

The Operation of the Interchange Standards: Consultation Paper

February 2019

Contents

1. Introduction	1
2. Issues for Consultation	2
3. Next Steps	13
Appendix A: Draft Variation to Standards	14

© Reserve Bank of Australia 2019. All rights reserved. The contents of this publication shall not be reproduced, sold or distributed without the prior consent of the Reserve Bank of Australia.

ISBN 978-0-6483604-1-4 (Online)

1. Introduction

The Reserve Bank conducted a review of its card payments regulation in 2015–16, which concluded with the determination of new standards relating to interchange fees and merchant pricing in designated card schemes.¹ The interchange standards introduced new requirements relating to the payment of ‘net compensation’ between card schemes and issuers. These provisions were designed to prevent the caps on interchange fees in the standards being circumvented by arrangements involving non-interchange payments or other incentives being provided by schemes to issuers.

Under the standards, schemes and issuers in designated schemes are required to certify to the Bank annually that they have complied with certain provisions, including the net compensation provision. The initial certifications in relation to the net compensation requirement were provided in August 2018 and related to the first reporting period that ended on 30 June 2018. This initial certification process indicated that the new standards were working as intended from a broad policy perspective. However, it also suggested that there were some issues with the interpretation of the net compensation provision that might benefit from some clarification, and areas where some potential minor variations to the standards might be beneficial.

Accordingly, over recent months, the Bank has sought informal views from stakeholders on the operation of the net compensation requirement. This included views on how the requirement could be modified to improve clarity, minimise compliance burden, or otherwise support the operation of the standards, without changing their purpose or substantive effect.

This consultation paper describes the issues where stakeholders have sought clarification and guidance or suggested changes to the standards, and sets out the Bank’s proposed options to address them. Appendix A contains draft variations to the Standards. Submissions in response to this consultation paper and the draft variations should be made to the Bank by 28 March 2019.

1 See [‘Review of Card Payments Regulation – Conclusions’](#), Reserve Bank of Australia, Sydney, May 2016.

2. Issues for Consultation

This section describes several aspects of the net compensation requirement in Standards No. 1 of 2016 and No. 2 of 2016, outlining areas where clarification of their operation may be useful, including some where the Bank considers that minor variations to the standards may be in the public interest.²

The objective of this consultation is to improve the operation of the standards and give stakeholders greater clarity about the interpretation of the standards. This follows an informal consultation with key stakeholders in late 2018. Accordingly, the Bank's expectation is that this consultation could be concluded relatively promptly, ahead of the end of the current financial year and before the second set of certifications under the standards become due.³ This limited-scope consultation does not seek to review or change the substantive detail of the Bank's card payments regulations; the Bank conducted a comprehensive review of the regulatory framework in 2015–16 and is likely to undertake another such review within the next couple of years.

In consulting on changes to the standards and providing guidance on their interpretation, the Bank aims to promote competition and efficiency in the Australian payments system:

- Clarification of the standards and provision of guidance should improve the understanding that schemes and issuers have of the standards and their obligations under them. This should lower the regulatory and compliance burden for these firms.
- Similarly, the burden of compliance with the net compensation requirement should be lower if calculations of issuer payments and receipts can be done more consistently with the accounting approach that underpins how participants prepare their financial accounts.
- The proposed changes to the standards should also help to promote a 'level playing field' in the card payments industry. The net compensation provisions act as a constraint on schemes and issuers. Several stakeholders noted that there are aspects of the standards that allow some scope for interpretation. Stakeholders identified concerns that if a scheme or issuer (or both) took an interpretation sufficiently different from other parts of the industry, they might gain some competitive advantage. Minor amendments to clarify the standards and the provision of guidance should ensure greater consistency of interpretation between stakeholders.

2.1 Accounting Basis

When the initial compliance certifications for the net compensation requirement were being prepared by schemes and issuers in mid 2018, some stakeholders sought guidance on whether the standards

2 Under the *Payment Systems (Regulation) Act 1998*, in determining the public interest, the Bank is to have regard to the desirability of payment systems being safe, efficient, competitive, and not materially causing or contributing to increased financial system risk. The Bank may have regard to other matters it considers relevant.

3 Section 2.5 sets out the Bank's proposed transitional arrangements.

required benefits to be calculated on a cash or an accruals basis.⁴ The Bank clarified that the standards were drafted in a manner consistent with the former because they generally referred to benefits being ‘paid’ and ‘received’ rather than ‘payable’ and ‘receivable’. However, from these discussions it became apparent that a number of stakeholders had assumed that benefits should be measured on an accruals basis.

The cash approach to the measurement of benefits was originally chosen as it was viewed as being both straightforward and – with one exception – consistent with the nature of benefits typically provided by schemes to issuers (i.e. periodic financial incentives and rebates). The exception was where schemes paid issuers up-front incentives relating to more than one reporting period, for example a lump-sum ‘signing bonus’ paid for entering into a contract with the scheme or ‘migration benefits’ to cover the cost of migrating an issuer’s cards from one scheme to the other. Where a contract has significant up-front payments, it is likely that the issuer would be in breach of the relevant standard in the early years of the contract if a cash accounting approach was applied to these incentives. In view of this, for these types of payments, the standards allowed a deviation from a cash basis. Specifically, subparagraph 5.2(e) of the standards allows an incentive that spans more than one reporting period to be allocated across these reporting periods based on the number of months in each reporting period to which the incentive relates.⁵ In practice, this has the effect of allowing up-front incentive payments that relate to the entering into of a contract – such as a signing bonus or migration benefit – to be allocated over the life of an issuance contract on a pro rata basis.

In informal consultation, many stakeholders noted that calculating net compensation using the current ‘quasi-cash’ approach was a highly manual process. They suggested that an accruals approach, aligned with recognised accounting standards, would enable them to source component data for the net compensation calculation from their financial accounts and thereby reduce their compliance costs.⁶ Broadly speaking, an accruals approach seeks to align the recognition of expenses and revenues to their economic substance. Conceptually, an accruals approach could also improve the operation of the standard as it allows for the net compensation calculation for each reporting period to be less affected by (potentially arbitrary) delays or advances in the timing of when cash payments are paid or received.⁷

One drawback of an accruals approach is that it might introduce greater variability in the way a benefit could be recognised, and accordingly some guidance may be required to provide clarity over which accruals treatments are consistent with the purpose and intent of the standards. In this context, the Bank notes that recognised accounting standards (such as the Australian Accounting Standard Board (AASB) Accounting Standards⁸) provide frameworks for considering the recognition of

4 In broad terms, cash accounting recognises benefits when they are paid or received, whereas accrual accounting recognises benefits when they are earned or accrued, regardless of whether they have actually been paid or received.

5 There are additional provisions that (i) prevent a benefit from being allocated to reporting periods the whole of which occurs before or after the term of the contract or arrangement, and (ii) prevent allocation among more than 10 consecutive reporting periods.

6 This notwithstanding, the Bank notes that under such an approach entities may not be able to source all information required to determine net compensation from their financial accounts. For example, some relatively small incentives that are captured in net compensation may be deemed by an issuer to be too small or insignificant for inclusion in the issuer’s financial accounts based on materiality considerations.

7 The shift to an accruals approach should not have a material effect on the cumulative net compensation received over the life of a scheme-issuer contract, as the shift affects the timing of recognition within the contract period, rather than whether a benefit is recognised or not.

8 AASB Accounting Standards (Tier 1) adopts the International Financial Reporting Standards.

revenues and expense for the purposes of financial reporting. These frameworks provide an appropriate starting point for allocating benefits to reporting periods for the purpose of calculating net compensation. However, it is possible that in some cases, a treatment permitted under recognised accounting standards may not be an appropriate treatment for the purposes of calculating net compensation.⁹ Entities would need to be aware of this, and ensure the treatment used for determining net compensation is consistent with the Bank's standards. If there is no treatment that is both consistent with the accounting standards and consistent with the purpose and intent of the standard, then entities would need to deviate from accounting standards when determining net compensation.¹⁰

The Bank also proposes that for the purposes of calculating net compensation, schemes and issuers not be allowed to change from one accrual accounting treatment to another from one reporting period to the next, without prior written permission from the Bank.¹¹ Changing between accrual treatments could have the purpose or effect of avoiding the standards. Accordingly, the Bank expects that it would only provide permission to change accounting treatments in exceptional circumstances, and where doing so is in the public interest. The Bank's preliminary view is that a change in accounting standards that affects the allowable treatments for financial reporting purposes may not, on its own, constitute reasonable grounds for an exemption. In addition, for the avoidance of doubt, the Bank proposes to clarify in the standards that an amount treated as an issuer payment in one reporting period cannot be included as such in a subsequent period, and that incentives that meet the definition of an issuer receipt must be included in a reporting period that occurs during the life of the contract.

Proposal 1:

The Bank's Standards No. 1 and No. 2 of 2016 would be modified to require an accrual approach to be used to allocate Issuer Receipts and Issuer Payments to, or between, reporting periods in a manner consistent with the purpose and intent of the standards, such that in determining net compensation certifying entities have more scope to draw on information from financial accounts prepared in line with generally accepted Australian accounting principles. Compliance would not be permitted on a cash or quasi-cash basis.¹²

2.2 Definitions of Issuer Payments and Issuer Receipts

There are some key concepts underlying the net compensation provisions in the Bank's standards:

- The Bank has placed caps on interchange fees. In the absence of interchange fee caps, competition between schemes tends to place upward pressure on the level of interchange fees.

⁹ This observation reflects the fact that the purpose and intent of accounting standards may differ from the purpose and intent of Standards No.1 and No.2.

¹⁰ Consequently, in this circumstance entities will not be able to draw directly, and without adjustment, on their financial accounts to determine net compensation.

¹¹ For example, scheme and issuers would not be permitted to switch from one basis for allocating amounts to reporting periods to a different basis for doing so, without permission from the Bank.

¹² For proposals 1–7 set out in this paper, the alternative option under consideration is the status quo, i.e. no change to the standards. Proposal 8 relates to transitional arrangements between the current and modified standards, as such there is no status quo option for proposal 8.

- Schemes often provide rebates, discounts and other incentives to issuers. These incentives may be aimed at increasing the issuance or use of a particular scheme's cards, driving adoption of particular features of a scheme's technology, or establishing some level of exclusivity for that scheme in card issuance.
- Schemes also have other financial flows with their participants – most notably, they levy a range of scheme and processing fees on both issuers and acquirers. By increasing the incentives it pays to its issuers and increasing such fees levied on its acquirers, a scheme can in effect create a value flow that is equivalent to an interchange fee paid by acquirers to issuers.
- The 'net compensation' provisions were introduced as a means of ensuring that incentives to issuers could not be used to circumvent the Bank's interchange fee caps.

The standards implement the restriction on net compensation by establishing two defined concepts: Issuer Receipts and Issuer Payments, and stipulate that the former cannot be larger than the latter.¹³

Generally, the most economically significant flows of value between schemes and issuers are the various scheme and other fees paid by issuers to schemes, and benefits paid by schemes to issuers as cash or scheme fee rebates; there are also a range of non-cash benefits provided by schemes to issuers. Overall, the Bank believes the standards are at present flexible enough to capture most relevant flows. However, feedback from the initial compliance certifications and informal consultation with stakeholders indicated that there would be benefit in greater clarity being provided on what should be captured by the definitions of Issuer Payments and Issuer Receipts.

