

22 October 2009

Ms Michele Bullock
Head of Payments Policy
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Reserve Bank of Australia
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Sydney NSW 2001

PROPOSED CHANGES TO THE EFTPOS INTERCHANGE FEE STANDARD

Dear Michele

We welcome the opportunity to participate in consultation on the Proposed Changes to the EFTPOS Interchange Fee Standard.

In our submission in June 2008 to the Review of the Reforms to Australia's Payments Systems we expressed our view that the main distortions in payments patterns arise from interchange regulations as they apply today.

We believe market mechanisms are best at generating efficiencies, promoting innovation and enhancing welfare in Australia. As such, we support moves to ensure that competition, rather than regulation, determines interchange rates. It is our view that removing interchange regulation and allowing the EFTPOS scheme company to set interchange freely would address the current situation most efficiently.

The Proposed Changes to the EFTPOS Interchange Fee Standard recognises the distortionary effect of the different regulatory treatment of EFTPOS and international scheme debit, and acknowledges that this difference is detrimental to competition. The Proposed Changes address the asymmetry in the near term by bringing regulation of the debit schemes into alignment.

As a transitional measure, the proposal to cap weighted-average interchange in the EFTPOS system at 12 cents offers a wider range of interchange settings than was previously proposed by the RBA, giving the EFTPOS scheme company more scope to compete effectively. We acknowledge that, while perhaps seemingly straightforward, any adjustments to interchange settings the EFTPOS scheme company decides to make will have far reaching implications for pricing within the industry.

The development of a commercial EFTPOS scheme company is beneficial in providing a source of competition to the international card schemes and will only achieve its potential if it has the freedom to set multilateral interchange in response to market signals. We therefore support the Reserve Bank's proposed transitional EFTPOS Standard.

We believe the Proposed Changes represent a step towards the more efficient setting of interchange rates determined by competitive forces. We will continue to work with industry to achieve full deregulation.

Yours Sincerely



Jim Tate
Chief Product Officer
Product & Operations
Westpac Banking Corporation