

28 March 2019

Tony Richards
Head of Payments Policy
Reserve Bank of Australia
65 Martin Place
SYDNEY NSW 2000

Dear Tony,

The Operation of the Interchange Standards: Consultation Paper

Thank you for the opportunity to comment on the operation of the Interchange Standards as part of the Consultation Paper

As previously discussed, since the introduction of the Net Compensation provisions on the American Express Companion Card, American Express has fully complied with these provisions to the point where the Companion Card no longer exists.

Accounting Basis

We understand the basis for the proposal to move the calculation of relevant amounts under the Standards from a cash to an accrual basis. However, the proposal that the reporting of amounts on an accrual basis must still be consistent with the purpose and intent of the Standards creates uncertainty how this will operate in practice.

Under the accounting standards, it is possible that revenue recognition can be delayed well beyond the corresponding expense for the paying party. The move to an accrual basis could create a timing mismatch between the accounts of the 'Direct Issuer Participant' receiving a particular payment and the 'administrator of the Scheme' making a particular payment.

If this is the case, it is not clear in the drafting of the Standard how any mismatch between the purpose and intent and the accrual rules under the accounting standards will be resolved. Although reporting on a cash basis can be complicated, it should be consistent with the purpose and intent of the Standards.

Issuer Payments

While we agree with the comments made in the consultation paper, the amendments to the standard could be clearer in the definition of 'Core Services'. This should specifically clarify that 'Core Services' does not include amounts paid for loyalty and other non-essential services such as marketing, tokenisation, Digital ID, disputes management, data reporting and POS.

Issuer Payments to Acquirers

We understand, the removal of the reference to 'Acquirer' in Issuer Payments is no longer required given the end of the Companion Card arrangements with the banks.

Given this, there is also no longer any need to have American Express Companion Cards designated as a Scheme and included in the various Standards. We would propose that the data reporting on interchange for the quarter ending 31 December 2018 would be the final data report and we can separate provide a confirmation on net compensation for this period as well.

While the Standards are being amended for this purpose, we would propose that this would be the most logical time to remove the regulations relating to Companion Cards.

We would be happy to meet and discuss this in more detail.

Yours faithfully



John Galletta
Vice President and Senior Counsel
American Express