The following sections discuss these areas of potential clarification.

2.2.1 Issuer Payments as payments for 'core services'

In informal consultation, some stakeholders sought clarity on what payments could be considered Issuer Payments under the standards; this concept effectively sets an upper limit for financial incentives and other benefits that can be provided to the issuer without breaching the requirement that there be no net compensation. In particular, stakeholders sought clarification on whether the standards intended to capture, as Issuer Payments, fees for services that are not essential to the issuance of cards, for example fees paid for the provision of loyalty services. Stakeholders noted that there were inconsistent views across the industry on this matter.

Under the standards, Issuer Payments are the total amount of fees (or 'benefits') related to cards or card transactions that are paid by an issuer to the scheme. The standards refer to these as including 'Scheme branding fees; processing fees; and assessment fees'. The Bank considers that one way to improve the clarity of the definition in a manner that is consistent with the purpose and intent of the standards would be to explicitly define Issuer Payments as those payments made to schemes (or their associated entities) for 'core services' provided by the scheme to the issuer – namely, those services that are the minimum necessary for the issuer to effectively participate in a scheme and which are provided to issuers in the scheme globally in exchange for scheme and other processing fees. These services are likely to include the licensing of scheme branding, as well as transaction processing and assessment services, and basic relationship management services. As issuers may not have visibility

¹³ In the proposed changes to the standards, the terms Issuer Receipts and Issuer Payments are replaced by terms 'Direct Issuer Participant Payment' and 'Direct Issuer Participant Receipt'. For ease of reference, this consultation paper retains usage of the terms 'Issuer Payments' and 'Issuer Receipts'.

over all services that a scheme provides to other issuers globally, this approach would require schemes to notify their issuers of which services meet the global provision test.

This definition makes it clear that fees or payments for non-core services – such as the loyalty services example raised by stakeholders – are not captured in Issuer Payments. The Bank notes that an unduly wide definition could enable an extensive range of payments made for bundled and optional services to be included in Issuer Payments, creating potential for substantial payment of incentives to particular issuers. The scope for this to occur could grow as schemes become involved in more parts of the payment value chain and provide a wider range of services to issuers. In view of this, and the likelihood that an increase in incentives paid will lead to an increase in merchants' cost of accepting card payments (similar to an increase in interchange fees), an unduly wide definition of Issuer Payments is unlikely to be in the public interest.

Of note, the proposed definition of Issuer Payments specifies that only *payments* for core services can be included, rather than other forms of consideration such as rebates, refunds, allowances, discounts or deductions, as is the case in the current version of the standards. This change is to simplify and improve the clarity of the standard. The Bank expects that this modification is unlikely to have a material impact, given that the vast majority of, if not all, consideration for a scheme's core services are in the form of amounts payable. The Bank also proposes a modification to include *associated entities* of a scheme in the set of entities to which Issuer Payments can be made. This is primarily to align with the proposed definition of Issuer Receipts (see section 2.2.3), and is not expected to have a material effect on the calculation of Issuer Payments.

Proposal 2:

Clarify that 'Issuer Payments' are those payments made by issuers in relation to core services of a scheme.

2.2.2 Issuer Payments to Acquirers

Currently, the standards refer to the possibility of Issuer Payments being able to be made to an Acquirer. The proposed draft standards would remove this reference. This element of the definition was intended to maintain a level playing field between four-party schemes and American Express companion card arrangements, where the role of American Express in companion card arrangements could have been interpreted as that of an acquirer. Under the proposed draft standards the definition of Issuer Payments includes payments to an associated entity of a scheme, and thus would encompass payments made to an associated entity that is an acquirer. Accordingly, the specific reference to Acquirers is no longer required.

Proposal 3:

Remove references to 'Acquirer' from the definition of 'Issuer Payments' in the standards.

2.2.3 Issuer Receipts

Discounts and non-financial benefits

While the majority of incentives provided to issuers by schemes are in the nature of financial flows (payments, rebates, discounts and similar), there are some incentives provided that have more of a non-financial nature. Stakeholders have indicated that these can, for example, take the form of goods or services provided by schemes to issuers or credits for services that can be accessed at some point in the future. Therefore, stakeholders have sought clarification on whether these type of incentives are intended to be included in the definition of Issuer Receipts. In the Bank's view, the inclusion of the value of these types of incentives in Issuer Receipts is clearly in line with the purpose and intent of the standards. In view of this, and to address stakeholder feedback, the Bank is proposing to modify the standards to clarify that non-financial benefits provided at a discount or for no consideration are captured in the definition of Issuer Receipts.^{14, 15}

Whereas valuation of cash and cash-like flows is generally straightforward, valuation of benefits provided as goods or services can present some challenges. Two broad scenarios are relevant for treatment under the standards:

- Where goods or services are provided to an issuer at a discount – here, for calculating net compensation, the incentive amount to be recorded as an Issuer Receipt is the value of the discount (e.g. if the service has a usual price of \$100 but the issuer is charged only \$80 by the scheme, then the discount would be \$20). This is consistent with the current standards, which already include 'discount' in the definition of 'Benefit'.¹⁶
- Where goods or services are provided for no financial consideration – here, for calculating net compensation, the incentive amount is the value of the goods or services (another way of expressing this would be to characterise it as a '100 per cent discount').

The Bank notes that any methodology used to determine the value of such incentives must be consistent with the purpose and intent of the standards.¹⁷ The Bank's preliminary expectation is that this means entities should use the fair (or market) value of the goods and services provided to determine the value of the incentive; fair value could be arrived at by following the principles of the 'fair value measurement' approach under relevant accounting standards, which focus on the estimated price that would be achieved to sell an asset in an orderly transaction in the principal (or most advantageous) market (e.g. AASB 13 *Fair Value Measurement*¹⁸).¹⁹ Schemes and issuers may

14 Note that that for a benefit to be classified as an Issuer Receipt, it must meet the test that it has the purpose or likely effect of promoting or incentivising the issuance or use of cards of the scheme. This includes benefits that incentivise the entry into a contract relating to the issuance of cards of the scheme, or benefits related to providing or funding incentives to holders of card of the scheme to use those cards.

15 For the avoidance of doubt, core services provided by the scheme to issuers, as described in section 2.2.1, are not considered to be benefits that must be included as Issuer Receipts.

16 Conversely, where a non-core good or service is provided by schemes to issuers at a price that is consistent with an arm's length transaction, then no particular benefit or discount would be recorded as an Issuer Receipt.

17 For example, it would not be in line with the purpose and intent of the standard to use an artificially low price for a service and argue that there is no discount or subsidy to be included as an Issuer Receipt. Similarly, choosing to not record an incentive in Issuer Receipts due to difficulty determining its fair value would not be consistent with the purpose and intent of the standards.

18 See '[AASB 13 Fair Value Measurement](#)', AASB, Melbourne, August 2015.

19 Under the proposed modification, this valuation should be as of the date such a good or service was first provided, or was first committed to be provided, as this aligns the date of valuation to the behaviour being incentivised.

need to independently estimate the fair value of a non-financial benefit provided. The Bank may require schemes and issuers to substantiate their estimates of fair value and the key assumptions underlying their estimates.

Proposal 4:

Clarify the standards with the effect that where there is a price at which the supplier is regularly supplying relevant property or services, any discount or deduction from that price that meets the incentive test is a benefit to be included in Issuer Receipts.

Proposal 5:

Clarify the standards with the effect that where property or services are supplied and there is not a price at which the supplier is regularly supplying the relevant property or services, the benefit to be included in Issuer Receipts, subject to the incentive test, is the amount by which the fair value of the property or services exceeds what is paid for the property or services (and if nothing is paid, then the full fair value is to be included).

Entities providing Issuer Receipts

The standards currently do not limit the types of entities from which an issuer can receive an Issuer Receipt. This was intended to ensure that any benefits provided by entities separate from but related to a scheme were appropriately captured. In practice, the broad scope of the definition is unlikely to be a major complication as issuers are unlikely to receive benefits related to card issuance or use from entities unrelated to a scheme. However, some feedback was received suggesting that clarification of the possible sources of Issuer Receipts would be useful. Accordingly, the Bank proposes to narrow the definition of Issuer Receipts to include only benefits provided directly or indirectly from a Scheme Administrator or any of its associated entities, with the definition of associated entity drawn from the *Corporations Act 2001*.^{20 21}

The proposed definition of Issuer Receipts continues to recognise that incentives can be provided both directly and indirectly (via a third party) to an issuer. Under both the current and proposed definitions of Issuer Receipts, if a benefit provided directly to an issuer meets the test to be included in Issuer Receipts, it would still be included in Issuer Receipts if it was instead provided indirectly by way of a third party. A key factor to consider under the proposed definition is whether the source (or the ultimate funder) of the incentive is the administrator of a scheme or one of its associated entities. One example of an Issuer Receipt provided indirectly is where an issuer receives a payment or rebate from a brand or affinity partner to contribute to a marketing campaign designed to incentivise the use

20 As noted in section 2.2.1, the Bank proposes to modify the definition of Issuer Payments to include payments to an *associated entity* of a scheme, to enhance the consistency across the set of entities from whom Issuer Receipts could arise and the entities to whom Issuer Payment could be made.

21 Once that change is made it is no longer necessary to exclude from Issuer Receipts cardholder payments and reversals and chargebacks, so it is proposed that those exclusions be deleted.

of the cards of the scheme, where this payment or rebate has been funded by a payment or other benefit from the scheme to the brand or affinity partner.²²

Proposal 6:

Clarify that the types of entity that an issuer can receive an Issuer Receipt from include associated entities of scheme administrators, drawing on the definition of Associated Entity in the Corporations Act 2001.

Definition of 'Incentive Test'

Under the current standards, for a benefit to be classified as an Issuer Receipt it must meet the test that it has the purpose or likely effect of promoting or incentivising the issuance or use of cards of the scheme, or providing or funding incentives for holders of card of the scheme to use those cards. The Bank received enquiries from stakeholders about whether this would cover benefits that are intended to incentivise an issuer to enter into a contract to issue a scheme's cards. In the Bank's view, this aspect of incentivising card issuance was implicit in the wording of the standards. Nonetheless, the enquiries suggest that some further clarification would be useful. Accordingly, the Bank proposes to explicitly articulate in the standards that benefits that incentivise the entry into a contract relating to the issuance of cards of the scheme meet the incentive test to be included as an Issuer Receipt. To streamline the structure of each standard, the Bank proposes adding 'Incentive Test' as a defined term (in Clause 2), and referring to this in the definition of Issuer Receipts and elsewhere.

Exclusion of 'pass-through' arrangements

In informal consultation it was also suggested that the existing incentive test may inadvertently result in 'pass-through payments' being captured in Issuer Receipts. An example of one such pass-through payment that may be captured is where an issuer receives 'merchant-funded' cash rewards via a loyalty services provider to fully disburse to cardholders in its capacity as the cardholders' account provider.

