

REFORM OF THE EFTPOS AND VISA DEBIT SYSTEMS IN AUSTRALIA

FINAL REFORMS AND REGULATION IMPACT STATEMENT

APRIL 2006

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Reserve Bank

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ISBN 0-9775353-0-4 (PRINT)

ISBN 0-9775353-1-2 (ONLINE)

Reform of the EFTPOS and Visa Debit Systems in Australia

1. Introduction

This Regulation Impact Statement sets out the Reserve Bank's package of reforms to Australia's debit card systems. In particular it sets out:

- (i) an Access Regime for the EFTPOS system;
- (ii) an interchange Standard for the EFTPOS system;
- (iii) an interchange Standard for the Visa Debit system; and
- (iv) a Standard requiring the removal of the 'honour all cards' rule and the 'no surcharge' rule in the Visa Debit system.

The document also sets out the extensive consultation undertaken by the Bank. It summarises the various arguments made during the consultation process and the Bank's reasoning in coming to its final decisions.

2. Background

2.1 Debit card systems in Australia

There are two types of debit card systems in Australia; the proprietary EFTPOS system and systems operating under the brands of the major international credit card schemes. Both types of system allow cardholders to make payments to merchants from a deposit account held at an authorised deposit-taking institution. The EFTPOS system can also be used, in some cases, to withdraw cash at a merchant.

In the EFTPOS system, a cardholder undertakes a transaction at a merchant by swiping a card and then keying in a personal identification number (PIN). Once the payment is authorised, the cardholder's account is debited. EFTPOS cards are issued by financial institutions as part of a deposit account and carry the institution's brand. The EFTPOS system is not able to be used in situations in which a PIN cannot be entered into a secure PIN pad, such as over the internet or telephone. Furthermore, the EFTPOS system is a purely domestic system and so EFTPOS cards cannot be used overseas. The system is built around a series of bilateral technical links and business contracts between financial institutions offering deposit accounts and acquirers (most of whom are also financial institutions). Interchange fees are paid by the issuer to the acquirer and are typically in the range of 18 to 25 cents per transaction. The EFTPOS system accounts for around 85 per cent of debit card transactions in Australia.

In the scheme debit card systems, a cardholder undertakes a transaction at a merchant by swiping a card and then authorising the transaction by signature. These systems use the processing infrastructure of the international card schemes (MasterCard and Visa). Scheme debit cards can

also be used to undertake transactions over the internet and telephone (without a signature), and as the schemes are international, the cards can be used overseas. In contrast to the EFTPOS system, interchange fees are paid by the acquirer to the issuer and are around 0.55 per cent of the transaction value. The Visa Debit system has been operating in Australia for many years, and accounts for around 15 per cent of debit card transactions. The first MasterCard debit card in Australia was launched in late 2005.

Further details of these systems are provided in Reserve Bank of Australia, 2005a.

2.2 The reform process to date

The Bank has been examining interchange fees and access arrangements for Australia's debit card systems for a number of years, commencing with its work with the Australian Competition and Consumer Commission (ACCC) in 1999 (see Table 1). That work resulted in the publication by the Bank and the ACCC of *Debit and credit card schemes in Australia: A study of interchange fees and access* (the Joint Study) in October 2000.

The study highlighted a number of aspects of the operation of debit card systems in Australia that were potentially not conducive to competition and efficiency of the Australian payments system. In particular, the study noted the significantly different interchange fees in the credit card and EFTPOS systems, concluding that there did not appear to be a convincing case for an interchange fee in the EFTPOS system in either direction. It also concluded that the bilateral nature of the system could put new entrants at a competitive disadvantage. The study also highlighted interchange fees in the Visa Debit system, which was at that time the only scheme debit system operating in Australia. It noted that interchange fees in this system were the same as those in the Visa credit card system and argued that there was no case for applying credit card interchange fees to debit cards.

Since the release of the Joint Study, both the industry and the Reserve Bank have worked to address a number of issues identified in the study. Relatively early on in the process, however, it became clear that voluntary reform of the credit card system was unlikely and, as a result, the Bank subsequently used its powers to reduce interchange fees, improve access and require the removal of restrictions on merchants. Details of these reforms are provided in the Payments System Board's Annual Reports.¹

Voluntary reform of the Visa Debit system has also proved to be problematic, with the Bank designating the system in February 2004, and releasing a draft interchange Standard in February 2005.² An Access Regime was also imposed on the Visa Debit system in August 2005.³ This Access Regime, which was supported by Visa, ensured that specialist credit card institutions (which are supervised by the Australian Prudential Regulation Authority – APRA) were eligible to participate in the Visa Debit system.

Compared to the credit card and Visa Debit systems, the prospects for a voluntary industry-based solution in the EFTPOS system looked stronger. At a relatively early stage, the industry indicated a willingness to address the Bank's concerns and an industry working group

1 See also Reserve Bank of Australia, 2002.

2 Reserve Bank of Australia, 2005a.

3 Reserve Bank of Australia, 2005b.

Table 1: Debit card systems – the reform process to date

September 1999	Reserve Bank and ACCC announce the commencement of a study on interchange fees and access in credit and debit card systems in Australia (the Joint Study).
October 2000	Joint Study published.
February 2002	EFTPOS Industry Working Group (EIWG) formed to look at possible reforms to the EFTPOS system.
February 2003	A group of financial institutions apply to the ACCC to authorise a proposal to set EFTPOS interchange fees to zero.
March 2003	Australian Payments Clearing Association (APCA) commences work on an EFTPOS access code.
August 2003	ACCC releases draft determination denying authorisation of proposal to set EFTPOS interchange fees to zero, on the grounds that the issue of access was not addressed.
December 2003	ACCC authorises agreement to set EFTPOS interchange fees to zero in the expectation that access arrangements would be reformed. A group of merchants lodges an appeal to the ACCC's authorisation in the Australian Competition Tribunal (ACT).
February 2004	Reserve Bank designates the Visa Debit system in Australia.
May 2004	ACT overturns ACCC authorisation of zero interchange fees in the EFTPOS system.
September 2004	Reserve Bank designates the EFTPOS system.
October 2004	A group of merchants challenges the designation of the EFTPOS system in the Federal Court.
February 2005	Draft Standards released for EFTPOS and Visa Debit interchange fees and the honour all cards rule in the Visa system.
July 2005	Draft Access Regime for Visa Debit released.
August 2005	Access Regime for Visa Debit imposed.
November 2005	Challenge to designation of EFTPOS system dismissed.
December 2005	Revised draft Standard for EFTPOS interchange fees and draft EFTPOS Access Regime released. Draft industry Access Code for the EFTPOS system released.

was set up. At the time, the Bank was hopeful that this work could be completed to coincide with the reforms to the credit card system, given that the Bank has always seen reforms to the credit and debit card systems as complementary. For a number of reasons this did not occur.

As a result of the work by the industry group, a group of financial institutions took a proposal to the ACCC in February 2003 to set interchange fees in the EFTPOS system to zero. After issuing a draft determination rejecting the application due to concerns about access, the ACCC then approved the proposal in December 2003, in the expectation that the issue of access would be adequately addressed. A group of merchants then challenged the ACCC's decision in the Australian Competition Tribunal (ACT), with the ACT finding in the merchants' favour in May 2004, concluding that the public benefit from the proposed agreement to set interchange fees to zero did not outweigh the public detriments.

After examining the ACT's ruling and consulting with interested parties, the Bank designated the EFTPOS system in September 2004, noting that there was little further prospect of industry reform of interchange fees. This was followed in October 2004 by a legal challenge in the Federal Court by a group of merchants to the validity of the Bank's designation of the EFTPOS system.

In an effort to prevent further unnecessary delay and regulatory uncertainty, in February 2005, the Bank released draft Standards for interchange fees in both the EFTPOS and Visa Debit systems and a Standard that would require the removal of the honour all cards rule in the Visa system. It noted at the time, however, that no final decisions would be made until the legal challenge in the Federal Court was decided. Subsequently, the Court delivered its judgement, finding in favour of the Bank in November 2005.

