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Dr John Veale
Head of Payments Policy
Reserve Bank of Australia
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Dear John

Credit Card Interchange Fees Submission

In your press release of 24 February 2005 you have asked for our views on whether the standards should be amended so that the same benchmark interchange fee applies in all schemes. You have also asked us our views on whether it would be more appropriate to set a benchmark based on the costs of the lowest-cost scheme.

The National is supportive of setting the same benchmark rate for all schemes based on the average eligible costs measured across all three credit schemes. By this we mean, the total of all eligible costs, for all schemes is divided by the total of all transactions for all schemes to produce a common benchmark rate.

The rationale for this is that it creates competitive neutrality between schemes and does not reward one scheme over the other for being inefficient.

The National, however, does not support the notion of setting the benchmark rate for all schemes based on the costs of the lowest-cost scheme. The reasons for this are:

- Adopting this approach would be an attempt to reduce the level of interchange prior to undertaking the review in 2007 to assess the overall effectiveness of the reforms.
- It does not reimburse all issuers for their costs, in fact it discriminates against those issuers who are more heavily weighted to issuing the cards of the higher cost schemes.
- Even the underlying notion that this approach will result in issuer's eligible costs (of which scheme fees is the major differentiator between schemes of issuer eligible costs) being driven down to the most efficient level is flawed.
 - All schemes are not the same – Bankcard does not have scheme fees whereas the international schemes do.
 - International scheme fees are based on global cost structures and are not likely to be effected by what happens in Australia, which represents only a very small percentage of their global operations and hence cost structure.

Dr John Veale
Credit Card Interchange Fees Submission
Page 2

We are more than happy to discuss these views with you in more depth face to face if you require.

Yours sincerely



Bruce Munro
Executive General Manager (Australia)
Business Products & Services