Under the proposed narrowing of the set of entities that can provide Issuer Receipts (see subsection *Entities providing Issuer Receipts*), there is less scope for genuine pass-through payments of this type to be captured, though where a loyalty services provider is a scheme administrator or an associated entity of a scheme, the merchant-funded pass-through payment described above would still fall in the definition of Issuer Receipts if it meets the Incentive Test. On balance, the Bank decided against introducing an explicit exclusion for this type of payment, partly because an exclusion might create scope for circumvention of the standards. The Bank also notes that there are likely to be reasonable alternative methods for facilitating merchant-funded rewards, such as the provision of cash-back at the point of sale and other forms of rewards made directly to the customer (either by the merchant or by a loyalty services provider).

In considering pass-through payments, the Bank notes that the net compensation provision of the standards was designed to prevent the caps on interchange fees being circumvented, and that the standards include an anti-avoidance provision. Accordingly, schemes and issuers must consider whether any arrangements they have in place – whether these include pass-through payments or not

²² The term brand partner or affinity partner in this context refers to an entity (for example, an airline) that has a contractual agreement with an issuer for cards of the issuer to bear the entity's trade name or mark.

– have the purpose of circumventing the interchange caps and/or the net compensation provision of the standards.

2.3 Aggregator Arrangements

Another aspect of the standards where clarification or guidance may be beneficial relates to arrangements where there are two entities involved in issuing a scheme's cards. The typical case is one where an aggregator, also known as a sponsor, has a direct relationship and contract with a scheme and handles particular scheme-related services and obligations on behalf of a number of (typically) smaller financial institutions that actually issue the cards and have the direct contractual issuing relationship with cardholders. In these cases most, if not all, contractual arrangements regarding scheme fees, benefits and incentives are managed by the aggregator or sponsor. Some stakeholders sought guidance on which entity – the aggregator/sponsor or the 'downstream' sponsored issuer – should be treated as the Issuer for the purposes of compliance with the net compensation requirements.

In informal engagement with stakeholders, the Bank sought to gain a broader range of perspectives on this issue. There was significant support for the proposition that for net compensation purposes, the issuer should be considered to be the entity with the direct relationship with the scheme, on the basis that this entity has the greatest visibility over the value flows to and from the scheme.

Downstream sponsored entities currently issue a relatively low volume of cards and account for a small percentage of total card issuance. The Bank's understanding is that in aggregator/sponsor arrangements, benefits from schemes are nearly always provided to the aggregator/sponsor. The downstream issuer has no visibility of benefits provided by the scheme to the aggregator/sponsor, or of how these benefits may be allocated (if at all) to any of the sponsor's other downstream issuers. The scheme similarly does not have visibility over the extent to which an aggregator/sponsor passes on the benefits it receives. In informal discussions, stakeholders noted that while, in theory, it would also be possible for a scheme to provide benefits directly to a downstream issuer, they considered this unlikely to occur in practice given the relatively small size of those entities' card issuing businesses.

The Bank notes that requiring small downstream issuers to comply, and certify compliance, on an annual basis would materially increase the overall regulatory burden on the industry. In addition, as their card issuing arrangements are not large, and generally not of a nature where they will receive significant incentive payments from schemes, there may not be a strong public interest case to include these issuers in the scope of the net compensation requirement.

Accordingly, the Bank proposes to modify the operation of the standards, such that the obligation to comply with the net compensation requirement falls on the entity that has the status within a scheme to issue cards itself and/or sponsor another entity into the scheme.²³ The draft variations to the standards implement this by introducing new definitions of 'Direct Issuer Participant' and 'Indirect Issuer Participant'.²⁴ The Bank would look to reinstate net compensation obligations on downstream

23 For example, in the case of eftpos, this obligation would apply to (i) issuers that do not use a clearing agent, and (ii) clearing agents.

24 These changes are also reflected in new definitions of Direct Issuer Participant Payments and Direct Issuer Participant Receipts, but for ease of reference this consultation paper retains usage of the terms 'Issuer Payments' and 'Issuer Receipts'.

issuers if arrangements emerged that sought to take advantage of this change in compliance requirements.

Proposal 7:

The Bank's Standards No. 1 and No. 2 of 2016 would be modified, such that for scheme-issuer arrangements where one entity sponsors another for a card-issuing arrangement, it is only the sponsoring issuer that is required to comply with the net compensation provisions.

2.4 Historical Transitional Arrangements

The provisions of section 7 of each standard dealing with the timeframe for commencement of, and initial implementation of, the standards are now historical and so most of the relevant provisions can be removed.

2.5 New Transitional Arrangements

The Bank anticipates that, if the Payments System Board determines that changes are in the public interest, variations to the standards would be implemented before the end of the current financial year, and the varied standards would be able to commence from 1 July 2019. However, a period of transition from the previous regime to the new arrangements will be needed.

The Bank's proposed approach to transition is to provide issuers with flexibility in terms of the approach to compliance and certification for the financial year 2018/19.²⁵ An issuer may elect to comply for 2018/19 based on the revised standards (which stakeholder feedback has indicated is more in line with how financial accounts are prepared), or it may comply for 2018/19 with the current standards and make the transition to the new regime for the 2019/20 financial year.

More specifically, the Bank proposes that the varied standards would be effective from 1 July 2019. Issuers would, by that date, make an election as to whether their compliance for 2018/19 would be based on the previous or the revised standards, and would notify relevant schemes of this election so that scheme reporting of compliance is provided on the same basis. While this will mean that schemes will potentially need to prepare certifications relating to different issuers on different bases, it means that the certifications that schemes and issuers provide are done consistently. This approach reflects the fact that the substantive obligation – not to receive net compensation – is placed upon issuers.²⁶

The Bank is seeking stakeholder views on this approach to transition. An alternate approach would be to retain the obligation to report under the old standard for 2018/19, and for all participants to move to the new arrangements for 2019/20.

The Bank notes that the anti-avoidance provisions in clause 3 of the standards will be relevant for entities transitioning from the current to the varied regime, and would preclude entities employing strategies that – while being in compliance in each reporting period as they transition from one

²⁵ That is, for the reporting period ending 30 June 2019.

²⁶ In the event that an issuer fails to notify the scheme of its choice by the date specified in the varied standards, the Bank proposes that the issuer will be deemed to have elected to comply with the current standard and the scheme will need to report compliance with the current version of the standard for that scheme-issuer arrangement for the reporting period ending 30 June 2019.

version of the standard to the other – have the effect of circumventing the standard across the two reporting periods. Relatedly, the Bank expects that the anti-avoidance clause would also be relevant where a scheme and issuer entered into any new, or re-negotiated, agreement before the revised standards come into effect. The Bank expects that any such agreements would be designed to comply with the revised standards.

Proposal 8:

Provide transition arrangements that allow, for the reporting period ending 30 June 2019 only, an issuer to choose whether to comply fully with current standard or fully with the revised standard. The issuer must notify the scheme of their choice, and the scheme must report on the same basis as the issuer for each scheme-issuer agreement. In the event that an issuer fails to notify the scheme of its choice by the date specified in the varied standard, the issuer will be deemed to have elected to comply with the current standard and a scheme must report compliance with the current standard for that scheme-issuer arrangement for the reporting period ending 30 June 2019. Thereafter, issuers and schemes must comply with the revised standard only.

Alternative:

For the reporting period ending 30 June 2019, schemes and issuers must comply fully with the current standards. Thereafter, schemes and issuers must comply with the revised standards.

3. Next Steps

Section 18(4) of the *Payment Systems (Regulation) Act 1998* requires the Bank to consult prior to determining or varying a standard. The Bank invites submissions on the issues discussed in Section 2 of this document, as well as in relation to Appendix A of this document, which sets out drafts of Standard No. 1 of 2016 and Standard No. 2 of 2016 as varied to reflect proposals 1 to 7 inclusive, and the first alternative for proposal 8 (the proposed changes are shown in mark-up).

Interested parties should provide their views on the proposals and the draft varied standards in writing, by no later than 28 March 2019, to: PYSubmissions@rba.gov.au. The Bank welcomes public submissions proposing alternate approaches for clarifying the standards consistent with the narrow-scope aims of this consultation. Submissions will be published on the Bank's website, unless they are clearly marked as confidential or the Bank determines that there are reasons not to do so. The Bank will endeavour to meet with stakeholders that make submissions.

Submissions provided by email should be in a separate document, in Word or equivalent format. Submissions in PDF format must be accompanied by a version in an accessible format such as .rtf or .doc.

Privacy

Unless requested otherwise, published submissions will include contact details and any other personal information contained in those documents. For information about the Bank's collection of personal information and approach to privacy, please refer to the [Personal Information Collection Notice for Website Visitors](#) and the Bank's [Privacy Policy](#).

Appendix A: Draft Variation to Standards

This Appendix sets out the changes the Bank proposes to:

Standard No.1 of 2016: The Setting of Interchange Fees in the Designated Credit Card Schemes and Net Payments to Issuers

Standard No.2 of 2016: The Setting of Interchange Fees in the Designated Debit and Prepaid Card Schemes and Net Payments to Issuers

THE SETTING OF INTERCHANGE FEES IN THE DESIGNATED CREDIT CARD SCHEMES AND NET PAYMENTS TO ISSUERS

1. Objective

The objective of this Standard is to ensure that the setting of interchange fees and payments and other transfers of valuable consideration having an equivalent object or effect to interchange fees in each designated credit card scheme is transparent and promotes:

- *efficiency; and*
- *competition*

in the Australian payments system.

2. Application

2.1 This Standard is determined under Section 18 of the *Payment Systems (Regulation) Act 1998* (the **Act**).

2.2 This Standard applies to each of the following, each of which is referred to in this Standard as a **Scheme**:

- (a) the payment system operated within Australia known as the MasterCard system which was designated under the Act as a payment system on 12 April 2001 and which is referred to in this Standard as the **MasterCard System**;
- (b) the payment system operated within Australia known as the VISA system, which was designated under the Act as a payment system on 12 April 2001 and which is referred to in this Standard as the **VISA System**; and
- (c) the American Express Companion Card payment system operated within Australia, which was designated under the Act as a payment system on 15 October 2015 and which is referred to in this Standard as the **American Express Companion Card Scheme**.

