



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 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 Visa Debit system:

Standard No. 4 entitled *The Setting of Interchange Fees in the Visa Debit Payment System*.

Summary of purpose and effect of proposed Standard No. 4

The purpose of proposed Standard No. 4 is to ensure that the setting of interchange fees in the Visa Debit payment system promotes efficiency and competition in the Australian payments system. The Standard requires that interchange fees in the Visa Debit system paid by acquirers to issuers be set in accordance with an objective benchmark that will be recalculated every three years. The effect of the Standard is expected to be a reduction in the average interchange fee in the Visa Debit system from around 40 cents per transaction to around 15 cents.

Together with proposed Standard No. 3, 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
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

or

payments@rba.gov.au

Signed

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

IJ Macfarlane
Governor
Reserve Bank of Australia
23 February 2005

Standard No. 4

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 18 February 2004.
3. In this Standard:

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

‘credit card transaction’ has the meaning it has in Standard No. 1;

‘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 and services by accessing a deposit account held at the participant;

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

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

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

‘merchant’ means a merchant in Australia that accepts a Visa Debit card for payment of goods and 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;
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:
 - 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. The weighted average of interchange fees in the Visa Debit system in Australia must not exceed the benchmark calculated in accordance with paragraphs 10 and 11 below. The weights to be used in this calculation are shares of transaction values to which each interchange fee rate applies.

Methodology

10. The benchmark is to be calculated by the Reserve Bank using data for the reference year supplied by the credit card schemes designated by the Bank and to whom Standard No. 1 applies.
11. The benchmark is to be calculated as follows:
 - a. A cost base is to be calculated for each designated credit card scheme. It is determined by dividing the costs of processing and authorisation described in paragraphs 11(i) and 11(iii) of Standard No. 1 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 in each designated credit card scheme in the value of total credit card transactions in the three designated credit card schemes in the reference year.
 - c. This weighted average will be multiplied by the average value of a Visa Debit card transaction in the reference year to yield a benchmark expressed as a number of cents per transaction.

12. The Reserve Bank will calculate the benchmark by [15 September] of the relevant year and publish it on its website.
13. Interchange fees in the Visa Debit system must conform with the benchmark from [31 October] in the relevant year.

Initial and subsequent benchmarks

14. For the initial benchmark the relevant financial year is [2006/07].
15. The benchmark is to be recalculated in the financial year [2009/10] and every three years thereafter.

Transparency

16. The administrator of the Visa Debit system must publish the interchange fees applying to Visa Debit transactions on its website.
17. The administrator of the Visa Debit system must certify in writing to the Reserve Bank by 30 September each year, that interchange fees in the Visa Debit system complied with this Standard over the previous financial year. In the first year, this requirement applies to the [8] months ending [June 2007].