During the period in which interchange fees were being addressed, the industry (under the auspices of APCA) was developing an Access Code for the EFTPOS system. After two years, the industry agreed to a Code that was acceptable to the Bank. APCA, however, asked the Bank to consider giving regulatory certainty to the proposed cap on the price of establishing a new connection through an Access Regime.

After considering the judgement in the Bank's favour in the EFTPOS designation case, the Bank issued a second consultation document in December 2005 setting out a draft Access Regime and making an amendment to the draft Standard on EFTPOS interchange fees.⁴ The Bank invited submissions and consultation on the new proposals as well as on the earlier components of the package.

Details on these various proposals are discussed in Section 5.

3. The Key Issues

The Reserve Bank has identified four features of Australia's card payment systems that, taken together, have inhibited efficiency and competition in the Australian payments system. These are:

- (i) the relationship between interchange fees in the credit card and EFTPOS systems;

⁴ Reserve Bank of Australia, 2005c.

- (ii) the relationship between interchange fees in the scheme debit and EFTPOS systems;
- (iii) the difficulties faced by both new and existing participants in the EFTPOS system in establishing direct connections with existing participants; and
- (iv) the requirement (imposed by the international card schemes) that merchants accept scheme debit cards on the same terms as scheme credit cards, even though the two products offer potentially quite different benefits.

The Bank has set out in considerable detail the implications of these features of the payments system for competition and efficiency in numerous documents over the past six years (see Reserve Bank of Australia and Australian Competition and Consumer Commission (2000) and Reserve Bank of Australia (2002), (2004), (2005a), (2005b) and (2005c)). The following provides a summary of the analysis set out in those documents.

The relationship between interchange fees in the credit card and EFTPOS systems

A central concern of the Bank has been that payment patterns in Australia were being distorted by the configuration of interchange fees in the credit card and EFTPOS systems.⁵ These fees are not subject to normal competitive pressures and the Bank's view is that they have not been set in a way that promotes efficiency and competition in the payments system.

In the credit card systems, interchange fees are agreed between members of the schemes and the same interchange fee is paid by every acquirer in the scheme. While there are two main credit card schemes, competition between these schemes does not ensure that interchange fees are set at a level that promotes efficiency.

While in principle it might be possible for a scheme to lower its interchange fees to attract more merchants, in practice competition does not typically work in this way. This reflects the two-sided nature of the credit card market and the fact that the demand elasticity for a particular brand of credit card is much higher on the cardholder side of the market, than it is on the merchant side. Merchants find it difficult to refuse acceptance of a particular payment instrument if a competitor accepts it because they may lose customers to the competitor. In addition, merchants are less sensitive to credit card charges than are cardholders as they can pass on the costs of accepting credit cards in the general level of prices that they charge. Furthermore, many acquirers offer 'bundled' pricing to merchants, so that a reduction in interchange fees by one scheme would be unlikely to generate greater merchant acceptance of that scheme's card, relative to competing cards.

In contrast, on the other side of the market, cardholders are quite sensitive to the pricing of credit cards and are typically prepared to switch credit card brands, if one brand offers a more attractive proposition. As a result, the card schemes effectively compete more strongly for cardholders than they do for merchants. A reduction in the interchange fee by one scheme to attract new merchants would mean that its issuers would not be able to offer as attractive product offerings to cardholders, and thus would be likely to harm, rather than improve, the scheme's competitive position. In fact, in the United States, competition between card schemes has led to a series of increases in interchange fees as the schemes compete for cardholders.⁶

⁵ For a fuller discussion, see Reserve Bank of Australia, 2001.

⁶ Macfarlane, 2005.

While interchange fees are not subject to normal competitive pressures, banks do compete for merchants' business through the margin they charge over the common interchange fee for acquiring credit card transactions. While the acquiring market is reasonably competitive, the Bank's access reforms should further promote competition. Merchants cannot exert competitive pressure on the interchange fee by threatening to move acquirers, given that all acquirers pay the same interchange fee. In this way, interchange fees place a floor under the merchant service fee.

Similarly, in the case of EFTPOS, normal competitive forces do not act on interchange fees even though they are set bilaterally. Once these fees have been set, it is very difficult to renegotiate them, again because of the two-sided nature of the market. In general, neither acquirers nor issuers are willing, or able, to initiate a process of competition over these fees.

The main reason for little competition emanating from the issuing side is that in any negotiation with an acquirer, an issuer cannot credibly threaten to end the current agreement if a lower interchange fee is not agreed to. Ending the agreement would mean that the issuer's cardholders were not able to use their cards at merchants serviced by the acquirer. For even the largest issuers, this would be seen as unacceptable, as it would effectively mean that they could not offer a full-service transaction account. Indeed, during the genesis of the EFTPOS system, issuers did not offer universal merchant acceptance but were driven to make arrangements with other banks to offer that service.

Similarly, an acquirer attempting to expand its business would have difficulty doing so if it were to offer, or agree to, a lower interchange fee. If the acquirer were receiving less revenue from interchange payments than its competitors, it would be unlikely to be able to offer merchants as competitive pricing as other acquirers. Accepting a lower fee can hurt, not improve, the competitive position of acquirers.

Given the nature of these negotiations, it is therefore not surprising that the bilateral interchange fees in the EFTPOS system have been essentially unchanged for many years.

The Bank has been concerned that the nature of competition in the EFTPOS and credit card systems has resulted in a structure of interchange fees that is leading issuers to price credit card transactions to cardholders much more attractively than EFTPOS transactions. This is despite evidence that the EFTPOS system has lower resource costs than the credit card system. Data available from the Joint Study and from retailers suggest that due to lower fraud costs, shorter transaction times and the lower cost of processing, EFTPOS transactions consume fewer resources than equivalent transactions conducted through the international credit card schemes. The structure of interchange fees in the systems has meant that these relative costs are not reflected in prices faced by cardholders who make the decision about which means of payment to use.

This apparently paradoxical pricing – in which the relatively low-cost scheme was offered to cardholders at the higher price – was encouraging substitution towards credit cards and away from the EFTPOS system. While the Bank recognised there were arguments that could potentially justify such divergent pricing, it was not convinced by these arguments. As a result, in August 2002, the Bank took a significant step towards establishing less distortionary price signals by introducing an interchange Standard for credit cards, effectively reducing the interchange fee from around 0.95 per cent of the transaction value to around 0.55 per cent. Notwithstanding

this reform, current interchange fees still significantly favour credit cards, and the Bank has seen little justification for the current level of interchange fees in the EFTPOS system.

Interchange fees in competing debit systems

A related issue is the relationship between interchange fees in the EFTPOS and scheme debit systems. As noted above, in the EFTPOS system, interchange fees are paid by the cardholder's bank to the merchant's bank, while in the scheme debit systems interchange fees flow in the opposite direction. As a result, issuers have an incentive to promote the use of scheme debit cards over EFTPOS, and some cardholders face higher prices for EFTPOS transactions than for scheme debit transactions.

As discussed above, the Bank's view is that interchange fees in the EFTPOS system are subject to limited competition. Scheme debit interchange fees are set in the same way as those for credit cards and, for the same reasons discussed above, are also subject to limited competition. Just as the relatively high price faced by cardholders when using the EFTPOS system has contributed to the growth of the credit card system at the expense of EFTPOS, current interchange fee arrangements appear to provide strong incentives for financial institutions to promote scheme debit systems at the expense of EFTPOS. The Bank's concern is that the different interchange fees might lead to the higher-cost scheme debit systems growing at the expense of the lower-cost EFTPOS system. If this were to happen, merchants' payment costs would rise, and so too would the overall level of goods and services prices in Australia.⁷

Access to the EFTPOS system

The third issue is that of access to the EFTPOS system. Arrangements in this system make entry more difficult than is the case in many equivalent systems overseas.

Typically, in other countries, there is a single point of entry to the system for new participants, who must meet a single set of technical and business requirements. Where there are entry fees, these fees are usually known in advance and, where there are interchange fees, they generally apply uniformly to all participants.