2.3 In this Standard:

Above Benchmark Reference Period has the meaning given to it in clause 4.2;

Acquired includes accepted;

Acquirer means a participant in a Scheme in Australia that:

- (a) provides services, directly or indirectly, to a Merchant to allow that Merchant to accept a Credit Card of that Scheme; or
- (b) is a Merchant that accepts, or is a Related Body Corporate of a Merchant that accepts, a Credit Card of that Scheme and bears risk as principal in relation to the payment obligations of the Issuer of that Credit Card in relation to that acceptance;

Associated Entity has the meaning given by section 50AAA of the *Corporations Act 2001*;

Benefit means: ~~a payment, receipt, rebate, refund, allowance, discount or deduction or a benefit (however named or described) of a similar nature to any of them;~~

(a) a payment, receipt, rebate, refund or allowance;

- (b) for Supplementary Services received or receivable by a Direct Issuer Participant, an amount equal to the Fair Value of the Supplementary Services;
- (c) in relation to any Property or service (other than a Supplementary Service) received or receivable by a Direct Issuer Participant:
 - (i) where there is a price at which the supplier is regularly supplying Property or services of the same description to entities of a class, group or type that includes the Direct Issuer Participant, any discount or deduction from that price;
 - (ii) where there is not a price at which the supplier is regularly supplying Property or services of the same description to entities of a class, group or type that includes the Direct Issuer Participant, an amount by which the Fair Value of the Property or service exceeds the payment or other similar financial consideration made or given for it by the Direct Issuer Participant; and
- (d) a benefit (however named or described) of a similar nature to, or having the same effect as, a benefit of the kind specified in (a), (b) or (c) above;

Commencement Date means 1 July 2017;

Core Services means in relation to a Scheme the services provided by the administrator of the Scheme in Australia or any of its Associated Entities:

- (a) which are the minimum necessary services for a participant in the Scheme in Australia to issue, and administer transactions made using, a Device of the Scheme that can be used for purchasing goods or services on credit;
- (b) without which it would not be possible for a Direct Issuer Participant to be an Issuer or for another entity to be an Issuer through Sponsorship by a Direct Issuer Participant; and
- (c) which the administrator has confirmed in writing are provided to all entities participating in the Scheme globally who issue Devices of the Scheme that can be used for purchasing goods or services on credit irrespective of the country or countries in which they have their headquarters or carry on business;

Credit Card Account means in relation to a Credit Card of a Scheme the account that is debited when that Device is used to purchase goods or services on credit;

Credit Card of a Scheme or **Credit Card of that Scheme** means, in relation to a Scheme, a Device issued by a participant in the Scheme in Australia under the Rules of the Scheme that can be used for purchasing goods or services on credit;

Credit Card Transaction means, in relation to a Scheme, a transaction in that Scheme between a holder of a Credit Card of that Scheme and a Merchant involving the purchase of goods or services using a Credit Card of that Scheme that is Acquired by an Acquirer (but does not include any transaction to reverse such a transaction or provide a credit or make a chargeback in relation to such a transaction);

Device means any card, plate or other payment code or device, including a code or device where no physical card or other embodiment is issued and a code or device used or to be used for only one transaction;

Direct Issuer Participant means in relation to a Scheme, a participant in that Scheme in Australia as Issuer, or as a Sponsor for one or more Issuers, that is not an Indirect Issuer Participant in that Scheme in Australia. Without limitation, for the:

- (a) MasterCard System this means any Principal Customer or Association Customer, each as defined in the Rules of the Scheme, in its capacity as Issuer or as Sponsor for one or more Issuers; or

(b) VISA System this means any Principal-Type Member as defined in the Rules of the Scheme in its capacity as Issuer or as Sponsor for one or more Issuers;

Direct Issuer Participant Payments has the meaning given to it in clause 5.2;

Direct Issuer Participant Receipts has the meaning given to it in clause 5.2;

Fair Value means, in relation to any Property or service, the amount that would be paid to acquire the Property or service in an orderly transaction between independent, unrelated and well informed parties at the earlier of:

(a) the date the Property or service was first provided; and

(b) the date the Property or service was committed to be provided,

to the Direct Issuer Participant;

Incentive Test: a Benefit meets the **Incentive Test** in relation to a Scheme if it is given for a purpose of, or has or will likely have the effect of, any one or more of the following:

(a) incentivising the entry into of a contract relating to the issue of Credit Cards of the Scheme;

(b) promoting or incentivising the issuance or use of Credit Cards of the Scheme; or

(c) providing or funding incentives to holders of Credit Cards of the Scheme to use those cards.

Benefits that meet the Incentive Test in relation to a Scheme include lump-sum, volume based and transaction-specific Benefits such as:

(i) incentives to market Credit Cards of the Scheme; and

(ii) any of the following earned, accrued or receivable for agreeing to issue Credit Cards of the Scheme or for Credit Card Transactions undertaken in the Scheme meeting or exceeding a specific transaction volume, percentage share or dollar amount of transactions processed:

(A) a rebate on any fees or other costs or charges, whether for a Core Service or for any other product or service;

(B) a discount from the list, standard or usual price of any product or service, whether the product or service is related to Credit Cards of the Scheme or not;

Indirect Issuer Participant means in relation to a Scheme, a participant in that Scheme in Australia as an Issuer that participates in the Scheme in Australia as Issuer through the Sponsorship of another participant in that Scheme. Without limitation, for the:

(a) MasterCard System this means any Affiliate Customer as defined in the Rules of the Scheme in its capacity as Issuer; or

(b) VISA System this means any Participant-Type Member or Associate-Type Member, each as defined in the Rules of the Scheme, in its capacity as Issuer;

Interchange Fee Category has the meaning given to it in clause 4.1(b);

Interchange Fees means:

(a) for each of the VISA System and the MasterCard System, wholesale fees, known as interchange fees, which are payable between an Issuer and an Acquirer, directly or indirectly, in relation to Credit Card Transactions in the Scheme; and

(b) for the American Express Companion Card Scheme, wholesale fees, known as issuer fees or issuer rates, which are payable, directly or indirectly, between an Issuer which is a participant in the Scheme in Australia and the Acquirer or an administrator of the Scheme in Australia, or any Related Body Corporate of either of them, and any other Credit Card

Transaction based payments which are functionally equivalent to such issuer fees or issuer rates or to the fees described in paragraph (a) above;

Issuer means a participant in a Scheme in Australia that ~~issues Credit Cards of a Scheme to its customers~~ has a contractual relationship with its customers under which it issues Credit Cards of a Scheme to those customers or their nominees;

~~Issuer Payments~~ has the meaning given to it in clause 5.2;

~~Issuer Receipts~~ has the meaning given to it in clause 5.2;

Merchant means, in relation to a Scheme, a merchant in Australia that accepts a Credit Card of that Scheme for payment for goods or services;

Multilateral Interchange Fee means, in relation to a Scheme, an Interchange Fee that is determined by an administrator of the Scheme and applies regardless of the identity of the Acquirer or Issuer paying or receiving the Interchange Fee;

Net Compensation has the meaning given to it in clause 5.1;

Property means any property including any good and any proprietary right or interest;

Quarter means a 3 month period ending on 30 June, 30 September, 31 December or 31 March;

Reference Period means a 12 month period ending on the last day of a Quarter;

~~Registration Date~~ means the date on which this Standard is registered in the Federal Register of Legislation;

Related Body Corporate has the meaning given in the *Corporations Act 2001*;

Relevant Portion has the meaning given to it in clause 5.2;

Reporting Period means, ~~subject to clause 7.3,~~ a 12 month period ending 30 June;

Rules of a Scheme or **Rules of the Scheme** means the constitution, rules, by-laws, procedures and instruments of the relevant Scheme as applied in Australia, and any other arrangement relating to the Scheme by which participants in that Scheme in Australia are, or consider themselves to be, bound;

Sponsor means a participant in a Scheme in Australia who has accepted responsibility in whole or in part for, or to act as agent for, another entity under and in accordance with the Rules of the Scheme so that the other entity may participate in the Scheme and **Sponsorship** has a corresponding meaning;

Supplementary Service means a service:

(a) bundled with or provided in conjunction with one or more other services;

(b) for which no amount is paid or payable by the Direct Issuer Participant beyond any amount that is paid or payable for the other services referred to in sub-paragraph (a); and

(c) which the administrator of the relevant Scheme has not confirmed in writing, prior to the time the service is first provided or committed to be provided to the Direct Issuer Participant, is bundled or provided in conjunction with the other services referred to in sub-paragraph (a) to all entities participating in the Scheme globally;

include or **including** or **such as** when introducing an example do not limit the meaning of the words to which the example relates to that example or examples of a similar kind; and

terms defined in the Act have the same meaning in this Standard.

2.4 For the purposes of this Standard:

- (a) a provision of a plan, arrangement or agreement shall be deemed to have a particular purpose if the provision was included in the plan, arrangement or agreement by a party or parties for purposes that include that purpose and that purpose was a substantial purpose; and
 - (b) conduct including the payment or receipt of a fee or [the giving of a benefit or](#) other valuable consideration shall be deemed to have been made for a particular purpose if the person undertaking the conduct, payment or receipt did so for purposes that include that purpose and that purpose was a substantial purpose.
- 2.5 Each participant in a Scheme must do all things necessary on its part to ensure compliance with this Standard.
- 2.6 If any part of this Standard is invalid, this Standard is ineffective only to the extent of such part without invalidating the remaining parts of this Standard.
- 2.7 This Standard is to be interpreted:
- (a) in accordance with its objective; and
 - (b) by looking beyond form to substance.
- 2.8 For the purposes of this Standard, an Interchange Fee paid from an Acquirer to an Issuer is to be expressed as a positive number and an Interchange Fee paid from an Issuer to an Acquirer is to be expressed as a negative number.
- 2.9 On the Commencement Date this Standard replaces *Standard No. 1, The Setting of Wholesale (Interchange) Fees in the Designated Credit Card Schemes* relating to each of the VISA System and MasterCard System. Neither the registration nor the terms of this Standard affect that standard before the Commencement Date.

3. Anti-Avoidance

A participant in a Scheme must not, either alone or together with one or more other persons, enter into, begin to carry out or carry out a plan or arrangement or otherwise be knowingly involved in a plan or arrangement if it would be concluded that the person did so for a purpose of avoiding the application of this Standard, and the plan or arrangement or part of the plan or arrangement has achieved or would but for this provision have achieved or could reasonably be considered to have achieved that purpose.

4. Interchange Fees

- 4.1 (a) An Interchange Fee (exclusive of goods and services tax) in relation to a Credit Card Transaction must not exceed 0.800 per cent of the value of the Credit Card Transaction to which it relates.
- (b) If an Interchange Fee applies in relation to a category of Credit Card Transactions (whether that category is determined by reference to the nature of the holder, or type, of the Credit Card of the Scheme, the identity or nature of the Merchant, the means of effecting the transaction, the security or authentication that applies or any other matter, or is a residual category covering transactions not in any other category) (**Interchange Fee Category**), that Interchange Fee must be:
- (i) a percentage of the value of the Credit Card Transaction to which it relates; or
 - (ii) a fixed amount,

applying to all Credit Card Transactions in the category, and cannot be expressed as a range of rates or amounts.

- 4.2 If the total value of Interchange Fees (exclusive of goods and services tax) payable in relation to Credit Card Transactions undertaken in a Scheme during a Reference Period exceeds 0.500 per cent of the total value of those Credit Card Transactions:
- (a) that Reference Period will be an **Above Benchmark Reference Period**; and
 - (b) the participants in that Scheme must take all necessary steps to vary the rates or amounts of Interchange Fees applicable under that Scheme, with effect no later than 2 months and 1 day after the end of the Above Benchmark Reference Period, to rates or amounts such that, had those varied rates or amounts applied under the Scheme during that Above Benchmark Reference Period, that Reference Period would not have been an Above Benchmark Reference Period.
- 4.3 If at any time any Interchange Fee applicable under a Scheme is introduced or removed, or the rate or amount of any Interchange Fee under a Scheme is varied, the Interchange Fees applicable under that Scheme following that change must be such that, had they applied for the whole of the most recent Reference Period prior to the date of the change, that Reference Period would not have been an Above Benchmark Reference Period. Nothing in this clause 4.3 limits clause 4.2.

