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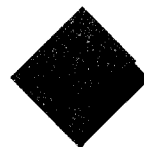
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Working Capital Services
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15 October 2004

Dr John Veale
Head of Payments Policy
Reserve Bank of Australia
65 Martin Place
SYDNEY NSW 2000



Dear Dr Veale

REFORM OF CARD PAYMENT SYSTEMS IN AUSTRALIA

I refer to the decision of the Reserve Bank of Australia (RBA) to designate the "EFTPOS debit card payment system in Australia" as a payment system under the Payment Systems (Regulation) Act, announced on 9 September 2004. The RBA announcement at that time indicated that further submissions by interested parties would be taken into consideration when considering the desirability of setting standards for interchange fees.

The Commonwealth Bank (the Bank) appreciates this opportunity for ongoing contribution to this important public consultation process and sets out, below, matters for consideration by the RBA. This letter should be read in conjunction with previous submissions lodged by the Bank on this, and other related issues.

With the RBA having formed the view that designation is in the public interest, it is the Bank's view that the following matters are relevant to the RBA's consideration of the desirability of setting standards for interchange fees.

There is no single EFTPOS system

The Bank refutes the proposition that there is a singular "EFTPOS debit card payment system in Australia". Current EFTPOS functionality is delivered by way of a series of interlinked proprietary networks, owned and operated by separate institutions and supported by independent bi-lateral commercial arrangements. It is not possible to identify with certainty, a system that is utilised to deliver EFTPOS functionality either in terms of a single physical or logical network, or a single set of key commercial terms, or a single set of mandatory rules or scheme.

This is a fundamental issue which should shape any Standards that may be developed.

Regulatory attention should remain focussed on interchange fees only

As noted in the RBA's designation announcement, the RBA is closely monitoring work underway in relation to EFTPOS "access" arrangements. For this reason, the RBA's regulatory attention should remain focussed on the setting of standards for interchange fees.

As a previous applicant for authorisation under the Trade Practices Act, the Bank has publicly supported earlier efforts to introduce zero EFTPOS interchange fees. The Bank urges the

RBA to consider the arguments presented by the applicants for authorisation when considering interchange fee standards.

The Bank stresses the importance of retaining an interchange fee structure in the operation of EFTPOS. While there may not be a case for non-zero interchange fee at this time, the interchange fee structure provides the flexibility necessary to address investment incentives, cost/benefit imbalances, or to fund significant one-off industry developments.

EFTPOS Transactions

EFTPOS transactions encompass EFTPOS Withdrawal Transactions (including sales, sales / cash-out and cash out only), EFTPOS Reversal Transactions and EFTPOS Declined Transactions. The Bank believes that it is important to clearly define this set of transaction types as the only transactions affected by any proposed interchange fee standard. Failure to clearly articulate such a transaction range will introduce the risk of unintended consequences with respect to future investment and innovation.

Implementation

In the event that any standard for setting interchange fees impacts on end market, or merchant, pricing, the Bank considers it essential that sufficient time be permitted for implementation of consequent changes in a rational and low risk manner. Bearing in mind the current level of market uncertainty, potential impact on large and complex major merchant contracts, likely significant systems changes, and the expected need for a widespread communication and merchant education programme, the Bank is of the view that a 6 month implementation period, following finalisation of the requisite detail, is the minimum acceptable.

Visa Debit

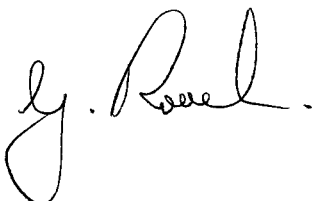
The Bank notes that the RBA designated the Visa Debit payment system in February 2004 and that the RBA is now considering the desirability of a standard for Visa Debit interchange fees - in conjunction with a potential EFTPOS interchange fee standard. While the Bank does not presently issue Visa Debit cards to our customers, the Bank endorses this parallel consideration and urges the RBA to introduce interchange fee neutrality between proprietary debit and scheme debit.

Development of Draft Standards

The Bank is interested in the basis upon which the RBA proposes to consider developing Standards with respect to the designated EFTPOS system. If the RBA intends to conduct another "cost study" in relation to EFTPOS, the Bank is keen to ensure that sufficient attention is given to applicable cost components and sufficient time for accurate data collation is provided to respondents.

The Bank notes that the RBA intends providing further opportunity for comment following the release of draft proposed standards. The Bank looks forward to continuing its active participation in regard to this issue and remains willing to meet with the RBA at any time. To this end, we request you contact the writer at the above address, or Stuart Woodward (phone 9312-7523).

Yours sincerely



Gary Roach
Acting Executive General Manager