In contrast, in Australia, the EFTPOS system is built around a series of bilateral connections and interchange contracts between direct connectors (there are currently eight such connectors) and there is much less standardisation of the terms of access. Smaller participants typically gain access to the system through gateway arrangements provided by one of the organisations that has already established a series of direct connections and business arrangements. By entering the system this way, the significant costs of establishing a series of direct connections can be avoided, but higher variable costs for each transaction processed through the gateway apply.

The current arrangements complicate access in three ways:⁸

- A new participant wishing to establish direct connections must separately approach each of the existing direct connectors to negotiate the technical and business arrangements for exchanging EFTPOS transactions. Each existing participant may require the new participant to meet different technical and business requirements, increasing the costs of entry.

⁷ For a detailed discussion of these issues, see Reserve Bank of Australia, 2005a.

⁸ For a more detailed analysis of the difficulties of access, see Reserve Bank of Australia, 2005c.

- Existing direct connectors have little incentive to facilitate the entry of a new participant, particularly when the entrant is likely to be a direct competitor in at least some business lines. If a potential new acquirer seeks to establish a bilateral connection with a financial institution, the institution may be reluctant to establish the connection in a reasonable time frame, or at a reasonable cost, if it itself has a substantial acquiring business. At present, existing participants have no obligation to establish direct connections with new participants.
- Negotiations over interchange fees could also be used to frustrate entry. Interchange fees are negotiated bilaterally and are typically in a range from 18 cents to 25 cents. These fees are usually reciprocal, with the same fee being paid irrespective of which institution is the issuer. If, however, an existing issuer were prepared to pay only a much lower interchange fee to a new acquirer, that acquirer might find it difficult to compete for the business of merchants against other acquirers receiving a much higher interchange fee.

These complications provide the large incumbents with the ability to frustrate access to the system by new and smaller participants. The result has been that competition, particularly on the acquiring side, has been less than might otherwise have been the case.

These concerns are longstanding and have been raised in discussions with the Bank over a number of years.

Acceptance of scheme debit cards

Under current arrangements, whenever merchants accept credit cards issued under the MasterCard or Visa brands, they are required by the schemes to accept the scheme's debit cards on the same basis. As a result, competitive forces cannot bear directly upon the price of, or acceptance of, the scheme debit product.⁹

An important effect of the honour all cards rule is that it distorts the relative competitive positions of the EFTPOS and scheme debit systems. As noted above, in most situations, scheme debit and EFTPOS offer cardholders a very similar service. In particular, for domestic point-of-sale transactions, which represent the largest segment of card-based transactions, the two types of debit systems are effectively interchangeable. Scheme debit, however, has a competitive advantage over EFTPOS because merchants are forced to accept the card when they make the decision to accept scheme credit cards, and the higher interchange fee encourages issuers to issue and promote scheme debit in preference to EFTPOS. This raises the possibility that, over time, the scheme debit systems will take the place of the EFTPOS system, not because of differences in functionality, but because of the combined effect of the honour all cards rule and the configuration of interchange fees. This concern is reinforced by the experience in the United States, where the combination of the honour all cards rule and higher interchange fees has enabled MasterCard and Visa to significantly increase their shares of the debit market at the expense of alternative debit card systems that pay lower interchange fees to issuers.

In addition, although the no surcharge rule was removed for credit card payments, it technically still applies to scheme debit card payments. Since the merchant service fee is currently the same for scheme debit and credit card transactions, and merchants are unable to distinguish

⁹ For a more detailed discussion, see Reserve Bank of Australia, 2005a.

between scheme debit and credit products, this has not been an issue to date. It could, however, become an issue if the honour all cards rule were removed.

4. Objective

The objective of the Reserve Bank's reforms is to promote competition and efficiency in Australia's payments system, including the debit card payment systems. Specifically, the reforms aim to promote more efficient price signals to issuers and cardholders, liberalise access to the EFTPOS payment system and remove restrictions that limit competition between payment systems.

5. The Bank's Proposed Standards and Access Regime

The *Payment Systems (Regulation) Act 1998* requires the Reserve Bank to publish a draft Standard (or Access Regime) for public consultation before the Standard (or Access Regime) is finalised. Accordingly, in February and December 2005 the Bank released a number of proposals for public comment, designed to address the four issues discussed above. The Bank's reasoning is set out extensively in the accompanying Consultation Documents as well as in a document setting out its reasons for designating the EFTPOS system.¹⁰

In the February 2005 Consultation Document, the Bank proposed interchange Standards for both the EFTPOS and Visa Debit systems. The proposed EFTPOS Standard would reduce interchange fees from their current average of around 20 cents, to a maximum of around 5 cents, with the fee remaining payable by issuers to acquirers. The Visa Debit Standard would see interchange fees fall from a percentage-based fee (around 0.55 per cent of the transaction value), averaging around 40 cents, to a flat fee of around 15 cents. If these reforms were implemented, the difference in the interchange fees in the two systems for a transaction of average size would fall from around 60 cents to around 20 cents.

Following comments on the draft EFTPOS interchange Standard and the industry work on access, the Bank proposed a change to the EFTPOS Standard in December 2005. Under the revised draft Standard, the interchange fee would be subject to the same cap, but it would also be subject to a floor of 80 per cent of the cap. This change was in response to concerns from some in the industry that the beneficial effects of access reform could be undermined by negotiations over interchange fees. By introducing a floor, the revised draft Standard would constrain interchange fees to a relatively narrow range, limiting this possibility.

The February 2005 Consultation Document also proposed a Standard requiring the Visa system to remove the honour all cards rule and to ensure that Visa Debit cards were visually and electronically identifiable.

The issue of access to the EFTPOS system was addressed in the December 2005 Consultation Document, with the Bank proposing that an Access Regime be imposed on the system. This followed extensive work by APCA in developing an Access Code for the EFTPOS system. This Code contains detailed provisions under which existing participants in the EFTPOS system agree to provide connections to new and existing participants. These provisions have been discussed extensively with the Bank. While the Access Code does not set a price of connection,

¹⁰ Reserve Bank of Australia, 2004, 2005a and 2005c.

APCA's members agreed to the Bank's proposal to set a cap on this price equal to the estimated incremental direct cost that would be incurred by the most efficient existing participant providing direct connections (which, from a 2004 survey conducted by APCA, is \$78 000). Following this agreement, APCA wrote to the Bank asking it to give consideration to imposing the cap under the *Payment Systems (Regulation) Act 1998*. The proposed Access Regime would do this.

The Access Regime also includes 'no discrimination' provisions which would ensure that new entrants are offered interchange fees that do not place them at a competitive disadvantage relative to existing participants.

6. Submissions on the Bank's Proposed Standards and Access Regime

In total, 37 submissions were made on the Bank's proposed Standards and Access Regime (see the Reserve Bank's website for details). Fifteen parties took up the invitation to discuss their submission with the Bank, with many organisations having more than one meeting.

This section sets out the main points that arose in consultation, many of which were made by more than one party. In summary:

- Many respondents recognised the need to improve arrangements for access to the EFTPOS system. While some argued that the proposed arrangements did not go far enough, others argued that the proposals tipped the balance too far in favour of new entrants, with the result that existing participants would be required to subsidise new participants.
- A variety of views were put on the desirability of moving interchange fees in the EFTPOS and Visa Debit systems closer together, with some participants arguing for moving EFTPOS interchange fees, but not those for Visa Debit, while others argued the reverse. Some participants argued for larger changes than implied by the draft Standards, while others argued for smaller changes. Many submissions argued that a consistent approach should be applied to setting interchange fees, but the submissions differed markedly on which consistent approach should be used.
- Merchants argued that the honour all cards rule should be abolished in the Visa Debit system. In contrast, Visa and Visa Debit issuers argued that doing so would be unnecessary (and counter-productive) if the interchange fee were reduced and merchants were free to surcharge for Visa Debit transactions.

