RESERVE BANK OF AUSTRALIA

Payment Systems (Regulation) Act 1998

The designated EFTPOS system

This notice is published in accordance with the requirements set out in Section 28 (2) of the *Payment Systems (Regulation) Act 1998* (the Act).

The Reserve Bank of Australia proposes to determine in accordance with Section 18 of the Act the following standard to be complied with by the participants in the designated EFTPOS payment system:

> Standard No. 3 entitled *The Setting of Interchange Fees in the EFTPOS Payment System.*

Summary of purpose and effect of proposed Standard No. 3
The purpose of Standard No. 3 is to ensure that the setting of interchange fees in the EFTPOS payment system promotes efficiency and competition in the Australian payments system. The Standard requires that interchange fees in the EFTPOS payment system paid by issuers to acquirers be set in accordance with an objective benchmark that would be recalculated every three years. The effect of the standard is expected to be a reduction in the average interchange fee paid by issuers to acquirers from around 20 cents to around 5 cents.

Together with proposed Standard No. 4, the proposed Standard is expected to encourage price signals and behaviour that will, over time, promote the development of a more efficient payments system in Australia.

Submissions
Interested parties are invited to make submissions on the proposed Standard and the Reserve Bank's reasoning as set out in *Reform of the EFTPOS and Visa Debit Systems in Australia: A Consultation Document*, available from the Reserve Bank and on its website www.rba.gov.au.

Submissions should be made by 29 April 2005 to:

Head of Payments Policy   or   payments@rba.gov.au
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

Signed

IJ Macfarlane
Governor
Reserve Bank of Australia
23 February 2005

Standard No. 3

The Setting of Interchange Fees in the EFTPOS Payment System

Objective

The objective of this Standard is to ensure that the setting of interchange fees in the designated EFTPOS 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 the EFTPOS system, which was designated as a payment system on 9 September 2004 and referred to below as the EFTPOS system.

3. In this Standard:

   an 'acquirer' is a participant in the EFTPOS system that provides services to a merchant to allow that merchant to accept a debit card;

   'cash out' means the provision of cash to a cardholder by a merchant, as a result of a debit card transaction at the merchant;

   'debit card' means a card issued by a participant in the EFTPOS system that allows the cardholder to make payments to merchants for goods and services or obtain cash out using the EFTPOS system by accessing a deposit account held at the participant;

   'debit card transaction' or 'transaction' means a transaction in Australia between a debit cardholder and a merchant involving the purchase of goods and services and/or the provision of cash out using a debit card;

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

   an 'issuer' is a participant in the EFTPOS system that issues debit cards to its customers;

   'merchant' means a merchant in Australia that accepts a debit card for payment of goods and services and/or that provides cash out;

a 'merchant principal' is a participant in the EFTPOS system that is a merchant that sends transactions directly to issuers rather than through an acquirer and takes on the responsibilities usually undertaken by an acquirer;

'nominated EFTPOS acquirers' are those acquirers and merchant principals determined by the Reserve Bank, selected in order of their share of the number of transactions, who comprise the minimum number of such acquirers or merchant principals required to account for at least 90 per cent of the number of transactions acquired in the EFTPOS system in the 'reference year';

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

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

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 or merchant principal, directly or indirectly, in relation to a debit card transaction in the EFTPOS system.

5. Each participant in the EFTPOS 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:

   - in accordance with its objective; and

   - by looking beyond form to substance.

8. This Standard comes into force on [1 July 2006].

Interchange Fees

9. Issuers and acquirers or merchant principals in the EFTPOS system may agree to pay an interchange fee between themselves. If such a fee is paid by an issuer, the total fee for each transaction must not exceed the benchmark published by the Reserve Bank in accordance with paragraph 15.

Methodology

10. The benchmark for the EFTPOS system is calculated by the Reserve Bank as follows:

    a. for each of the nominated EFTPOS acquirers, the aggregate value of eligible costs in the reference year is to be divided by the number of debit card transactions in the reference year. This ratio is to be expressed as a number of cents per transaction;

b. the benchmark is to be calculated by the Reserve Bank as the aggregate value of eligible costs in the reference year of the three nominated EFTPOS acquirers with the lowest ratios as calculated in 10a, divided by the number of transactions undertaken by the same three nominated EFTPOS acquirers in the reference year. The result is to be expressed as a number of cents per transaction, rounded to the nearest cent.

11. Eligible costs are those directly related to processing and switching EFTPOS transactions incurred by an acquirer or merchant principal when performing the business responsibilities usually undertaken by an acquirer.

12. Data on eligible costs must be drawn from accounting records of the nominated EFTPOS acquirers, prepared in accordance with generally accepted accounting principles and Australian accounting standards.

13. Data on eligible costs must be provided by each nominated EFTPOS acquirer to the Reserve Bank of Australia, or its agent, by [15 August] in the relevant year.

14. The Reserve Bank, or its agent, will review the data to determine if the costs included are eligible costs and the Reserve Bank will use the eligible costs to calculate the benchmark in accordance with paragraph 10.

15. The Reserve Bank will publish the benchmark for the EFTPOS system by [15 September] in the relevant year.

16. Interchange fees in the EFTPOS system must conform with the benchmark from [31 October] in the relevant year.

Initial and subsequent benchmarks

17. For the initial benchmark the relevant year is the financial year [2006/07].

18. The benchmark is to be recalculated in the financial year [2009/10] and every three years thereafter.

Transparency

19. Acquirers and merchant principals in the EFTPOS system must report to the Reserve Bank the weighted average interchange fee they received and the range of interchange fees received in the previous financial year by [30 September] each year. The weights to be used in this calculation are shares of transaction value to which each interchange fee applies. In the first year, this requirement applies to the [8] months ending [June 2007].

20. The Reserve Bank will publish the industry weighted average of interchange fees on its website.