5. **Net Payments to ~~Issuers~~ Direct Issuer Participants**

- 5.1 No ~~Issuer which is a participant~~ Direct Issuer Participant in a Scheme may receive, directly or indirectly, Net Compensation in relation to Credit Card Transactions undertaken in that Scheme. **Net Compensation** is received by ~~an Issuer~~ a Direct Issuer Participant if the ~~Issuer Receipts~~ Direct Issuer Participant Receipts of the ~~Issuer~~ Direct Issuer Participant for that Scheme ~~over in respect of~~ a Reporting Period exceed the ~~Issuer Payments~~ Direct Issuer Participant Payments of the ~~Issuer~~ Direct Issuer Participant for that Scheme ~~over in respect of~~ that Reporting Period.

- 5.2 For the purpose of this clause 5 ~~and subject to clause 7.3(d)~~:

~~(a) subject to paragraphs (c), (d) and (e), Issuer Receipts of the Issuer for a Scheme is the total of the Benefits received, directly or indirectly, by the Issuer in relation to Credit Cards of the Scheme or Credit Card Transactions undertaken in the Scheme that have a purpose or likely effect of promoting or incentivising the issuance or use of Credit Cards of the Scheme or of providing or funding incentives to holders of Credit Cards of the Scheme to use those cards, but excluding:~~

~~(i) Interchange Fees;~~

~~(ii) payments made by or on behalf of holders of Credit Cards of the Scheme (or holders of the related Credit Card Accounts) to:~~

~~(A) discharge a liability (whether then due and payable or not) to the Issuer that arose as a result of such a Device being held or used; or~~

~~(B) create a credit balance in the relevant Credit Card Account; and~~

~~(iii) any transaction to reverse a Credit Card Transaction or provide a credit or make a chargeback in relation to a Credit Card Transaction.~~

~~These Benefits include volume based and transaction specific Benefits such as:~~

~~(i) marketing incentives;~~

- ~~(ii) Benefits for meeting or exceeding a specific transaction volume, percentage share or dollar amount of transactions processed; and~~
- ~~(iii) signing bonuses;~~
- (a) subject to paragraphs (c), (d), (e), (f) and (g), **Direct Issuer Participant Receipts** of the Direct Issuer Participant for a Scheme and a Reporting Period is the total of the Benefits that meet the Incentive Test earned or accrued during, or receivable in respect of, the Reporting Period by the Direct Issuer Participant and payable, allowable or otherwise to be provided, directly or indirectly, by the administrator of the Scheme in Australia or any of its Associated Entities but, if such an Associated Entity is an Acquirer, excluding Interchange Fees;
- ~~(b) subject to paragraphs (c), (d) and (e), **Issuer Payments** of the Issuer for a Scheme is the total amount of all Benefits paid, given or allowed, directly or indirectly, by the Issuer to or in favour of the administrator of the Scheme in Australia or an Acquirer in relation to Credit Cards of the Scheme or Credit Card Transactions undertaken in the Scheme (excluding Interchange Fees and the amount of the Credit Card Transactions paid by the Issuer to the Acquirer to settle obligations arising from the clearing of Credit Card Transactions). These Benefits include:~~
 - ~~(i) Scheme branding fees;~~
 - ~~(ii) processing fees; and~~
 - ~~(iii) assessment fees;~~
- (b) subject to paragraphs (c), (d), (e), (f) and (g), **Direct Issuer Participant Payments** of the Direct Issuer Participant for a Scheme and a Reporting Period is the total amount payable, directly or indirectly, by the Direct Issuer Participant to or in favour of the administrator of the Scheme in Australia or any of its Associated Entities in relation to Core Services provided during or in respect of the Reporting Period for Credit Cards of the Scheme or Credit Card Transactions undertaken in the Scheme;
- (c) if a Benefit referred to in paragraph (a) or (b) does not relate solely to Credit Cards of the Scheme or Credit Card Transactions undertaken in the Scheme and also relates to other Devices or other transactions:
 - (i) the Benefit must be apportioned between:
 - (A) the Credit Cards of the Scheme and Credit Card Transactions on the one hand; and
 - (B) the other Devices and other transactions on the other,
 fairly and reasonably, having regard to, where relevant, the transaction history on Devices used in the payment systems to which the Benefit relates and the proportion of the Devices to which the Benefit relates that are Credit Cards of the Scheme issued by the ~~Issuer~~ Direct Issuer Participant or by any Indirect Issuer Participant through Sponsorship by that Direct Issuer Participant; and
 - (ii) the portion referable to Credit Cards of the Scheme and Credit Card Transactions determined in accordance with sub-paragraph (i) (the **Relevant Portion**) must be included in the determination of ~~Issuer Receipts~~ Direct Issuer Participant Receipts or ~~Issuer Payments~~ Direct Issuer Participant Payments, as applicable;
- (d) one method of apportionment under clause 5.2(c) that will be fair and reasonable for the purpose of ~~clause 5.2(c)~~ that provision is an apportionment on a pro-rata basis, based on the value of Credit Card Transactions undertaken in the Scheme using Credit Cards of the

Scheme ~~issued by that Issuer over~~ during the Reporting Period as a proportion of the total value of the transactions undertaken in any payment system to which the Benefit relates ~~over during~~ the Reporting Period ~~using Devices issued by that Issuer~~. This does not preclude an apportionment in another way that meets the requirements of clause 5.2(c); ~~and~~

- (e) where a Benefit referred to in paragraph (a), (b) or (c) relates to a period that spans more than one Reporting Period, the Benefit or, in the case of a Benefit referred to in paragraph (c), the Relevant Portion of the Benefit, may be allocated among Reporting Periods, ~~on a pro-rata basis based on the number of months in each relevant Reporting Period to which the Benefit relates provided that~~ in which case the allocation must:

(i) be on a pro-rata basis based on the number of months in each relevant Reporting Period to which the Benefit relates if an allocation on that basis would fairly and reasonably align the Benefit to the activity to which the Benefit relates; or

(ii) otherwise on some other basis that fairly and reasonably aligns the allocation of the Benefit to the activity to which the Benefit relates,

in each case provided that:

(iii) no part of it is allocated to any Reporting Period the whole of which occurs before the term of the contract or arrangement under which the Benefit is payable, receivable or allowable has commenced;

(iv) no part of it is allocated to any Reporting Period the whole of which occurs after the term of the contract or arrangement under which the Benefit is payable, receivable or allowable has ended; and

(v) it may not be allocated among more than 10 consecutive Reporting Periods;

- (f) a Direct Issuer Participant who adopts a particular method permitted by clause 5.2 of this Standard of:

(i) determining whether and to what extent:

(A) Benefits are earned or accrue during, or are receivable in respect of, a Reporting Period for the purposes of paragraph 5.2(a); or

(B) Core Services are provided during or in respect of a Reporting Period for the purposes of paragraph 5.2(b); or

(ii) allocating or apportioning Benefits for the purpose of paragraph (c), (d) or (e),

must, unless the Reserve Bank of Australia otherwise agrees in writing, continue to use the same method consistently from one Reporting Period to the next; and

- (g) for the purpose of this clause 5, a Direct Issuer Participant must ensure that:

(i) a Benefit paid, allowed or otherwise provided, directly or indirectly, by the administrator of the Scheme in Australia or any of its Associated Entities that meets the Incentive Test is included as a Direct Issuer Participant Receipt in the calculation of Net Compensation in respect of a Reporting Period; and

(ii) an amount treated as a Direct Issuer Participant Payment in the calculation of Net Compensation in respect of a Reporting Period is not included as a Direct Issuer Participant Payment in the calculation of Net Compensation for any other Reporting Period.

6. Reporting and Transparency

- 6.1 An administrator of a Scheme in Australia or a representative of the participants in the Scheme in Australia must publish the Multilateral Interchange Fee rates or amounts (whichever is applicable) of the Scheme in Australia on the Scheme's website, including the rates or amounts for each Interchange Fee Category.
- 6.2 Each:
- (a) Acquirer; and
 - (b) Issuer that is a Direct Issuer Participant,
- ~~Acquirer and Issuer~~ that is a party to an agreement with one or more other participants in a Scheme to pay or receive Interchange Fees in relation to Credit Card Transactions in the Scheme that are not Multilateral Interchange Fees must report to the Reserve Bank of Australia by 31 July each year the range of Interchange Fee rates or amounts (whichever is applicable) it received or paid in respect of the most recent Reporting Period. The Reserve Bank of Australia may publish the reported range of these Interchange Fees for the Scheme on its website.
- 6.3 An administrator of a Scheme in Australia or a representative of the participants in the Scheme in Australia must on or before 31 July each year certify in writing to the Reserve Bank of Australia in respect of the most recent Reporting Period, that Interchange Fees of the Scheme in Australia were ~~over~~ during that Reporting Period in compliance with this Standard.
- 6.4 Each of an administrator of a Scheme in Australia and each ~~Issuer~~ Direct Issuer Participant ~~who is a participant~~ in the Scheme in Australia must on or before 31 July each year certify in writing to the Reserve Bank of Australia that it was, ~~over~~ in respect of the most recent Reporting Period, in compliance with clause 5.
- 6.5 An administrator of a Scheme in Australia or a representative of the participants of the Scheme in Australia must, not later than 30 days after the end of each Quarter, certify in writing to the Reserve Bank of Australia each of the following for that Quarter for the Scheme:
- (a) the total value of Credit Card Transactions undertaken in the Scheme in that Quarter;
 - (b) the number of Credit Card Transactions undertaken in the Scheme in that Quarter;
 - (c) the total value of all Interchange Fees (exclusive of goods and services tax) payable in respect of the Credit Card Transactions undertaken in the Scheme during that Quarter;
 - (d) the total value of Interchange Fees (exclusive of goods and services tax) payable in respect of Credit Card Transactions undertaken in the Scheme during the Quarter divided by the total value of the Credit Card Transactions undertaken in the Scheme during the Quarter; and
 - (e) each Interchange Fee Category that applied for some or all of the Quarter and, for each of those categories:
 - (i) the Interchange Fee rates or amounts (whichever is applicable) that applied during the Quarter (expressed as a percentage or an amount, not as a range); and
 - (ii) the total value of Interchange Fees (exclusive of goods and services tax) payable in respect of that Quarter that are referable to Credit Card Transactions undertaken in the Scheme in that Quarter in that category.

