

GUIDANCE ON THE VALUATION OF NON-MONETARY BENEFITS 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 Standards¹) 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) in each of the Standards.² Under the Net Compensation provisions, the value of Direct Issuer Participant Receipts ('Issuer Receipts') may not exceed the value of Direct Issuer Participant Payments for each Reporting Period.

Most benefits to be included in Issuer Receipts are financial in nature (payments, rebates, discounts and similar); however, issuers may also receive benefits in the form of goods or services provided for free or at a reduced price ('non-monetary benefits') as incentives in the issuing contract with the Scheme. The value of these non-monetary benefits is also to be included in Issuer Receipts, subject to the benefits meeting the Incentive Test, and is calculated as the amount by which the Regular Price of the benefits (or Fair Value if there is no Regular Price) exceeds the price paid by the issuer. While the Standards do not preclude Schemes and issuers reaching different conclusions about the Fair Value of non-monetary benefits, assessing compliance with the Net Compensation provisions would be more straightforward if there were alignment between Schemes and issuers on the valuation of these benefits.

Accordingly, this guidance sets out an expectation that issuing contracts contain a methodology for valuing non-monetary benefits. While some differences may still arise, the Bank expects that Schemes and issuers agreeing on a methodology for valuing these benefits at the time the contract is entered into will reduce the size of discrepancies and thereby the number of instances where Schemes and issuers provide different annual certifications in relation to the same card-issuing arrangement.

Guidance

The Bank expects that any new issuing contracts between Schemes and issuers will set out a methodology that both parties agree should be used for valuing any non-monetary benefits provided to the issuer by the Scheme. The Bank expects that, before non-monetary benefits are provided by a Scheme under an existing contract, the Scheme should provide the issuer with a proposed methodology for valuing those benefits.

For example, if a new contract provides for free consulting services to be provided to the issuer, one valuation methodology for the expected total value of the benefit could be the expected number of hours of work to be provided by different types of consultants, and the respective hourly rates.

Where non-monetary benefits to be provided under a new contract could relate to multiple Reporting Periods, the parties should agree on a fair and reasonable methodology for apportioning the value of the benefits across each relevant Reporting Period.

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- 1 Standard No. 1 of 2016: The Setting of Interchange Fees in the Designated Credit Card Schemes and Net Payments to Issuers, and Standard No. 2 of 2016: The Setting of Interchange Fees in the Designated Debit and Prepaid Card Schemes and Net Payments to Issuers. The Standards are published here: <<https://www.rba.gov.au/payments-and-infrastructure/payments-system-regulation/regulations.html>>.
 - 2 Capitalised expressions have the meaning given in the Standards.

For existing contracts, where non-monetary benefits are provided by the Scheme under the contract, the Scheme should provide the issuer with supporting documentation that allows both parties to assess the value of benefits provided (in relation to each Reporting Period). In particular, before the Scheme provides a non-monetary benefit it should provide the issuer with a draft 'benefit statement' setting out the proposed valuation methodology. For example, for consulting services, the 'benefit statement' might include an expected total value of the benefit broken down by expected hourly rates and hours worked for different types of consultants. After the services have been provided, the Scheme should provide a final version of the 'benefit statement' which specifies the actual value of benefits provided (e.g. actual hours of consulting work provided by different types of consultants and actual hourly rates) that the Scheme assesses to be the Fair Value of the services.

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6 April 2022