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**VIA EMAIL:** [pysubmissions@rba.gov.au](mailto:pysubmissions@rba.gov.au)

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### **Submission on Reform of Debit Card Systems in Australia**

MoneySwitch Limited is a Specialist Credit Card Institution authorised by the Australian Prudential Regulation Authority. It is in the process of establishing commercial and technical arrangements to offer acquiring services for credit and debit cards. In the future, it may offer debit card issuing or debit card switching services. In particular, MoneySwitch intends to establish interchange agreements with existing participants in the EFTPOS payment system.

MoneySwitch is responding to the Reserve Bank of Australia's invitation for submissions on the proposed standards relating to *Reform of Debit Card Systems in Australia*, December 2005.

### **Interchange to be reciprocal between Access Seeker and Access Provider**

The Reserve Bank of Australia has proposed a Draft Standard for The Setting of Interchange Fees in the EFTPOS System. This Draft Standard sets out a procedure to determine both a maximum and a minimum Interchange Fee. MoneySwitch believes that whatever fee is negotiated within this range, it should be reciprocal in terms of both issued and acquired transactions.

The Draft Standards for the Interchange Fees and for the Access Regime are both silent on the issue of reciprocity of interchange fees. However, MoneySwitch understands that the current industry practice is that interchange fees are predominately reciprocal, i.e. the same amount is payable regardless of which party to the interchange initiated the transaction.

If reciprocity were not to be part of the Standard, it is possible that different interchange rates would be negotiated for different directions. For example, one party to an interchange may seek to negotiate the maximum interchange rate when it is the acquirer, but the minimum rate when it is the issuer. Where the two parties to the interchange negotiation have different market power, the agreement on fees is likely to be in favour of the more powerful, and the fees are likely to be different in each



direction. Where there is parity in market power, the fee negotiation is more likely to arrive at a single, more balanced, rate applicable on a reciprocal basis.

MoneySwitch contends that the Standard should require a single reciprocal fee, between the specified maximum and minimum levels, be negotiated for each interchange, regardless of which party originates the transaction. If this is not required by the Standard, it is likely that new entrants will be at a competitive disadvantage, being required to pay the maximum fee for issuer transactions, and to accept the minimum fee for acquired transactions.

Should you wish to discuss this submission, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "Paul A Wood".

Paul A Wood  
Chief Technical Officer