

GUIDANCE FOR NEW ISSUERS ON CERTIFICATION UNDER STANDARD NO. 1 OF 2016 AND STANDARD NO. 2 OF 2016

Background

The Bank's Standards No.1 and No.2 of 2016 (the Standards) require Direct Issuer Participants (referred to in this guidance as 'issuers') and Schemes to certify annually their compliance with the Net Compensation provisions (clause 5) of the Standards.¹

The Standards do not expressly state when a new issuer must begin certifying compliance with the Net Compensation provisions, and certifications for the reporting period ending 30 June 2020 indicated that interpretation of the Standards on this point varied across different Schemes and issuers.

This guidance sets out when the Bank expects new issuers to first certify compliance with the Net Compensation provisions. In reaching a view, the Bank has taken into consideration that new issuers are likely to experience low transaction volumes in the early stages of developing and launching a card product to the public. This could result in Direct Issuer Participant Payments during the early stages being insufficient to offset any Direct Issuer Participant Receipts that may be provided to support the entry of new issuers into the market, even allowing for the amortisation of certain benefits over a number of reporting periods that is allowed under the Standards. In the Bank's view, the graduated approach set out in this guidance will support new entry and competition in the issuing market.

This guidance does not affect the timing of any other obligations issuers have under the Standards, or under Standard No. 3 of 2016.

Guidance

The Bank expects new issuers to begin certifying their compliance with the Net Compensation provisions once they have had a full financial year of operation following the public launch of their card product. For example, if a new issuer publicly launched its card product in March 2020, it should first certify compliance on or before 31 July 2021 in respect of the extended reporting period referred to below. The Bank considers that this will give new issuers reasonable time, following initial card issuance, to generate a sufficient volume of transactions, and therefore Direct Issuer Participant Payments, to cover Direct Issuer Participant Receipts accrued up until the 30 June immediately preceding the date of the first certification.

Schemes should certify their compliance with the Net Compensation provisions in respect of a new issuer at the same time as the new issuer (that is, once the new issuer has had a full financial year of operation following the public launch of the new issuer's card product).

However, the Bank expects that when a new issuer (and Scheme) takes advantage of this deferral, they must for their first compliance certification use as the Reporting Period the period from:

- the first date on which any Direct Issuer Participant Payments or Direct Issuer Participant Receipts were paid, became payable, were earned or accrued or became receivable; to

¹ Capitalised expressions have the meaning given in the Standards.

- the last day of the first full financial year of operation following the public launch of the new issuer's card product,

and must interpret and comply with the relevant Standard and this guidance² as if all references to 'Reporting Period' were references to that period.

For example, if a new issuer who publicly launched its card product in March 2020 had first accrued a Benefit falling with the definition of Direct Issuer Participant Receipts on 3 August 2019 it will need to use as its first Reporting Period the period from 3 August 2019 to 30 June 2021, and report by 31 July 2021. This initial Reporting Period will ensure that all relevant Direct Issuer Participant Receipts earned or accrued by a new issuer prior to the first full financial year of operation are fully captured.

For the purpose of this guidance:

- a 'new issuer' is a Direct Issuer Participant that has not, before the issue of any cards of the relevant Scheme, issued in Australia any Devices in any Scheme as defined in either Standard No.1 or Standard No.2 . That is, it does not include existing issuers that are launching a new card product or migrating all or part of their card portfolios to a different Scheme; and
- a 'public launch' by a new issuer is considered to occur at the time that the new issuer begins offering its card product broadly to its intended customer base (rather than just issuing cards to its staff or a select group of customers as part of a trial or test phase).

Schemes are reminded that any support programs for a new issuer must be structured in a way that is consistent with the Net Compensation provisions. The Bank also expects Schemes to apprise new issuers of issuers' obligations under the Standards (and guidance) prior to signing any card issuing arrangement, to ensure that new issuers are aware of the Net Compensation provisions and are in a position to assess their own compliance.

Payments Policy Department
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² This includes when interpreting and applying a capitalised expression from a Standard that is used in this guidance