



AUSTRALIAN BANKERS' ASSOCIATION INC.

David Bell
Chief Executive Officer

Level 3, 56 Pitt Street
Sydney NSW 2000
Telephone: (02) 8298 0401
Facsimile: (02) 8298 0402

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Dr. Philip Lowe
Assistant Governor, Financial System
Reserve Bank of Australia
65 Martin Place
Sydney NSW 2001

Dear Phil,

ATM reform principles: instantaneous rebating

Thank you for organising the ATM industry meeting on 23 May 2007 at the Reserve Bank's Sydney office to discuss the Australian Bankers' Association's (ABA's) latest proposed ATM reform model.

At the meeting's conclusion, the ABA agreed to clarify the instantaneous rebating proposal included in the ATM reform model. This letter provides ABA's response. This letter also responds to the Reserve Bank's advice regarding its powers to provide legal certainty to ABA's ATM reform model.

Instantaneous rebating

Rebating is a well known concept – it simply means that a person is reimbursed fully or partly for purchasing a good or service. Instantaneous rebating means this reimbursement is done instantly.

In respect of an ATM transaction, while the customer may incur an ATM direct charge, instantaneous rebating means the direct charge is paid fully or in-part by the card issuer. The primary technical requirement necessary to enable this is for the ATM acquirer to separately identify the direct charge in its transaction authorisation request message. ABA understands that APCA's messaging format rules already provide for this separate identification.¹

A more complicated issue is how to reflect any card issuer rebate on the ATM screen at the point-of-sale. The ATM Access Code disclosure regime will require the ATM owner to disclose the direct charge before the customer is committed to finalising the transaction, but there are differing views on how any card issuer rebate should be reflected on the ATM screen.

One argument is that all foreign ATM transactions should have a consistent disclosure format. This would include disclosing: (a) the amount of the direct charge, and (b) a notice advising the customer to refer to their account terms-and-conditions to see if rebates or

¹ While the messaging format allows for separate identification of a direct charge, this has not as yet been used in practice or tested.

other conditions apply. One advantage of this approach is that it removes the need for bilateral negotiations over the ATM screen disclosure.

An alternative view is that a card issuer and ATM owner should be able to bilaterally agree on how to disclose the direct charge after the rebate.² For example, if the ATM direct charge is \$1.00 and the card issuer rebates 100%, then the ATM screen could disclose the direct charge after rebate as \$0.

There are strengths and weaknesses to both approaches. ABA advocates further discussion on the most appropriate way to disclose direct charges after rebates. We suggest the Reserve Bank addresses this issue in its foreshadowed bilateral discussions with banks and other stakeholders. Alternatively, the issue could also be deferred to the development of the disclosure regime as part of APCA's ATM Access Code work.

Reserve Bank's advice on giving effect to ABA's ATM reform model

As you're aware, ABA's ATM reform model advocates that all interchange fees in the ATM system be set to zero. This includes interchange fees between the direct connectors and also interchange fees used within sub-networks such as those operated by Cashcard and CUSCAL. This model is consistent with the findings of the RBA/ACCC Joint Study³.

The Reserve Bank has advised that neither its *standard* or *access regime* powers under the *Payment Systems Regulation Act (1998)* can be used to give legal certainty to zero interchange fees in sub-networks.

ABA's solution to this problem is to encourage Cashcard and CUSCAL to voluntarily set their interchange fees to zero, in a similar manner to the way AMEX and Diner's Club gave the Reserve Bank undertakings to allow merchants to surcharge their charge cards.

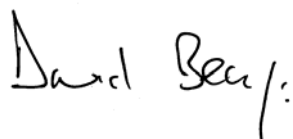
In ABA's view, a voluntary interchange solution in these sub-networks is preferable to a more interventionist approach. For example, as was seen in the credit card reform, a *standard* was used as a practical device to lower the credit card interchange fee. The Reserve Bank could take a similar practical approach to reducing interchange fees in the ATM sub-networks, but a voluntary solution is preferable.

Other matters

ABA has received preliminary advice on possible changes to the EFT Code to ensure appropriate service accountability of ATM owners that direct charge customers for foreign ATM transactions. A process is underway to finalise that advice. We aim to then make it available to the ATM meeting participants by the end of June.

If you have any questions, please don't hesitate to call.

Yours sincerely,



David Bell

² Under ABA's reform model, however, there cannot be any agreement that includes an explicit or implicit interchange fee. Any technology upgrades needed would be a bilateral matter.

³ "Debit and Credit Card Schemes in Australia – A Study of Interchange Fees and Access", Reserve Bank of Australia (RBA) and the Australian Competitions and Consumer Commission (ACCC), October 2000.