Clearing Association (APCA), the Reserve Bank met with APCA management following each APCA Board meeting in 2011/12, as well as with the APCA Board on a number of occasions.

The Reserve Bank participated in a number of public fora on payments system issues. The Chairman addressed innovation, stability and the role of the Payments System Board at the APCA 20th Anniversary Symposium in May 2012. The Deputy Chairman spoke on the current agenda in retail payments regulation at the Cards and Payments Australasia conference in March 2012; and the challenge of central clearing in OTC derivatives markets at the International Swaps and Derivatives Association (ISDA) Annual Australia Conference in October 2011. Other staff attended various payments and CS industry events, including conferences and forums organised by APCA and the Australian Securities and Investments Commission.

## International Engagement

The Reserve Bank was represented on a number of international groups in 2011/12: the Committee on Payment and Settlement Systems (CPSS), the CLS Oversight Committee, the SWIFT Oversight Forum, the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Working Group on Payment and Settlement Systems, and the OTC Derivatives Regulators' Forum. Involvement in the CPSS included participating in a number of working groups and contributing to the review of standards for payments, clearing and settlement systems via a seat on the review's Steering Group. The Bank also met with representatives of the World Bank as part of a review of the market for international remittances.

The Reserve Bank also engaged with overseas central banks and regulatory agencies on a less formal basis. Such engagement included discussing various issues in retail payments with relevant authorities, and keeping abreast of developments in OTC derivatives regulation around the world via discussions with various central banks and securities regulators. Engagement with global financial market stakeholders, such as ISDA, also provided useful information about developments in OTC derivatives.

# The Board's Announcements and Reserve Bank Reports

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This section lists developments since mid 2011. The Payments System Board's 2006 Annual Report contained a list of the Board's announcements and related Reserve Bank reports up to that time. Subsequent Reports have contained an annual update.

## 2011

Media Release 2011-18, 'Payments System Issues' (announcing the Board would review aspects of the regulatory framework for the eftpos system, undertake a card surcharging review and continue to encourage negotiation on the terms under which multi-function cards are issued), 2 September 2011.

*2010/11 Assessment of Clearing and Settlement Facilities in Australia*, Reserve Bank of Australia, Sydney, September 2011.

'Cash Use in Australia: New Survey Evidence', Reserve Bank of Australia *Bulletin*, Sydney, September 2011.

*Review of Financial Market Infrastructure Regulation: Consultation Paper*, Council of Financial Regulators, Canberra, October 2011.

Media Release 2011-29, 'Payments System Issues' (announcing the release of a consultation paper on the potential variation to the Standards relating to surcharging to allow scheme rules to limit surcharges to a reasonable cost of acceptance), 16 December 2011.

*A Variation to the Surcharging Standards: A Consultation Document*, Reserve Bank of Australia, Sydney, December 2011.

## 2012

Media Release 2012-03, 'Payments System Issues: Retail Operational Incidents' (announcing the formalisation of requirements to report major retail payments system incidents to the Reserve Bank and an engagement with the industry on the organisation of their retail operations), 20 February 2012.

*Review of Financial Market Infrastructure Regulation: Letter to the Deputy Prime Minister and Treasurer*, Council of Financial Regulators, Canberra, February 2012.

*Strategic Review of Innovation in the Payments System: Summary of Consultation*, Reserve Bank of Australia, Sydney, February 2012.

Media Release 2012-06, 'Payments System Board Consultation on Replacing the eftpos Designation' (announcing a consultation on the possible form of a new designation for the eftpos system), 9 March 2012.

*Review of the Regulatory Framework for the eftpos System: Consultation on Designation*, Reserve Bank of Australia, Sydney, March 2012.

*OTC Derivatives Market Reform Considerations: A report by the Council of Financial Regulators*, Council of Financial Regulators, Sydney, March 2012.

'The Personal Credit Card Market in Australia: Pricing over the Past Decade', Reserve Bank of Australia *Bulletin*, Sydney, March 2012.

Media Release 2012-12, 'Proposed Variation to the Access Regime for the ATM System' (announcing consultation on a proposal to vary the 'Access Regime for the ATM System' to provide the Reserve Bank with greater flexibility to grant exemptions for ATM arrangements; such flexibility could be used to reduce the sizeable expenditure on ATM fees by residents of very remote Indigenous communities), 29 May 2012.

*ATM Taskforce – Report on Indigenous ATM Issues*, Treasury/RBA ATM Taskforce, Canberra, finalised February 2011, published May 2012.

*ATM Taskforce – Report on Transparency and Competition*, Treasury/RBA ATM Taskforce, Canberra, finalised June 2011, published May 2012.

*A Variation to the Access Regime for the ATM System: Consultation Document*, Reserve Bank of Australia, Sydney, May 2012.

Media Release 2012-14, 'Strategic Review of Innovation in the Payments System' (announcing the release of the conclusions of the Reserve Bank's Strategic Review of Innovation in the Payments System and initial strategic objectives), 7 June 2012.

*Strategic Review of Innovation in the Payments System: Conclusions*, Reserve Bank of Australia, Sydney, June 2012.

Media Release 2012-15, 'Payments System Issues' (announcing the final variation of the Standards relating to merchant surcharging and regulatory impact statement; a new designation for the EFTPOS system, and consultation on options for the Bank's future regulation of eftpos interchange fees and access to the eftpos system), 12 June 2012.

*Review of the Regulatory Framework for the EFTPOS System: Consultation on Options for Reform*, Reserve Bank of Australia, Sydney, June 2012.

*A Variation to the Surcharging Standards: Final Reforms and Regulation Impact Statement*, Reserve Bank of Australia, Sydney, June 2012.

*Competition in the Clearing and Settlement of the Australian Cash Equity Market: Discussion Paper*, Council of Financial Regulators, Canberra, June 2012.

'Central Counterparty Interoperability', Reserve Bank of Australia *Bulletin*, Sydney, June 2012.

Media Release 2012-17, 'Payments System Issues: Exchange Settlement Account Policy for Central Counterparties' (announcing the creation of a specific category of Exchange Settlement Account for central counterparties, and a policy for use of these accounts), 31 July 2012.

*Ensuring Appropriate Influence for Australian Regulators over Cross-border Clearing and Settlement Facilities*, Council of Financial Regulators, Canberra, July 2012.

Media Release 2012-20, 'Payments System Issues: Multi-Network Debit Cards' (announcing developments relating to multi-network debit cards and consultation on the case for regulatory action if a voluntary agreement, that is acceptable to all parties and also in the public interest, cannot be reached), 17 August 2012.

Media Release 2012-22, 'Payments System Issues: Guidance Note for the Varied Surcharging Standards' (announcing consultation on a revised draft Guidance Note on the varied surcharging Standards), 23 August 2012.

Media Release 2012-23, 'New Financial Stability Standards for Clearing and Settlement Facilities' (announcing consultation on a proposal to determine new Financial Stability Standards for central counterparties and securities settlement facilities which align with new international standards), 29 August 2012.

*Consultation on New Financial Stability Standards*, Reserve Bank of Australia, Sydney, August 2012.

Media Release 2012-24, 'Payments System Issues: Variation to the Access Regime for the ATM System' (announcing the variation to the 'Access Regime for the ATM System' to extend the Bank's powers to grant exemptions for ATM arrangements, as well as the decision to grant an exemption for an ATM scheme that will help reduce the high expenditure on ATM fees by residents in very remote Indigenous communities), 29 August 2012.

*A Variation to the Access Regime for the ATM System: Conclusions*, Reserve Bank of Australia, Sydney, August 2012.





RESERVE BANK OF AUSTRALIA