



## RESERVE BANK OF AUSTRALIA

### *Payment Systems (Regulation) Act 1998*

#### *The designated VISA Debit system*

This notice is published in accordance with the requirements set out in Section 29(2)(a) of the *Payment Systems (Regulation) Act 1998* ('the Act').

The Reserve Bank of Australia determines in accordance with Section 18 of the Act the following Standards to be complied with by participants in the designated Visa Debit system operated within Australia:

- (i) The Standard titled *The Setting of Interchange Fees in the Visa Debit Payment System*; and
- (ii) The Standard titled *The 'Honour All Cards' Rule in the Visa Debit and Visa Credit Card Systems and the 'No Surcharge' Rule in the Visa Debit System*.

#### **Summary of purpose and effect of the Standard *The Setting of Interchange Fees in the Visa Debit Payment System***

The purpose of this Standard is to ensure that the setting of interchange fees in the Visa Debit system is transparent and promotes efficiency and competition in the Australian payments system. The Standard requires that interchange fees in the Visa Debit system in Australia, which are paid by acquirers of Visa Debit card transactions in Australia to Visa Debit card issuers, be set subject to a benchmark, and be regularly reviewed.

The effect of the Standard will be a reduction in the average interchange fee in the Visa Debit system. At present, the average interchange fee on a Visa Debit transaction is around 40 cents. The average fee is expected to fall to around 15 cents from 1 November 2006.

This Standard, in combination with the Standard *The Setting of Interchange Fees in the EFTPOS Payment System*, gazetted by the Reserve Bank on 27 April 2006, is expected to reduce the difference between interchange fees in the Visa Debit and EFTPOS systems, for transactions of average size, from around 60 cents currently to around 20 cents.

These changes are expected to encourage price signals to merchants and debit cardholders that will, over time, promote the development of a more efficient payments system in Australia.

#### **Summary of purpose and effect of the Standard *The 'Honour All Cards' Rule in the Visa Debit and Visa Credit Card Systems and the 'No Surcharge' Rule in the Visa Debit System***

The purpose of this Standard is to ensure that normal competitive pressures can bear upon the price and acceptance of Visa Debit cards by merchants, by overriding the rules of the scheme tying the acceptance of Visa credit and debit cards from 1 January 2007.

The effect of the Standard will be to allow merchants to make separate decisions on whether to accept Visa Debit cards rather than being required to accept these cards as a consequence of accepting Visa credit cards.

The Standard also abolishes the no surcharge rule in the Visa Debit system, allowing merchants to impose a surcharge on Visa Debit transactions if they so choose.

These changes are expected to result in a more efficient and competitive payments system in Australia.

Signed

A handwritten signature in black ink, appearing to read 'IJ Macfarlane', written in a cursive style.

IJ Macfarlane  
Governor  
Reserve Bank of Australia  
7 July 2006

## Standard

### The Setting of Interchange Fees in the Visa Debit Payment System

#### Objective

*The objective of this Standard is to ensure that the setting of interchange fees in the designated Visa Debit payment system promotes:*

*(i) efficiency; and*

*(ii) competition*

*in the Australian payments system.*

#### Application

1. This Standard is determined under Section 18 of the *Payment Systems (Regulation) Act 1998*.
2. This Standard applies to the payment system operated within Australia known as Visa Debit, which was designated as a payment system on 23 February 2004.
3. In this Standard:

an 'acquirer' is a participant in the Visa Debit system in Australia that provides services to a merchant to allow that merchant to accept a Visa Debit card;

'credit card transaction' has the same meaning as in the Standard *The setting of wholesale ('interchange') fees in the designated credit card schemes*;

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

an 'issuer' is a participant in the Visa Debit system in Australia that issues Visa Debit cards to its customers;

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

'reference year' is the financial year prior to the relevant year;

'relevant year' is the financial year in which the benchmark must be calculated;

'Visa Debit card' means a card issued by a participant in the Visa Debit payment system, under the rules of the Scheme, that allows the cardholder to make payments to merchants for goods or services by accessing a deposit account held at an authorised deposit-taking institution;

'Visa Debit card transaction' means a transaction in Australia between a Visa Debit cardholder and a merchant involving the purchase of goods or services using a Visa Debit card (net of credits, reversals and chargebacks);

terms defined in the *Payment Systems (Regulation) Act 1998* have the same meaning in this

Standard.

4. This Standard refers to wholesale fees, known as 'interchange' fees, which are payable between an issuer and an acquirer, directly or indirectly, in relation to a Visa Debit card transaction.
5. Each participant in the Visa Debit system must do all things necessary on its part to ensure compliance with this Standard.
6. If any part of this Standard is invalid, the Standard is ineffective only to the extent of such part without invalidating the remaining parts of this Standard.
7. This Standard is to be interpreted:
  - o in accordance with its objective; and
  - o by looking beyond form to substance.
8. This Standard comes into force on the date on which it is published in the Gazette.

### **Information**

9. The administrator of the Visa Debit system must provide to the Reserve Bank of Australia data on the number and value of Visa Debit card transactions in Australia in the reference year, if such data are available. In the event that such data are unavailable, the administrator must provide information on the number and value of Visa Debit card transactions in Australia that were processed by the Visa system in the reference year.

### **Interchange fees**

10. From 1 November 2006, on each of the dates specified in paragraph 11, the weighted average of interchange fees implemented in the Visa Debit system in Australia must not exceed the benchmark calculated in accordance with paragraphs 13 and 14 below.
11. For the purposes of paragraph 10, the dates are:
  - (i) 1 November in any year the benchmark must be calculated; and
  - (ii) the date any interchange fee is introduced, varied or removed in the Visa Debit system.
12. For the purposes of paragraph 10, the weighted average of interchange fees is to be expressed as a number of cents per transaction. It is to be calculated by dividing the total interchange revenue that would have been payable had the interchange fees implemented on the dates specified in paragraph 11 been applicable in the previous financial year, by the number of transactions in that year.