6.1 The Access Regime

The draft Access Regime is supported by the Australian Consumers' Association (ACA), the Australian Merchant Payments Forum (AMPF), APCA, Bank of Queensland and CreditLink.¹¹ The AMPF argued that the Access Regime and Access Code are a useful first step, but that there should be a single point of access to the EFTPOS system. APCA supported the introduction of the Access Regime but expressed no view about the process for determining the cap on the amount that a new entrant could be charged for establishing a direct connection. While the Bank

¹¹ See submissions to the Bank by: ACA, 17 February 2006; AMPF, 16 February 2006; APCA, 10 February 2006; Bank of Queensland, 17 February 2006; CreditLink, 14 February 2006.

of Queensland supported the draft Access Regime, it was concerned that the complementary Access Code developed by APCA would result in changes to APCA rules, and that it had not been able to participate in the process that had led to these potential changes.

First Data International (FDI) and National Australia Bank both criticised the draft Access Regime on the grounds that the \$78 000 cap was too low.¹² FDI argued that there should be no cap, with the price charged for establishing a new connection being negotiated bilaterally but with reference to a non-binding benchmark price determined by APCA. It suggested that this benchmark should be the average of the estimated connection costs in APCA's 2004 survey (around \$200 000). National Australia Bank did not directly present specific arguments, but said that it strongly supports the view of the Australian Bankers' Association (ABA) in its submission to the Commonwealth Government's Regulation Review Taskforce. That submission argued that the effect of the Access Regime would be to subsidise new entrants. It proposed that any Access Regime determined under the *Payment Systems (Regulation) Act 1998* should not result in 'owners or operators of the payment system recovering less than their direct incremental costs of providing access' or require 'the owners or operators of the payment system to bear some or all of the costs of extending or maintaining the payment system to provide access'.¹³

FDI also commented on APCA's Access Code, which complements the Bank's Access Regime. It argued that the benefits of the Code should be available only to new entrants that are prepared to commit to establishing five direct connections, rather than the three currently specified. FDI also noted that in many cases it provides additional consulting support to firms establishing new connections, and was concerned that its ability to offer these services on a commercial basis might be limited by the cap.

6.2 The interchange Standards

Merchants were strongly opposed to any reduction in EFTPOS interchange fees. Some argued that the fees should be increased, in recognition of the costs merchants incur in providing EFTPOS transactions. In contrast, most banks supported the reduction in EFTPOS interchange fees; some argued that the Bank should go further and reduce the interchange fee to zero, while others encouraged the Bank to reverse the direction of fees, so that acquirers would pay issuers.¹⁴

Only one submission opposed the proposal that interchange fees should be subject to a floor as well as a cap: CUSCAL argued that the floor would constrain its ability to negotiate an even lower interchange fee. Of those that supported the floor, Coles Myer argued that it would mitigate concerns that there was a potential for negotiations over interchange fees to adversely affect competition.¹⁵ However, Coles Myer, together with the AMPF, also argued that the proposed Standard would so tightly constrain interchange fees that a common fee may as well be set, removing any residual scope for discrimination.¹⁶ The floor was supported by

12 See submissions to the Bank by: FDI, 17 February 2006; National Australia Bank, 22 February 2006.

13 See submission to the Regulation Review Taskforce by the ABA, 16 December 2005, p26.

14 See submissions to the Bank by: Australian Settlements Ltd (ASL), 29 April 2005; Bank of Queensland, 29 April 2005, 17 February 2006; MoneySwitch, 29 April 2005, 17 February 2006; Credit Union Services Corporation (Australia) Ltd (CUSCAL), 29 April 2005; National Australia Bank, 29 April 2005.

15 See the submission to the Bank by Coles Myer, 17 February 2006.

16 See the submission to the Bank by AMPF, 16 February 2006.

MoneySwitch, which also argued that the Standard should require that the interchange fee between any two organisations be reciprocal.¹⁷

On the Visa Debit interchange Standard, neither Visa Debit issuers nor Visa argued against a reduction in interchange fees, but they argued that any reduction should be smaller than proposed.¹⁸ In contrast, some merchants argued that the same interchange fee should apply in the Visa Debit and EFTPOS systems, with the fee paid by issuers to acquirers.¹⁹ Most of the banks that do not issue Visa Debit did not express a view on the interchange fee in that system.

The arguments put forward to support these positions were varied and sometimes at odds with one another. The main arguments are discussed below.

The proposed changes to EFTPOS interchange fees will have little effect on payment patterns

Merchants argued that the proposed changes would have little effect on payment patterns of cardholders. This reflected two arguments.

The first is that, although EFTPOS acquirers are likely to pass on the change in interchange fees in the form of higher merchant service fees, issuers will not lower the prices they charge cardholders for EFTPOS transactions. The merchants noted that, while issuers have had many opportunities to give assurances that they would pass on lower interchange fees, they have not been prepared to do so. The merchants also noted that currently many EFTPOS cardholders face no per-transaction charges, either because cardholders are within their ‘fee-free limit’ or, increasingly, because they have an ‘all you can eat’ account that offers unlimited fee-free EFTPOS transactions for a fixed monthly fee.

The second is that even if issuers passed on the changes in interchange fees in the form of lower prices for using EFTPOS, there would be little substitution from credit cards to EFTPOS since, for many cardholders, the two cards are viewed as different products.

The merchants also argued that the main effect of the reforms would be an increase in the general level of retail prices due to higher merchant service fees.

Consistency between interchange Standards

Many submissions argued that the interchange Standards determined by the Bank should all use a consistent methodology.

A common view was that the Visa Debit interchange Standard should be constructed in exactly the same way as the credit card Standard, although it should exclude the interest-free period from eligible costs. In particular, it was argued that:

- the methodology used in the draft Standard underestimates the fixed costs of authorisation and processing;²⁰

17 See the submission to the Bank by MoneySwitch, 17 February 2006.

18 See submissions to the Bank by: CreditLink, 29 April 2005; St George Bank, 29 April 2005; CUSCAL, 29 April 2005; ASL, 29 April 2005; Suncorp-Metway, 27 April 2005; Visa International, 29 April 2005.

19 See submissions to the Bank by: Coles Myer, 26 July 2005; AMPF, 29 April 2005.

20 See the submission to the Bank by Visa International, 29 April 2005.

- fraud and fraud prevention costs should be included in eligible costs. The data on the fraud experience of Visa Debit issuers suggest that doing so would add around 11 cents to the benchmark for the average Visa Debit transaction; and
- the Visa Debit interchange Standard should be based on the eligible costs of Visa Debit issuers rather than issuers of credit cards. Visa undertook a study of these costs in 2005 and found that if the Standard were based on the costs of Visa Debit issuers, and included fraud costs, the benchmark interchange fee would be around 37 cents, only slightly less than the current level of around 40 cents on a Visa Debit transaction of average size. Visa offered to undertake a new survey of costs that could be used in calculation of a benchmark in 2006.

In the case of the Standard for interchange fees in the EFTPOS system, the consistency argument was used by some issuers to support a standard where the fee is paid by the acquirer to the issuer as in the credit card Standard.²¹ Such a standard would include the same eligible costs as in the credit card Standard without the cost of the interest-free period. If this approach were adopted, the resulting benchmark for the EFTPOS system would be lower than that for Visa Debit if fraud costs were included in the Visa Debit interchange Standard.

The merchants used the consistency argument to support an opposite position – that Visa Debit interchange should flow from issuers to acquirers, and the benchmark should be based on acquirers’ costs, not issuers’ costs.

In its Consultation Documents, the Bank has argued that, although consistency is desirable, it would require a change in direction for at least one interchange fee and that this could be quite disruptive. The approach proposed was therefore one of moving the fees closer together without changing the direction of any of them. Visa Debit issuers argued that this justification is not consistent with the Standards. They argued that the changes would be very disruptive to their business and that the merchants are the only parties to benefit from this evolutionary approach. One submission argued that the Bank has ‘bowed to pressure from the retailers’ and that ‘the very disruptive changes referred to relate to the merchants’ involvement in the EFTPOS network’.²²

A number of submissions, most notably from the major banks, argued that the Bank should move to a zero interchange fee for the EFTPOS system, arguing that such an outcome was an appropriate compromise amongst competing interests.