7. Commencement and Implementation

- 7.1 This Standard ~~comes~~ came into force on the Commencement Date, but certain provisions in it ~~have had~~ a transitional application as set out in ~~this~~ clause 7 of this Standard as at the Commencement Date.
- ~~7.2 Determination of whether there is an Above Benchmark Reference Period must be made Quarterly in accordance with clause 4.2 from the Commencement Date irrespective of whether the relevant Reference Period commenced before or after the Commencement Date. This means that the first determination under clause 4.2 must be made after the Commencement Date in relation to the Reference Period ending 30 June 2017, even though that Reference Period commenced before the Commencement Date.~~
- ~~7.3 For the purposes only of:~~
- ~~(a) clause 5; and~~
 - ~~(b) clause 6.4 and clause 7.4 as it relates to clause 6.4:~~
- ~~the:~~
- ~~(c) first Reporting Period will be the period from the Registration Date to 30 June 2018; and~~
 - ~~(d) Net Compensation in relation to an Issuer and a Scheme is to be calculated for that first Reporting Period using only the Issuer Receipts of the Issuer and the Issuer Payments of the Issuer over that first Reporting Period that directly or indirectly relate to issue or use of Credit Cards of the Scheme, or Credit Card Transactions in the Scheme, on or after the Commencement Date.~~
- ~~7.4 The first reports and certifications under clauses 6.2, 6.3 and 6.4 must be made by 31 July 2018 in respect of the Reporting Period ending on 30 June 2018.~~
- 7.2 This Standard as varied with effect from 1 July 2019 must be complied with for the Reporting Period ending on 30 June 2020 and all subsequent Reporting Periods. For the Reporting Period ending on 30 June 2019 a Direct Issuer Participant in a Scheme may elect to comply, in relation to that Scheme, with either:
- (a) this Standard as in effect on 30 June 2019; or
 - (b) this Standard as amended with effect on 1 July 2019 as if this Standard so amended had been in effect from 1 July 2018,
- and must notify its election of (a) or (b) (**Transitional Election**) to the administrator of the Scheme no later than 1 July 2019.
- 7.3 An administrator of a Scheme in Australia that receives a notification under clause 7.2 from a Direct Issuer Participant must provide its certification under clause 6.4 in relation to that Direct Issuer Participant and the Reporting Period ending on 30 June 2019 on the same basis as that specified in the Transitional Election made by that Direct Issuer Participant.
- 7.4 If a Direct Issuer Participant in a Scheme does not give a Transitional Election in accordance with clause 7.2 then:
- (a) it is taken to have elected to comply, in relation to that Scheme, with this Standard as in effect on 30 June 2019; and
 - (b) the administrator of the Scheme in Australia must provide its certification under clause 6.4 in relation to that Direct Issuer Participant and the Reporting Period ending on 30 June 2019 accordingly.

THE SETTING OF INTERCHANGE FEES IN THE DESIGNATED DEBIT AND PREPAID CARD SCHEMES AND NET PAYMENTS TO ISSUERS

1. Objective

The objective of this Standard is to ensure that the setting of interchange fees and payments and other transfers of valuable consideration having an equivalent object or effect to interchange fees in each designated debit card scheme and prepaid card scheme is transparent and promotes:

- *efficiency; and*
- *competition*

in the Australian payments system.

2. Application

2.1 This Standard is determined under Section 18 of the *Payment Systems (Regulation) Act 1998* (the **Act**).

2.2 This Standard applies to each of the following, each of which is referred to in this Standard as a **Scheme**:

- (a) the payment system operated within Australia known as Visa Debit, which was designated under the Act as a payment system on 23 February 2004 and which is referred to in this Standard as **Visa Debit**;
- (b) the payment system operated within Australia known as Visa Prepaid, which was designated under the Act as a payment system on 15 October 2015 and which is referred to in this Standard as **Visa Prepaid**;
- (c) the payment system operated within Australia known as Debit MasterCard, which was designated under the Act as a payment system on 15 October 2015 and which is referred to in this Standard as **Debit MasterCard**;
- (d) the payment system operated within Australia known as MasterCard Prepaid, which was designated under the Act as a payment system on 15 October 2015 and which is referred to in this Standard as **MasterCard Prepaid**;
- (e) the debit card payment system operated within Australia known as the EFTPOS payment system, which was designated under the Act as a payment system on 12 June 2012 and which is referred to in this standard as the **EFTPOS System**; and
- (f) the prepaid card payment system operated within Australia under the EFTPOS Scheme Rules, which was designated under the Act as a payment system on 15 October 2015 and which is referred to in this standard as **EFTPOS Prepaid**.

2.3 In this Standard:

Above Benchmark Reference Period has the meaning given to it in clause 4.2;

Acquired includes accepted;

Acquirer means a participant in a Scheme in Australia that:

- (a) provides services, directly or indirectly, to a Merchant to allow that Merchant to accept a Card of that Scheme; or
- (b) is a Merchant that accepts, or is a Related Body Corporate of a Merchant that accepts, a Card of that Scheme and bears risk as principal in relation to the payment obligations of the Issuer of that Card in relation to that acceptance;

Associated Entity has the meaning given by section 50AAA of the *Corporations Act 2001*;

Benefit means: ~~a payment, receipt, rebate, refund, allowance, discount or deduction or a benefit (however named or described) of a similar nature to any of them;~~

- (a) a payment, receipt, rebate, refund or allowance;
- (b) for Supplementary Services received or receivable by a Direct Issuer Participant, an amount equal to the Fair Value of the Supplementary Services;
- (c) in relation to any Property or service (other than a Supplementary Service) received or receivable by a Direct Issuer Participant:
 - (i) where there is a price at which the supplier is regularly supplying Property or services of the same description to entities of a class, group or type that includes the Direct Issuer Participant, any discount or deduction from that price;
 - (ii) where there is not a price at which the supplier is regularly supplying Property or services of the same description to entities of a class, group or type that includes the Direct Issuer Participant, an amount by which the Fair Value of the Property or service exceeds the payment or other similar financial consideration made or given for it by the Direct Issuer Participant; and
- (d) a benefit (however named or described) of a similar nature to, or having the same effect as, a benefit of the kind specified in (a), (b) or (c) above;

Card Account means in relation to a Card of a Scheme the account that is debited when that Device is used to purchase goods or services;

Card of a Scheme or **Card of that Scheme** means a Debit Card of a Scheme or a Prepaid Card of a Scheme;

Card of a Scheme Pair means a Card of a Scheme that is part of a Scheme Pair;

Card Transaction means a Debit Card Transaction or a Prepaid Card Transaction;

Commencement Date means 1 July 2017;

Core Services means in relation to a Scheme the services provided by the administrator of the Scheme in Australia or any of its Associated Entities:

- (a) which are the minimum necessary services for a participant in the Scheme in Australia to issue, and administer transactions made using, a Device of the Scheme that can be used to make payments for goods or services by accessing a deposit account held at an authorised deposit-taking institution or a bank or other financial institution;
- (b) without which it would not be possible for a Direct Issuer Participant to be an Issuer or for another entity to be an Issuer through Sponsorship by a Direct Issuer Participant; and
- (c) which the administrator has confirmed in writing are provided to all entities participating in the Scheme globally who issue Devices of the Scheme that can be used to make payments for goods or services by accessing a deposit account held at an authorised deposit-taking institution or a bank or other financial institution irrespective of the country or countries in which they have their headquarters or carry on business;

Debit Card of a Scheme or **Debit Card of that Scheme** means, in relation to a Scheme, a Device issued by a participant in the Scheme in Australia under the Rules of the Scheme that can be used to make payments for goods or services by accessing a deposit account held at an authorised deposit-taking institution or a bank or other financial institution;

Debit Card Transaction means, in relation to a Scheme, a transaction in that Scheme between a holder of a Debit Card of that Scheme and a Merchant involving the purchase of goods or services (whether or not it also involves the obtaining of cash) using a Debit Card of that Scheme that is Acquired by an Acquirer (but does not include any transaction to reverse such a transaction or provide a credit or make a chargeback in relation to such a transaction);

Device means any card, plate or other payment code or device, including a code or device where no physical card or other embodiment is issued and a code or device used or to be used for only one transaction;

Direct Issuer Participant means in relation to a Scheme, a participant in that Scheme in Australia as Issuer, or as a Sponsor for one or more Issuers, that is not an Indirect Issuer Participant in that Scheme in Australia. Without limitation, for:

(a) Debit MasterCard and MasterCard Prepaid this means any Principal Customer or Association Customer, each as defined in the Rules of the Scheme, in its capacity as Issuer or as Sponsor for one or more Issuers;

(b) VISA Debit and Visa Prepaid this means any Principal-Type Member as defined in the Rules of the Scheme in its capacity as Issuer or as Sponsor for one or more Issuers; or

(c) EFTPOS System and EFTPOS Prepaid this means:

(i) any eftpos Issuer that is not a Non-clearer; or

(ii) any Clearing Agent,

with each of those expressions having the meaning given in the Rules of the Scheme;

Direct Issuer Participant Payments has the meaning given to it in clause 5.2;

Direct Issuer Participant Receipts has the meaning given to it in clause 5.2;

EFTPOS Scheme Rules are the rules promulgated under the constitution of EFTPOS Payments Australia Limited (ABN 37 136 180 366) and any schedule, document, specification or rule published by EFTPOS Payments Australia Limited pursuant to those rules;

Fair Value means, in relation to any Property or service, the amount that would be paid to acquire the Property or service in an orderly transaction between independent, unrelated and well informed parties at the earlier of:

(a) the date the Property or service was first provided; and

(b) the date the Property or service was committed to be provided,

to the Direct Issuer Participant;

Incentive Test: a Benefit meets the **Incentive Test** in relation to a Scheme Pair if it is given for a purpose of, or has or will likely have the effect of, one or more of the following:

(a) incentivising the entry into of a contract relating to the issue of Cards of any Scheme in the Scheme Pair;

(b) promoting or incentivising the issuance or use of Cards of any Scheme in the Scheme Pair;
or

(c) providing or funding incentives to holders of Cards of any Scheme in the Scheme Pair to use those cards.

Benefits that meet the Incentive Test in relation to a Scheme Pair include lump-sum, volume based and transaction-specific Benefits such as:

- (i) incentives to market Cards of any Scheme in the Scheme Pair; and
- (ii) any of the following earned, accrued or receivable for agreeing to issue Cards of any Scheme in the Scheme Pair or for Card Transactions undertaken in any Scheme in the Scheme Pair meeting or exceeding a specific transaction volume, percentage share or dollar amount of transactions processed:
 - (A) a rebate on any fees or other costs or charges, whether for a Core Service or for any other product or service;
 - (B) a discount from the list, standard or usual price of any product or service, whether the product or service is related to Cards of any Scheme in the Scheme Pair or not;

Indirect Issuer Participant means in relation to a Scheme, a participant in that Scheme in Australia as an Issuer that participates in the Scheme in Australia as Issuer through the Sponsorship of another participant in that Scheme. Without limitation, for:

- (a) Debit MasterCard and MasterCard Prepaid this means any Affiliate Customer as defined in the Rules of the Scheme in its capacity as Issuer; or
- (b) VISA Debit and Visa Prepaid this means any Participant-Type Member or Associate-Type Member, each as defined in the Rules of the Scheme, in its capacity as Issuer; or
- (c) EFTPOS System and EFTPOS Prepaid this means any eftpos Issuer that is a Non-clearer, with each of those expressions having the meaning given in the Rules of the Scheme;

Interchange Fee Category has the meaning given to it in clause 4.1(b);

Interchange Fees means in relation to a Scheme, wholesale fees, known as interchange fees, which are payable between an Issuer and an Acquirer, directly or indirectly, in relation to Card Transactions in the Scheme but excluding any such fees to the extent that they are referable only to the obtaining of cash by the Card holder;