### **Methodology**

13. The benchmark is to be calculated by the Reserve Bank of Australia using data for the reference year supplied by the credit card schemes designated by the Reserve Bank of Australia and to which the Standard *The setting of wholesale ('interchange') fees in the designated credit card schemes* applies.
14. The benchmark is to be calculated as follows:
  - a. A cost base will be calculated for each designated credit card scheme by dividing the

costs of processing and authorisation described in paragraphs 13(i) and 13(iii) of the Standard *The setting of wholesale ('interchange') fees in the designated credit card schemes* in the reference year by the total value of credit card transactions in the reference year.

- b. A weighted average of the cost bases in the designated credit card schemes will be calculated. The weights to be used are the shares of the value of credit card transactions of each designated credit card scheme in the value of total credit card transactions in the designated credit card schemes in the reference year.
  - c. This weighted average will be multiplied by the average value of all scheme debit transactions (both MasterCard and Visa) in the reference year, calculated using the data provided to the Reserve Bank of Australia in accordance with paragraph 9, to yield a benchmark expressed as a number of cents per transaction.
15. The Reserve Bank of Australia will calculate the benchmark by 30 September of the relevant year and publish it on its website.

### **Initial and subsequent benchmarks**

16. For the initial benchmark the relevant financial year is 2006/07.
17. The benchmark is to be re-calculated in the financial year 2009/10 and every three years thereafter.

### **Transparency**

18. The administrator of the Visa Debit system must publish the interchange fees applying to Visa Debit transactions on its website.
19. The administrator of the Visa Debit system must certify in writing to the Reserve Bank of Australia, on or before 30 November each year, that interchange fees in the Visa Debit system complied with this Standard over the prior twelve months ending 31 October.

## Standard

### The 'Honour All Cards' Rule in the Visa Debit and Visa Credit Card Systems and the 'No Surcharge' Rule in the Visa Debit System

#### Objective

*The objective of this Standard is to ensure that the rules of the Visa Debit system and the Visa credit card system promote:*

*(i) efficiency; and*

*(ii) competition*

*in the Australian payments system.*

#### Application

1. This Standard is determined under Section 18 of the *Payment Systems (Regulation) Act 1998*.
2. This Standard applies to the payment system operated within Australia known as Visa Debit, which was designated as a payment system on 23 February 2004, and to the Visa credit card system operated within Australia which was designated as a payment system on 12 April 2001.
3. In this Standard:

an 'acquirer' is a participant in the Visa Debit system in Australia that provides services to a merchant to allow that merchant to accept a Visa Debit card;

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

'rules of the Scheme' means the constitution, rules, by-laws, procedures and instruments of the Visa Debit system and of the Visa credit card system as applied in Australia respectively, and any other arrangement relating to the Scheme by which participants consider themselves bound;

'Visa credit card' means a card issued by a participant in Australia in the Visa credit card system, under the rules of the Scheme, that allows the cardholder to make payments to merchants for goods or services on credit, or any other article issued under the rules of the Scheme and commonly known as a credit card;

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

'Visa Debit card' means a card issued by a participant in Australia in the Visa Debit system, under the rules of the Scheme, that allows the cardholder to make payments to merchants

for goods or services by accessing a deposit account held at an authorised deposit-taking institution;

‘Visa Debit card transaction’ means a transaction in Australia between a Visa Debit cardholder and a merchant involving the purchase of goods or services using a Visa Debit card;

terms defined in the *Payment Systems (Regulation) Act 1998* have the same meaning in this Standard.

4. Each participant in the Visa Debit system and the Visa credit card system must do all things necessary on its part to ensure compliance with this Standard.
5. If any part of this Standard is invalid, the Standard is ineffective only to the extent of such part without invalidating the remaining parts of this Standard.
6. This Standard is to be interpreted:
  - o in accordance with its objective; and
  - o by looking beyond form to substance.
7. This Standard comes into force on 1 January 2007.

### **Merchant pricing**

8. Neither the rules of the Scheme, nor any participant in the Visa Debit system, shall prohibit a merchant from charging a Visa Debit cardholder any fee or surcharge for a Visa Debit card transaction.
9. Notwithstanding paragraph 8, an acquirer and a merchant may agree that the amount of any such fee or surcharge charged to a Visa Debit cardholder will be limited to the fees incurred by the merchant in respect of a Visa Debit card transaction.

### **Honouring cards**

10. Neither the rules of the Scheme, nor any participant in the Visa Debit system, or the Visa credit card system, may require a merchant to accept Visa Debit cards as a condition of the merchant accepting Visa credit cards. Likewise, neither the rules of the Scheme, nor any participant in the Visa Debit system or the Visa credit card system, may require a merchant to accept Visa credit cards as a condition of the merchant accepting Visa Debit cards.

### **Transparency**

11. a. All Visa Debit cards issued after 1 January 2007 must be visually identified as debit cards. By 31 December 2009, all Visa Debit cards on issue must be visually identified as Visa Debit cards.
- b. From 1 January 2007, all Visa Debit cards issued in Australia must be issued with a Bank Identification Number (BIN) that allows them to be electronically identified as Visa Debit cards.
- c. On request, acquirers must provide to merchants for which they acquire Visa Debit and credit card transactions, BINs that would permit the merchant to identify separately Visa Debit and Visa credit card transactions electronically.

- d. Each acquirer must notify merchants to which it provides acquiring services of the provisions of this Standard. This requirement must be met by 31 December 2007.