Merchants should be paid for providing banking services

Some merchants argued that, in accepting EFTPOS, they are essentially providing outsourced banking services to banks’ customers, and thus they should be compensated by banks. In particular, some argued that the definition of eligible costs in the EFTPOS interchange Standard should be expanded to include the costs of PIN pads and the time taken to process an EFTPOS transaction over and above that needed for a cash transaction (merchants estimated this incremental cost at around 25 cents per transaction).²³

²¹ See the submission to the Bank by ASL, 29 April 2005.

²² See the submission to the Bank by ASL, 29 April 2005, p5.

²³ See submissions to the Bank by: Coles Myer, 17 February 2006; AMPF, 16 February 2006.

Coles Myer also argued that banks that provide PIN pads to merchants have the option of recovering those costs through rental charges levied on merchants, but as a self acquirer it does not have that option. As a result, to maintain competitive neutrality it argued these costs should be included in eligible costs.²⁴

The EFTPOS interchange Standard should not apply to cash out

Merchants argued that, since the Bank has not regulated interchange fees for ATM withdrawals, they would be at a competitive disadvantage to ATM owners if the proposed EFTPOS interchange Standard were to apply to transactions involving cash out. At present, ATM owners receive around \$1 when a cardholder uses a 'foreign' ATM, while, in contrast, large merchants receive around 15 cents from their acquirer when an EFTPOS transaction (including a transaction involving cash out) is made. As noted above, the merchants argued that this 15 cents represents compensation for providing a service to banks' customers, and that reducing the EFTPOS interchange fee to 4 to 5 cents would mean they would no longer receive any such compensation and, as a result, may cease providing cash out. Accordingly, merchants argued that transactions involving cash out should not be subject to the Bank's proposed Standard.

The proposed Visa Debit interchange Standard would push cardholders to credit cards

Visa Debit issuers argued that the reduction in the interchange fee proposed in the Visa Debit Standard would create an incentive for them to encourage their customers to switch to credit cards.²⁵ The ACA also expressed concerns that the Standard might encourage more consumers to hold, and use, credit cards.²⁶ Some of the Visa Debit issuers argued that, in terms of functionality, a Visa Debit card is much closer to a credit card than to an EFTPOS card. In particular, they argued that cardholders value the ability to use the card over the telephone and the internet, and overseas, and that cardholders will therefore prefer to move to a credit card than to an EFTPOS card.²⁷ One building society stated that it has plans to move as many customers as possible onto low-limit, low-interest-rate credit cards if the proposed Standard were implemented.

Intervention will discourage investment

Merchants argued that implementation of the proposed Standard would reduce their incentive to invest in EFTPOS infrastructure, including the upgrading of PIN pads, particularly to 3-DES encryption standards. In addition, more generally some banks argued that reductions in interchange fees paid to card issuers reduce the attractiveness of investing in card schemes.

Change is not urgent

Merchants argued that intervention to lower EFTPOS interchange fees was unnecessary, because the earlier reduction in credit card interchange fees had already encouraged a shift away from credit cards towards EFTPOS. Given this, they argued that judgements about EFTPOS interchange fees should wait until 2007, when the Bank has signalled that it will review the effects of the credit card reforms introduced in 2002.

24 See the submission to the Bank by Coles Myer, 17 February 2006.

25 See submissions to the Bank by: ASL, 29 April 2005; CUSCAL, 29 April 2005; St George Bank, 29 April 2005.

26 See the submission to the Bank by ACA, 29 April 2005.

27 See submissions to the Bank by: ASL, 29 April 2005; CUSCAL, 29 April 2005.

6.3 The honour all cards Standard

Both Visa and most issuers of Visa Debit cards opposed abolition of the honour all cards rule, arguing that the rule reduces the costs of bringing new products to market and thus encourages competition and efficiency.²⁸ They argued that cardholders would be confused if they could not be sure which of their Visa cards would be accepted by merchants, and that such confusion would reduce the effectiveness and efficiency of the system. Some Visa Debit issuers argued that they would be particularly badly affected if merchants chose not to accept Visa Debit cards. They also argued that large acquirers might choose not to acquire Visa Debit transactions in order to disadvantage the small institutions.

Visa, and some others, also argued that any case to abolish the honour all cards rule would be substantially weakened if merchants were free to surcharge for Visa Debit transactions, and if a separate, lower, interchange fee applied to Visa Debit transactions. In particular, they argued that, in this case, any disadvantages of the honour all cards rule to merchants would be outweighed by the benefit to cardholders.

In contrast, merchants supported the abolition of the rule, arguing that tying reduces competition and increases their costs.²⁹ They argued that, if new products were to be introduced, merchants should have the ability to accept, or decline, them on their merits, and not be forced to accept a new method of payment simply because they accepted other related means of payment.

A number of comments were also made on the requirements that Visa Debit cards be visually identifiable and that transactions be electronically identifiable.

Some of the Visa Debit issuers argued that it would be extremely costly for them to reissue Visa Debit cards outside their normal card replacement cycles. CUSCAL, for example, estimated that the total cost to its members to reissue ahead of schedule would be around \$11.6 million.³⁰ The building societies estimated their costs at \$4 to \$6 million.³¹

CUSCAL indicated that cards on issue can have a lifespan of up to three years; the building societies indicated two to three years. They suggested that the Bank should consider changing the draft Standard to require *new* Visa Debit cards issued after a certain date to be visually identified as debit cards or to increase the length of the transition period.

Visa Debit issuers also noted the fraud risks of reissuing cards ahead of schedule. Normally when cards are reissued, the cards being replaced have expired. A reissue ahead of schedule would involve replacing valid cards with new cards. The issuers noted that with two unexpired cards on one account in circulation, the possibilities for fraud would increase. Although customers would be asked to destroy, or return, the old card, it is unlikely that all old cards would be removed from circulation.

28 See submissions to the Bank by: CreditLink, 29 April 2005; Bank of Queensland, 29 April 2005; ASL, 29 April 2005; St George Bank, 29 April 2005; CUSCAL, 29 April 2005; Westpac Banking Corporation, 29 April 2005; Suncorp-Metway, 27 April 2005; Visa International, 29 April 2005.

29 See submissions to the Bank by: Coles Myer, 26 July 2005; AMPF, 29 April 2005.

30 See the submission to the Bank by CUSCAL, 2 August 2005.

31 See the submission to the Bank by ASL, 29 April 2005.

On the issue of electronic identification, several issuers and Visa noted that their Visa Debit cards already have unique Bank Identification Numbers (BINs) and, if the merchants had the relevant BINs, they could use this information to electronically distinguish debit from credit cards.

Visa and FDI also argued that a requirement that all acquirers and Visa introduce system changes to ensure every merchant could separately identify Visa Debit cards electronically could be quite difficult and may involve considerable expenditure and time. FDI argued that several years of work would be needed, and expressed concern that the Standard is not clear about what is required of acquirers.

7. Options

In considering possible reforms, the Bank undertook a two-stage process. In the first stage, it considered whether competition and efficiency in the payments system could be improved by way of a regulatory response on the issues of: interchange fees in the EFTPOS and Visa Debit systems; access arrangements in the EFTPOS system; and the honour all cards rule in the Visa system. In the second stage, it considered various options regarding the precise form of regulation.