Issuer means a participant in a Scheme in Australia that has a contractual relationship with its customers under which it issues Debit Cards or Prepaid Cards of a Scheme (as the case may be) to ~~its~~ those customers or their nominees;

~~**Issuer Payments** has the meaning given to it in clause 5.2;~~

~~**Issuer Receipts** has the meaning given to it in clause 5.2;~~

Merchant means, in relation to a Scheme, a merchant in Australia that accepts a Card of that Scheme for payment for goods or services;

Multilateral Interchange Fee means, in relation to a Scheme, an Interchange Fee that is determined by an administrator of the Scheme and applies regardless of the identity of the Acquirer or Issuer paying or receiving the Interchange Fee;

Net Compensation has the meaning given to it in clause 5.1;

Prepaid Card of a Scheme or **Prepaid Card of that Scheme** means, in relation to a Scheme, a Device issued by a participant in the Scheme in Australia under the Rules of the Scheme that can be used to make payments for goods or services using a store of value that has been prepaid or pre-funded and is accessible to make payments for goods or services only through the use of that, or a linked or related, Device;

Prepaid Card Transaction means, in relation to a Scheme, a transaction in that Scheme between a holder of a Prepaid Card of that Scheme and a Merchant involving the purchase of goods or services (whether or not it also involves the obtaining of cash) using a Prepaid Card of that Scheme that is Acquired by an Acquirer (but does not include any transaction to reverse such a transaction or provide a credit or make a chargeback in relation to such a transaction);

Property means any property including any good and any proprietary right or interest;

Quarter means a 3 month period ending on 30 June, 30 September, 31 December or 31 March;

Reference Period means a 12 month period ending on the last day of a Quarter;

~~**Registration Date** means the date on which this Standard is registered in the Federal Register of Legislation;~~

Related Body Corporate has the meaning given in the *Corporations Act 2001*;

Relevant Portion has the meaning given to it in clause 5.2;

Reporting Period means, ~~subject to clause 7.3,~~ a 12 month period ending 30 June;

Rules of a Scheme or **Rules of the Scheme** means the constitution, rules, by-laws, procedures and instruments of the relevant Scheme as applied in Australia, and any other arrangement relating to the Scheme by which participants in that Scheme in Australia are, or consider themselves to be, bound;

Scheme Benchmark is 8.0 cents;

Scheme Pair means:

- (a) VISA Debit and VISA Prepaid;
- (b) Debit MasterCard and MasterCard Prepaid; or
- (c) EFTPOS System and EFTPOS Prepaid;

Scheme Pair Transaction has the meaning given in clause 5.1;

Sponsor means:

- (a) in relation to a Scheme which is VISA Debit, VISA Prepaid, Debit MasterCard or MasterCard Prepaid, a participant in the Scheme in Australia who has accepted responsibility in whole or in part for, or to act as agent for, another entity under and in accordance with the Rules of the Scheme so that the other entity may participate in the Scheme; and
- (b) in relation to a Scheme which is EFTPOS System or EFTPOS Prepaid, a participant in the Scheme in Australia who has accepted responsibility to carry out clearing (the process of transmission and/or authorisation of payment instructions between Issuers and Acquirers, whether or not the process also involves reconciliation of payment instructions), directly or indirectly, on behalf of one or more other entities,

and **Sponsorship** has a corresponding meaning;

Supplementary Service means a service:

- (a) bundled with or provided in conjunction with one or more other services;
- (b) for which no amount is paid or payable by the Direct Issuer Participant beyond any amount that is paid or payable for the other services referred to in sub-paragraph (a); and
- (c) which the administrator of the relevant Scheme has not confirmed in writing, prior to the time the service is first provided or committed to be provided to the Direct Issuer Participant, is bundled or provided in conjunction with the other services referred to in sub-paragraph (a) to all entities participating in the Scheme globally;

include or **including** or **such as** when introducing an example do not limit the meaning of the words to which the example relates to that example or examples of a similar kind; and terms defined in the Act have the same meaning in this Standard.

- 2.4 For the purposes of this Standard:
- (a) a provision of a plan, arrangement or agreement shall be deemed to have a particular purpose if the provision was included in the plan, arrangement or agreement by a party or parties for purposes that include that purpose and that purpose was a substantial purpose; and
 - (b) conduct including the payment or receipt of a fee [or the giving of a benefit](#) or other valuable consideration shall be deemed to have been made for a particular purpose if the person undertaking the conduct, payment or receipt did so for purposes that include that purpose and that purpose was a substantial purpose.
- 2.5 For the purposes of this Standard, an Interchange Fee paid from an Acquirer to an Issuer is to be expressed as a positive number and an Interchange Fee paid from an Issuer to an Acquirer is to be expressed as a negative number.
- 2.6 Each participant in a Scheme must do all things necessary on its part to ensure compliance with this Standard.
- 2.7 If any part of this Standard is invalid, this Standard is ineffective only to the extent of such part without invalidating the remaining parts of this Standard.
- 2.8 This Standard is to be interpreted:
- (a) in accordance with its objective; and
 - (b) by looking beyond form to substance.
- 2.9 On the Commencement Date this Standard replaces each of the following Standards:
- (a) *The Setting of Interchange Fees in the Visa Debit Payment System*; and
 - (b) *Interchange Fees in the EFTPOS System*.

Neither the registration nor the terms of this Standard affect those standards before the Commencement Date.

3. Anti-Avoidance

A participant in a Scheme must not, either alone or together with one or more other persons, enter into, begin to carry out or carry out a plan or arrangement or otherwise be knowingly involved in a plan or arrangement if it would be concluded that the person did so for a purpose of avoiding the application of this Standard, and the plan or arrangement or part of the plan or arrangement has achieved or would but for this provision have achieved or could reasonably be considered to have achieved that purpose.

4. Interchange Fees

- 4.1 (a) An Interchange Fee (exclusive of goods and services tax) in relation to a Card Transaction must:
- (i) where the Interchange Fee is a fixed amount per transaction, not exceed 15.0 cents; or

- (ii) where the Interchange Fee is calculated by reference to the value or amount of the transaction, not exceed 0.200 per cent of that amount or value.
- (b) If an Interchange Fee applies in relation to a category of Card Transactions (whether that category is determined by reference to the nature of the holder, or type of the Card of the Scheme, the identity or nature of the Merchant, the means of effecting the transaction, the security or authentication that applies or any other matter, or is a residual category covering transactions not in any other category) (**Interchange Fee Category**), that Interchange Fee must be:
 - (i) a percentage of the value of the Card Transaction to which it relates; or
 - (ii) a fixed amount,
 applying to all Card Transactions in the category, and cannot be expressed as a range of rates or amounts.

4.2 If:

- (a) the total value of Interchange Fees (exclusive of goods and services tax) payable in relation to Card Transactions undertaken in a Scheme during a Reference Period divided by the number of those Card Transactions exceeds the Scheme Benchmark; and
- (b) for the Scheme Pair of which the Scheme referred to in sub-paragraph (a) forms part, the total value of Interchange Fees (exclusive of goods and services tax) payable in relation to Card Transactions undertaken in each of the Schemes in the Scheme Pair during the Reference Period divided by the number of those Card Transactions exceeds the Scheme Benchmark;

that Reference Period will be an **Above Benchmark Reference Period** for that Scheme and the participants in the Scheme referred to in paragraph (a) above must take all necessary steps to vary the rates or amounts of Interchange Fees applicable under that Scheme, with effect no later than 2 months and 1 day after the end of the Above Benchmark Reference Period, to rates or amounts such that, had those varied rates or amounts applied under the Scheme during the Above Benchmark Reference Period, that Reference Period would not have been an Above Benchmark Reference Period for that Scheme unless:

- (c) prior to the end of that period of 2 months and 1 day, a variation to the rates or amounts of Interchange Fees applicable under the other Scheme in the Scheme Pair takes effect; and
- (d) the varied Interchange Fees referred to in paragraph (c) are such that, had they applied under that other Scheme during the Above Benchmark Reference Period, the Reference Period would not have been an Above Benchmark Reference Period.

4.3 If at any time any Interchange Fee applicable under a Scheme is introduced or removed, or the rate or amount of any Interchange Fee under a Scheme is varied, the Interchange Fees applicable under that Scheme following that change must be such that, had they applied for the whole of the most recent Reference Period prior to the date of the change, that Reference Period would not have been an Above Benchmark Reference Period. Nothing in this clause 4.3 limits clause 4.2.

5. Net Payments to ~~Issuers~~ Direct Issuer Participants

5.1 No ~~Issuer which is a participant~~ Direct Issuer Participant in a Scheme may receive, directly or indirectly, Net Compensation in relation to Card Transactions undertaken in any of the Schemes in the Scheme Pair of which that Scheme forms part (**Scheme Pair Transactions**). **Net Compensation** is received by ~~an Issuer~~ a Direct Issuer Participant if the ~~Issuer Receipts~~ Direct

Issuer Participant Receipts of the ~~Issuer~~ Direct Issuer Participant for that Scheme Pair ~~over in respect of~~ a Reporting Period exceed the ~~Issuer Payments~~ Direct Issuer Participant Payments of the ~~Issuer~~ Direct Issuer Participant for that Scheme Pair ~~over in respect of~~ that Reporting Period.

5.2 For the purpose of this clause 5 ~~(and subject to clause 7.3(d))~~:

~~(a) subject to paragraphs (c), (d) and (e), **Issuer Receipts** of the Issuer for a Scheme Pair is the total of the Benefits received, directly or indirectly, by the Issuer in relation to any of the Cards of the Schemes in the Scheme Pair or Scheme Pair Transactions that have a purpose, or likely effect of promoting or incentivising the issuance or use of Cards of any Scheme in the Scheme Pair or of providing or funding incentives to holders to use Cards of the Scheme or Scheme Pair, but excluding:~~

~~(i) Interchange Fees;~~

~~(ii) payments made by or on behalf of holders of Cards of the Scheme (or holders of the related Card Accounts) to:~~

~~(A) discharge a liability (whether then due and payable or not) to the Issuer that arose as a result of such a Device being held or used; or~~

~~(B) create a credit balance in the relevant Card Account; and~~

~~(iii) any transaction to reverse a Card Transaction or provide a credit or make a chargeback in relation to a Card Transaction.~~

~~These Benefits include volume based and transaction specific Benefits such as:~~

~~(iv) marketing incentives;~~

~~(v) Benefits for meeting or exceeding a specific transaction volume, percentage share or dollar amount of transactions processed; and~~

~~(vi) signing bonuses;~~

(a) subject to paragraphs (c), (d), (e), (f) and (g), **Direct Issuer Participant Receipts** of the Direct Issuer Participant for a Scheme Pair and a Reporting Period is the total of the Benefits that meet the Incentive Test in relation to that Scheme Pair earned or accrued during, or receivable in respect of, the Reporting Period by the Direct Issuer Participant and payable, allowable or otherwise to be provided, directly or indirectly, by the administrator in Australia of any Scheme in the Scheme Pair or any of the Associated Entities of any administrator in Australia of any Scheme in the Scheme Pair but, if such an Associated Entity is an Acquirer, excluding Interchange Fees;

~~(b) subject to paragraphs (c), (d) and (e), **Issuer Payments** of the Issuer for a Scheme Pair is the total amount of all Benefits paid, given or allowed, directly or indirectly, by the Issuer to or in favour of the administrator of a Scheme in the Scheme Pair in Australia or an Acquirer in relation to any of the Cards of the Schemes in the Scheme Pair or Scheme Pair Transactions (excluding Interchange Fees and the amount of the Card Transactions paid by the Issuer to the Acquirer to settle obligations arising from the clearing of Card Transactions). These Benefits include:~~

~~(i) Scheme branding fees;~~

~~(ii) processing fees; and~~

~~(iii) assessment fees;~~

(b) subject to paragraphs (c), (d), (e), (f) and (g), **Direct Issuer Participant Payments** of the Direct Issuer Participant for a Scheme Pair and a Reporting Period is the total amount payable, directly or indirectly, by the Direct Issuer Participant to or in favour of the

administrator in Australia of any Scheme in the Scheme Pair or any of the Associated Entities of any administrator in Australia of any Scheme in the Scheme Pair in relation to Core Services provided during or in respect of the Reporting Period for any of the Cards of the Schemes in the Scheme Pair or Scheme Pair Transactions.