In terms of considering whether a regulatory response is appropriate in the first place, the Bank assessed three general options, with one of these having a number of sub-options. These three options are:

- I. Implementation of the package of reforms broadly as proposed. As set out in Section 5, this option involves:
 - a Standard being determined that would reduce interchange fees in the EFTPOS system. Under the draft Standard, these fees would fall from their current average of around 20 cents to around 4 and 5 cents paid to acquirers;
 - a Standard being determined that would reduce interchange fees in the Visa Debit system. Under the draft Standard, these fees would fall from an ad valorem fee of around 0.55 per cent of the transaction value to a flat fee of around 15 cents;
 - a Standard being determined that would require the Visa system to remove the requirement that merchants that accept Visa credit cards also accept Visa Debit cards; and
 - an Access Regime being imposed on the EFTPOS system that would have the effect of capping the price incumbents can charge for new direct connections and limit the ability of incumbents to use negotiations over interchange fees to frustrate entry.
- II. Implementation of various elements of the reforms, but not the entire package. The consultation process suggested a number of possibilities. One was to address just the issue of EFTPOS access. A second was to implement the package, except for the Standard relating to interchange fees in the EFTPOS system. And a third was to implement the package, but not prohibit the honour all cards rule in the Visa system.
- III. Take no action.

These various options are summarised in Table 2.

Table 2: Options considered by the Bank

	I Current proposal	II(a) Access Regime only	II(b) All except EFTPOS interchange	II(c) All except honour all cards rule	III Do nothing
EFTPOS: Access Regime	◦	◦	◦	◦	✗
EFTPOS: Interchange Standard	◦	✗	✗	◦	✗
Visa Debit: Interchange Standard	◦	✗	◦	◦	✗
Visa Debit: Remove honour all cards rule	◦	✗	◦	✗	✗
Visa Debit: Remove no surcharge rule	◦	✗	◦	◦	✗

8. Evaluation

8.1 Parties affected

In assessing these various options, the Bank considered the likely impact on users and providers of payment services, including:

- the institutions that are participants in the EFTPOS, scheme debit and credit card systems;
- potential new participants in the payments system;
- merchants that accept EFTPOS and scheme debit cards;
- EFTPOS and scheme debit cardholders; and
- the community as a whole.

Most banks, building societies and credit unions issue EFTPOS cards; in total there are around 25 million accounts that can be accessed by using an EFTPOS card. Visa Debit cards are issued mainly by building societies and credit unions and some banks, with around 4 million Visa Debit cards on issue. On the other side of the market, eight institutions account for almost all acquiring services.

The following discussion outlines the likely effects of the various options.

8.2 Option I: Implementation of Standards and Access Regime

Interchange Standards

Implementation of the two proposed interchange Standards would narrow the difference in interchange fees in the EFTPOS and Visa Debit systems noticeably. Reduction in the EFTPOS interchange fee would also narrow the difference in interchange fees in the EFTPOS and four-party credit card systems.

In the first instance, this realignment of interchange fees is highly likely to lead to merchants paying lower merchant service fees on Visa Debit transactions, and higher fees (or receiving lower or no rebates) on EFTPOS transactions. Despite the higher fees on EFTPOS transactions, merchants are unlikely to reduce their acceptance of EFTPOS as a means of payment. As discussed in Section 3, merchants are reluctant to refuse acceptance of widely used means of payment, and EFTPOS transactions will still attract lower fees than either Visa Debit or credit card transactions. The net effect (in the short run) is therefore likely to be higher overall merchant costs for accepting debit cards: at current transaction levels, and assuming that the change in interchange fees is fully passed through by acquirers, costs to merchants would rise by around \$100 million per year.

This outcome, however, assumes that payment patterns are not affected by the reforms. In the Bank's view this assumption is unrealistic. Over time, the Bank expects that overall merchant costs of accepting card-based payments will be lower under the reforms than would have otherwise been the case. This reflects the fact that payment patterns by cardholders are likely to be different as a result of the reforms.

In particular, in the absence of a change in current interchange arrangements, issuers will have a strong incentive to promote scheme debit at the expense of EFTPOS, both through pricing to cardholders and other means of promotion. This reflects the fact that, under current arrangements, issuers of Visa Debit cards receive around 40 cents in interchange revenue on the average Visa Debit transaction, whereas if the same transaction is made through the EFTPOS system, they have to pay 20 cents. As a result of these issuer incentives, the Bank expects that scheme debit would grow at the expense of the EFTPOS system. Currently, those issuers who issue both Visa Debit and EFTPOS cards actively promote the use of Visa Debit over EFTPOS. A further consideration is that, at some point in the future, banks will need to invest in technical upgrades to the EFTPOS system. If an alternative debit card system is available which yields significantly more revenue to issuers, this upgrading may not occur.

To date, most issuers have not offered Visa Debit cards, despite the clear advantage (in terms of interchange fees) in doing so. In the Bank's judgement, this situation is likely to change if it were clear that current arrangements were to continue. While it is difficult to determine how extensive and rapid any switch away from EFTPOS to scheme debit might be, the possible effects on merchant service fees can be illustrated by making some assumptions. In particular, if it is assumed that scheme debit transactions were to grow to 50 per cent of the 1.2 billion debit card transactions reported in 2005, rather than the current share of around 15 per cent, merchants' costs would be around \$250 million per annum higher than is currently the case. If instead, *all* debit transactions shifted to scheme debit (which, over time, is not an improbable outcome), the increase in merchants' costs would be over \$600 million per annum (at current total debit card transaction levels). In time, these higher costs would flow into higher general prices of goods and services, which would affect the community at large.

The reforms will have a number of effects on consumers. In the short term, any increase in merchants' costs is likely to flow through into higher prices for goods and services paid by all consumers. However, over the longer term, as payments behavior adjusts, consumers will face lower prices than they would have in the absence of the reforms. For EFTPOS cardholders, the

reforms are likely to see more attractive pricing than would otherwise have been the case. A number of financial institutions have already moved to zero charges for all or most electronic payments, including EFTPOS. Lower interchange fees in the EFTPOS system make it more likely that such pricing arrangements will continue. For other institutions, fee-free limits may be increased for EFTPOS transactions and/or lower per transaction charges may apply. Conversely, the reduction in interchange fees for Visa Debit transactions may mean that Visa Debit cardholders experience less attractive pricing, either in the form of account-keeping fees, or transactions charges.

The Bank also expects that the reforms will lead to some substitution away from credit cards and towards the EFTPOS system as a result of the change in pricing to cardholders. There may also be some substitution away from Visa Debit to credit cards (see Section 9).

The changes in interchange fees, and the subsequent changes in payment patterns, are likely to lead to lower overall resource costs than would otherwise have been the case. The most comprehensive assessment of the costs of making transactions through the different systems remains the Joint Study. While strict comparisons of the different systems are difficult due to the allocation of fixed costs, the available evidence is that the cost of processing a typical transaction through the EFTPOS system is lower than through the credit card and scheme debit card systems. This reflects a variety of factors, including lower fraud and processing costs. As above, the possible effects on resource costs of implementing the reforms can be illustrated by making some assumptions. In particular, if it is again assumed that scheme debit transactions would otherwise grow to 50 per cent of the current debit card transactions and that resource costs involved in an EFTPOS transaction were 20 cents lower than through the other systems, total resource costs would be \$85 million lower under the reforms than otherwise. If the difference in resource costs were higher, say 30 cents per transaction, and scheme debit transactions would otherwise account for all debit transactions, the impact on overall resource costs would be around \$300 million.

As part of its assessment, the Bank recognised that the extra resource costs in the Visa Debit system are partly explained by the extra functionality to cardholders of the Visa Debit card. However, it did not see this as an argument for maintaining the current configuration of interchange fees. If cardholders value this extra functionality (and the value they place on it is greater than the cost of providing it), then they should be prepared to pay more for the use of Visa Debit than they are prepared to pay for use of the EFTPOS system.

EFTPOS Access Regime

Implementation of the proposed Access Regime would place a cap on the price paid by a new entrant to establish a direct connection and limit the scope for existing participants in the EFTPOS system to use negotiations over interchange fees in a way that could act as a barrier to entry to the system.

These proposed reforms, together with the EFTPOS Access Code, would benefit potential participants in the EFTPOS system by making it less expensive and less difficult to enter. New participants are likely to be mostly on the acquiring side, with the result that competition among acquirers would increase with merchants being offered cheaper acquiring services. To the extent

that acquirers need to be able to provide debit card acquiring services if they are to provide credit card acquiring services, improving access to the EFTPOS system is also likely to improve competition in credit card acquiring.

Some existing participants on both the acquiring and issuing sides of the EFTPOS market might also be expected to take advantage of the reforms to establish additional direct connections.

Liberalised access conditions would increase competition faced by existing participants in the EFTPOS system. The cap on the price that existing participants may charge for establishing a new direct connection would mean that existing participants in the EFTPOS system, other than the low-cost provider, would not recover their full costs of providing the connection. Over time, this may encourage participants to explore ways of lowering their costs of providing a connection.

The honour all cards Standard

Implementation of the Standard removing the honour all cards rule would allow merchants to make separate decisions to accept scheme debit cards and credit cards.

Merchants would be able to assess the benefits and costs of accepting scheme debit cards rather than being required to accept them as a consequence of deciding to accept scheme credit cards. This could be expected to result in a more efficient allocation of resources, which ultimately should benefit merchants' customers more broadly.

There is also a possibility that abolition of the rule may lead to lower interchange fees in the Visa Debit system. Both merchants and the schemes have an interest in cardholders being able to pay with a wide range of cards, including scheme debit cards. If merchants were to decide not to accept scheme debit cards, the schemes may decide to lower interchange fees as part of a process of ensuring continued acceptance. If the rule were not removed, this possibility would not arise.

If some merchants do not accept scheme debit cards, cardholders would bear some costs of having to identify which merchants accepted scheme debit cards. Removal of the rule may also mean that issuers and card schemes find it more difficult to launch new card products, since they would need to convince merchants that they should accept new products on their merits.

Implementation of this Standard would impose some costs on both issuers and acquirers. These costs include the costs of reissuing cards outside the normal timetable and the costs of any changes to systems that are required to ensure the cards are electronically identifiable. These costs are discussed in more detail below.

The proposed Standard abolishing the honour all cards rule also formally abolishes the no surcharge rule in the Visa Debit system. This would allow merchants to impose a surcharge on Visa Debit transactions if they so chose.

Compliance costs

The implementation of Option I (as described in Section 10 below) would impose some compliance costs on participants in the payments system. Using the nine categories of costs set

out by the Department of Industry, Tourism and Resources for the purposes of their Business Costs Calculator, there are three types of compliance costs that might arise:

- Record-keeping costs. These are the costs involved in collecting data to calculate the relevant interchange benchmarks and the access charge benchmark. There will be few additional data collection costs associated with the Visa Debit interchange Standard, since it primarily uses data already collected for the purposes of the credit card interchange Standard. In contrast, in the EFTPOS system, up to six acquirers will incur costs of providing data on the cost of processing and switching transactions once every three years. These data are routinely available from institutions' cost accounting systems and the costs of extracting the data and providing them to the Reserve Bank are likely to be small. The relevant institutions have recently demonstrated their capacity to provide these data in a timely fashion. Similarly, Access Providers will, once every four years, incur costs of collecting data on the costs of providing direct connections. Again, the costs are likely to be small.
- Notification costs. There are potentially two types of notification costs. First there is the cost of confirming compliance with the Standards to the Reserve Bank once a year. Second there is the cost of notifying merchants of their rights under the regulations. The Standard provides more than a year for this to occur, during which period acquirers would, in the normal course, have several communications with merchants. This requirement should therefore not require additional communication with merchants. In addition, acquirers will incur the costs of providing information to merchants to allow electronic identification of Visa Debit cards. These data are already available. Scheme participants will need to establish arrangements to make them available to merchants that request them.
- Purchase costs. This is any costs of changes in the visual appearance of Visa Debit cards. These costs will be small. The Standard provides for cards to be issued on institutions' normal replacement cycles and therefore does not impose significant costs on financial institutions in addition to their usual costs of issuing cards.

While it is difficult to measure each of these various costs with accuracy, the Bank's judgement is that they are small and are outweighed significantly by the benefits of the reform package.

Most of these compliance costs would fall on acquirers, none of which are currently small businesses.

8.3 Option II: Implementation of elements of the current proposal

The second broad option considered by the Bank was to implement only parts of the proposed package.

(a) *Impose Access Regime only*

One possibility considered was to address only the issue of access to the EFTPOS system on the grounds that, typically, the starting point for ensuring strong competition in any market is to ensure that there are no unnecessary barriers to entry.

While this option would address the issues discussed above regarding entry, it would leave the important issue of relative interchange fees unaffected. Improving access would not cause a change in the current configuration of interchange fees, and thus the incentives discussed above would remain. The long-run costs to merchants of debit card payments would be higher than under Option I to the extent that a shift to scheme debit would be encouraged. Resource costs would also rise.

Compliance costs incurred by participants in the EFTPOS and Visa Debit systems would be lower than under Option I. The notification costs and purchase costs would not be incurred.

(b) Implement all reforms except the EFTPOS interchange Standard

A second possibility considered was to improve access to the EFTPOS system for new participants, reduce interchange fees in the scheme debit systems and prohibit the honour all cards rule, but leave the arrangements for determining interchange fees in the EFTPOS system unchanged. This possibility was canvassed by a number of merchants during the consultation process.

This option would narrow the difference in interchange fees in the EFTPOS and Visa Debit systems to around 35 cents on the average transaction, compared with 20 cents under Option I and the current difference of 60 cents. The effect would be to increase the incentive for issuers to promote the use of scheme debit over EFTPOS (compared with Option I) and thus increase the likely usage of scheme debit by cardholders. The long-run result is likely to be higher merchant costs and higher resource costs than if the full package of reforms were implemented.

This Option would nevertheless narrow the difference in interchange fees more than would Option II(a) and, from that perspective, is preferable to Option II(a).

Compliance costs would be less than for Option I, since EFTPOS acquirers would not need to provide cost data to the Reserve Bank.

(c) Implement all reforms except the honour all cards Standard

A third possibility considered was to implement the entire package with the exception of the requirement that the honour all cards rule be removed. This option was canvassed by Visa and Visa Debit issuers. They argued that, if Visa Debit interchange fees were reduced and merchants were able to surcharge for Visa Debit transactions, few merchants would elect not to accept Visa Debit cards, and any benefit from allowing them to do so would be small. Further, they argued that retaining the honour all cards rule would prevent customer confusion as to where various cards could be used.

Under this option, merchants would be unable to negotiate explicitly over the terms on which they accepted scheme debit cards. This could have a number of possible effects. First, it might reduce the pressure on acquirers to pass on the fall in scheme debit interchange fees to merchants, though the fall in interchange fees in the credit card systems suggests that competition between acquirers is likely to see a rapid pass through. Second, it might reduce the competitive pressure on the margin between the interchange fee and the merchant service fee charged by acquirers to merchants for scheme debit transactions. An inability of merchants to bargain

specifically over this margin, against the background of the possibility that they would refuse to accept scheme debit cards, could reduce competitive pressure on acquirers of scheme debit transactions. And third, there would be no pressure for the schemes to reduce the interchange fee to ensure continued merchant acceptance.

The compliance costs of Option II(c) would be little different from those of Option I, since the implementation of the honour all cards Standard has been designed to minimise transition costs.

8.4 Option III: No regulatory action

The analysis of doing nothing is essentially the reverse of Option I.

Under this option the existing impediments to entry to the EFTPOS system would be likely to remain. New participants would need to continue to negotiate bilateral direct connections and would be likely to experience the difficulties described in Section 3.

Relativities between interchange fees in the EFTPOS and scheme debit systems would also remain, and thus so too would the incentives faced by issuers and cardholders favouring scheme debit over EFTPOS. In the Bank's view this is likely to lead to scheme debit growing more quickly than EFTPOS, and the possibility that the EFTPOS system might eventually cease to exist. As a result, merchants' costs would rise.

Merchants would continue to be required to accept scheme debit cards on the same terms as credit cards, with scheme debit continuing to have a competitive advantage over EFTPOS. Card schemes would be able to use this advantage in the introduction of new card products that would have a guaranteed merchant-acceptance base. Cardholders would continue to find their scheme debit cards accepted wherever the scheme's credit cards were accepted.