- (c) if a Benefit referred to in paragraph (a) or (b) does not relate solely to Cards of any Scheme in the Scheme Pair or Scheme Pair Transactions and also relates to other Devices or other transactions:
- (i) the Benefit must be apportioned between:
 - (A) the Cards of any Scheme in the Scheme Pair and Scheme Pair Transactions on the one hand; and
 - (B) the other Devices and other transactions on the other,
fairly and reasonably, having regard to, where relevant, the transaction history on Devices used in the payment systems to which the Benefit relates and the proportion of the Devices to which the Benefit relates that are Cards of a Scheme in the Scheme Pair issued by the ~~Issuer~~ Direct Issuer Participant or by any Indirect Issuer Participant through Sponsorship by that Direct Issuer Participant; and
 - (ii) the portion referable to Cards of any Scheme in the Scheme Pair and Scheme Pair Transactions determined in accordance with sub-paragraph (i) (the **Relevant Portion**) must be included in the determination of ~~Issuer Receipts~~ Direct Issuer Participant Receipts or ~~Issuer Payments~~ Direct Issuer Participant Payments, as applicable;
- (d) one method of apportionment under clause 5.2(c) that will be fair and reasonable for the purpose of ~~clause 5.2(c) that provision~~ is an apportionment on a pro-rata basis, based on the value of Scheme Pair Transactions using Cards of any Scheme in the relevant Scheme Pair ~~issued by that Issuer over~~ during the Reporting Period as a proportion of the total value of the transactions undertaken in any payment system to which the Benefit relates ~~over~~ during the Reporting Period ~~using Devices issued by that Issuer~~. This does not preclude an apportionment in another way that meets the requirements of clause 5.2(c);
- (e) where a Benefit referred to in paragraph (a), (b) or (c) relates to a period that spans more than one Reporting Period, the Benefit or, in the case of a Benefit referred to in paragraph (c), the Relevant Portion of the Benefit, may be allocated among Reporting Periods, ~~on a pro-rata basis based on the number of months in each relevant Reporting Period to which the Benefit relates provided that~~ in which case the allocation must:
- (i) be on a pro-rata basis based on the number of months in each relevant Reporting Period to which the Benefit relates if an allocation on that basis would fairly and reasonably align the Benefit to the activity to which the Benefit relates; or
 - (ii) otherwise on some other basis that fairly and reasonably aligns the allocation of the Benefit to the activity to which the Benefit relates,
in each case provided that:
 - (iii) no part of it is allocated to any Reporting Period the whole of which occurs before the term of the contract or arrangement under which the Benefit is payable, receivable or allowable has commenced;
 - (iv) no part of it is allocated to any Reporting Period the whole of which occurs after the term of the contract or arrangement under which the Benefit is payable, receivable or allowable has ended; and
 - (v) it may not be allocated among more than 10 consecutive Reporting Periods;

- (f) a Direct Issuer Participant who adopts a particular method permitted by clause 5.2 of this Standard of:
- (i) determining whether and to what extent:
 - (A) Benefits are earned or accrue during, or are receivable in respect of, a Reporting Period for the purposes of paragraph 5.2(a); or
 - (B) Core Services are provided during or in respect of a Reporting Period for the purposes of paragraph 5.2(b); or
 - (ii) allocating or apportioning Benefits for the purpose of paragraph (c), (d) or (e),
must, unless the Reserve Bank of Australia otherwise agrees in writing, continue to use the same method consistently from one Reporting Period to the next; and
- (g) for the purpose of this clause 5, a Direct Issuer Participant must ensure that:
- (i) a Benefit paid, allowed or otherwise provided, directly or indirectly, by the administrator of a Scheme in Australia or any of its Associated Entities that meets the Incentive Test in relation to the Scheme Pair of which that Scheme is part is included as a Direct Issuer Participant Receipt in the calculation of Net Compensation in respect of a Reporting Period; and
 - (ii) an amount treated as a Direct Issuer Participant Payment in the calculation of Net Compensation in respect of a Reporting Period is not included as a Direct Issuer Participant Payment in the calculation of Net Compensation for any other Reporting Period.

6. Reporting and Transparency

- 6.1 An administrator of a Scheme in Australia or a representative of the participants in the Scheme in Australia must publish the Multilateral Interchange Fee rates or amounts (whichever is applicable) of the Scheme in Australia on the Scheme's website, including the rates or amounts for each Interchange Fee Category.
- 6.2 Each:
- (a) Acquirer; and
 - (b) Issuer that is a Direct Issuer Participant,
- ~~Acquirer and Issuer~~ that is a party to an agreement with one or more other participants in a Scheme to pay or receive Interchange Fees in relation to Card Transactions in the Scheme that are not Multilateral Interchange Fees must report to the Reserve Bank of Australia by 31 July each year the range of Interchange Fee rates or amounts (whichever is applicable) it received or paid in respect of the most recent Reporting Period. The Reserve Bank of Australia may publish the reported range of these Interchange Fees for the Scheme on its website.
- 6.3 An administrator of a Scheme in Australia or a representative of the participants in the Scheme in Australia must on or before 31 July each year certify in writing to the Reserve Bank of Australia in respect of the most recent Reporting Period, that Interchange Fees of the Scheme in Australia were ~~ever~~ during that Reporting Period in compliance with this Standard.
- 6.4 Each of an administrator of a Scheme in Australia and each ~~Issuer who is a participant~~ Direct Issuer Participant in the Scheme in Australia must on or before 31 July each year certify in writing to the Reserve Bank of Australia that it was, ~~ever~~ in respect of the most recent Reporting Period, in compliance with clause 5.

- 6.5 An administrator of a Scheme in Australia or a representative of the participants of the Scheme in Australia must, not later than 30 days after the end of each Quarter, certify in writing to the Reserve Bank of Australia each of the following for that Quarter for the Scheme (and in the case of paragraph (e), the relevant Scheme Pair):
- (a) the total value of Card Transactions undertaken in the Scheme in that Quarter;
 - (b) the number of Card Transactions undertaken in the Scheme in that Quarter;
 - (c) the total value of all Interchange Fees (exclusive of goods and services tax) payable in respect of the Card Transactions undertaken in the Scheme during that Quarter;
 - (d) the total value of Interchange Fees (exclusive of goods and services tax) payable in respect of Card Transactions undertaken in the Scheme during the Quarter divided by the total number of the Card Transactions undertaken in the Scheme during the Quarter;
 - (e) the total value of Interchange Fees (exclusive of goods and services tax) payable in respect of Scheme Pair Transactions undertaken in the Schemes that form part of that Scheme Pair during the Quarter divided by the total number of the Scheme Pair Transactions undertaken in the Schemes that form part of that Scheme Pair during the Quarter; and
 - (f) each Interchange Fee Category that applied for some or all of the Quarter and, for each of those categories:
 - (i) the Interchange Fee rates or amounts (whichever is applicable) that applied during the Quarter (expressed as a percentage or an amount, not as a range); and
 - (ii) the total value of Interchange Fees (exclusive of goods and services tax) payable in respect of that Quarter that are referable to Card Transactions undertaken in the Scheme in that Quarter in that category.

7. Commencement and Implementation

7.1 This Standard ~~comes~~ came into force on the Commencement Date, but certain provisions in it ~~have~~ had a transitional application as set out in ~~this~~ clause 7 of this Standard as at the Commencement Date.

~~7.2 Determination of whether there is an Above Benchmark Reference Period must be made Quarterly in accordance with clause 4.2 from the Commencement Date irrespective of whether the relevant Reference Period commenced before or after the Commencement Date. This means that the first determination under clause 4.2 must be made after the Commencement Date in relation to the Reference Period ending 30 June 2017, even though that Reference Period commenced before the Commencement Date.~~

~~7.3 For the purposes only of:~~

~~(a) clause 5; and~~

~~(b) clause 6.4 and clause 7.4 as it relates to clause 6.4;~~

~~the:~~

~~(c) first Reporting Period will be the period from the Registration Date to 30 June 2018; and~~

~~(d) Net Compensation in relation to an Issuer and a Scheme Pair is to be calculated for that first Reporting Period using only the Issuer Receipts of the Issuer and the Issuer Payments of the Issuer over that first Reporting Period that directly or indirectly relate to issue or use of Cards of the Schemes in the Scheme Pair, or Scheme Pair Transactions, on or after the Commencement Date.~~

~~7.4 The first reports and certifications under clauses 6.2, 6.3 and 6.4 must be made by 31 July 2018 in respect of the Reporting Period ending on 30 June 2018.~~

7.2 This Standard as varied with effect from 1 July 2019 must be complied with for the Reporting Period ending on 30 June 2020 and all subsequent Reporting Periods. For the Reporting Period ending on 30 June 2019 a Direct Issuer Participant in a Scheme in a Scheme Pair may elect to comply, in relation to both Schemes in that Scheme Pair, with either:

(a) this Standard as in effect on 30 June 2019; or

(b) this Standard as amended with effect on 1 July 2019 as if this Standard so amended had been in effect from 1 July 2018,

and must notify its election of (a) or (b) (**Transitional Election**) to the administrator of each Scheme in the Scheme Pair no later than 1 July 2019.

7.3 An administrator of a Scheme in Australia that receives a notification under clause 7.2 from a Direct Issuer Participant must provide its certification under clause 6.4 in relation to that Direct Issuer Participant and the Reporting Period ending on 30 June 2019 on the same basis as that specified in the Transitional Election made by that Direct Issuer Participant.

7.4 If a Direct Issuer Participant in a Scheme in a Scheme Pair does not give a Transitional Election in accordance with clause 7.2 then:

(a) it is taken to have elected to comply, in relation to both Schemes in that Scheme Pair, with this Standard as in effect on 30 June 2019; and

(b) the administrator of each Scheme in the Scheme Pair in Australia must provide its certification under clause 6.4 in relation to that Direct Issuer Participant and the Reporting Period ending on 30 June 2019 accordingly.