The main advantage of this option is that it would not impose any compliance burden on various parties in the payments system and would avoid the compliance costs discussed in Section 8.2.

9. Recommended Option

A central issue in the Bank's deliberations has been the relative competitive positions of the EFTPOS and scheme debit systems. As noted above, the Bank is concerned that, should the current arrangements remain in place, the EFTPOS system will be at a distinct competitive disadvantage because of the honour all cards rule and the configuration of interchange fees.

This concern is supported by experience in the United States, where debit card systems with the interchange fee most favourable to issuers have gained market share. Over the 1990s, the market share of scheme debit transactions (which attracted relatively high interchange fees) rose from 45 per cent to over 60 per cent, a trend that was arrested only when the gap in the interchange fees was compressed. In Australia, one major bank has recently introduced a Visa Debit product and MasterCard has recently introduced a debit card.

This concern about the competitive position of the various debit card systems does not reflect a view that the EFTPOS system has some intrinsic merit and thus should be protected. Nor does it reflect a view that simply because the EFTPOS system has lower resource costs, it should

necessarily be encouraged. Rather, the Bank's view is that efficiency of the overall payments system would be promoted by the various payment systems competing on their merits, rather than through interchange fees that themselves are not subject to normal competitive pressures.

The proposed interchange Standards bring the interchange fees closer together, although there will still be a difference. There is a possibility that this difference may be narrower than that indicated by the Standards, as the removal of the honour all cards rule may put downward pressure on the interchange fees in the scheme debit systems, as the schemes seek to ensure merchant acceptance. If this were to occur, actual interchange fees in the scheme debit systems may be lower than the cap imposed in the Standard. Whether or not this occurs will depend upon negotiations involving merchants, the card schemes, issuers and acquirers.

It is difficult to predict exactly how the two systems would evolve under the various options. However, in the Bank's view, a narrowing of the difference in interchange fees in the two types of system makes it more likely that decisions by issuers and acquirers about the systems and their use will be made on the basis of their relative costs and benefits to the various parties, rather than driven by interchange fees. Similarly, cardholder decisions about whether to make a payment through the EFTPOS system or the scheme debit system will more closely reflect the relative costs and benefits of the systems, rather than interchange fees.

In reaching its decisions, the Bank also considered the likely impact of the reforms on the relative use of the EFTPOS system and the credit card system. In the Bank's view, the combination of the previous reduction in credit card interchange fees and the proposed reduction in EFTPOS interchange fees would promote more soundly based competition in the payments system and likely lead to greater use of EFTPOS than would otherwise be the case. As noted above, this is not viewed as an objective in itself, but rather a reflection of the more appropriate price signals facing cardholders.

Another issue the Bank considered is the possibility that investment in the payments system would be adversely affected by these reforms. In submissions, merchants argued that reducing the EFTPOS interchange fee would limit their scope to recover their investment in PIN pads and associated infrastructure and, as a result, they might invest less in the system. Similarly, Visa has argued that a regulated reduction in the credit card or scheme debit interchange fee would reduce investment in those systems.

The Bank was not persuaded by either of these arguments. Both are based on the premise that interchange fees are a source of revenue to the system, rather than a means to rebalance revenues within the system and to affect the extent to which cardholders and merchants pay for payment services. The fact that, in payment systems overseas, investment occurs in both debit and credit card systems under a wide range of interchange fees suggests that there is no reason to expect that a change in interchange fees should necessarily deter investment.

Another argument raised in consultation was that the Access Regime for the EFTPOS system might inhibit investment as it allows new competitors to enter at 'subsidised prices' and raises the possibility of similar regulation in the future. A related argument was that the Bank's intervention, including its general interest in the architecture of the system, was creating uncertainty and thus reducing investment. The Bank does not accept these arguments. Allowing

access on the terms set out in the Access Regime and Access Code is unlikely to affect the incentive to invest and the Bank has made it clear that it has no plans to impose technologies on participants in the payments system.

Another issue considered by the Bank was the likely effects of lower interchange fees in the Visa Debit system on credit card usage. As noted earlier, one effect of lowering the Visa Debit interchange fee by the amount proposed is that issuers may have an incentive to encourage use of credit cards over scheme debit cards. One result may be a switch from scheme debit to credit cards. While the Bank recognised this possibility, it is of the view that any such substitution cannot be considered in isolation, and has to be considered in conjunction with the likely substitution between types of debit cards that would result in the absence of reform. Moreover, the Bank took account of the fact that the resource costs involved in a credit card and scheme debit card transaction were broadly equivalent.

On the issue of the competitive position of Visa Debit issuers (which tend to be relatively small) the Bank recognised that a reduction in Visa Debit interchange fees would reduce their revenue flows, and may lead to some adjustment in product pricing by these institutions. It also views it as unlikely that banks providing acquiring services to merchants would cease acquiring Visa Debit cards. In addition, it sees no reason that distortions in the payments system should be sustained simply to maintain the competitive positions of various institutions.

Given the considerations discussed above, the Bank has decided to proceed with Option I – the implementation of all four elements of the package of reforms. A decision to implement the access reforms alone (Option II(a)) or implement all elements of the package with the exception of the EFTPOS interchange Standard (Option II(b)) would not adequately address the Bank's concerns regarding interchange fees. Similarly, leaving the honour all cards rule in place (Option II(c)) would remove any possibility for downward pressure on interchange fees in the scheme debit systems that might result if merchants had the option of deciding not to accept scheme debit cards.

The following section discusses various options considered by the Bank for modifications to the proposed Standards and Access Regime.

10. Implementation and Review

10.1 Changes to the draft Standards and Access Regime

Following its decision that competition and efficiency in the payments system would be promoted by the implementation of Standards regarding interchange fees in the Visa Debit and EFTPOS systems and the honour all cards rule in the Visa Debit system, and of an Access Regime in the EFTPOS system, the Bank considered various options for these Standards and the Access Regime. Most of these options were raised during the consultation process.

EFTPOS Access Regime

The Bank considered the arguments for alternative methodologies that would deliver a higher cap on the amount an existing participant could charge a new participant for providing a direct connection. This followed submissions that the proposed methodology was unfair to the existing

institutions. The proposal by First Data International (FDI) was that existing participants should be able to recover all the costs they incur in providing a new connection.³² Under this option, there would be no enforceable cap, but an indicative benchmark based on average connection costs of existing participants. The Australian Bankers' Association (ABA) proposed that any access regime should allow all existing participants to recover all their costs of providing access.³³

Both the FDI and ABA proposals would significantly increase the cost of entry and reduce the scope for increased competition. The benefits would accrue to existing participants, especially those with less flexible systems. In the Bank's view, setting the cost of a connection such that high-cost existing participants receive compensation for all their costs of establishing a new connection is not in the public interest. Such an approach could put new entrants at a significant disadvantage and would do little to encourage existing participants to develop more efficient access arrangements.

FDI also argued that, when providing connections to relatively small participants, it effectively provides additional consulting services and that the cap on access charges in the Access Regime could prevent it from recovering the costs of doing so. In the Bank's view, this is not a matter for the Access Regime, as the Regime deals just with the cost of establishing a 'Standard Service', as defined in APCA's Access Code. If an existing institution is providing consulting services there is no reason that it could not charge separately for these services.

A second access-related issue considered by the Bank was the provision in APCA's Access Code that would allow a firm to take advantage of the Code provided it were prepared to establish two direct connections within 12 months and a third direct connection within three years. While this provision is not part of the Bank's Access Regime, the Bank had strongly urged APCA to adopt it, rather than one that would have required a higher minimum number of connections to be eligible.

In reaching a view as to the appropriate minimum number of connections, the Bank took account of the interests of both new and existing participants. An increase in the minimum number of connections may dissuade entry, or make entry more costly. The result may be less competition than might otherwise take place. On the other hand, if there were fewer participants with direct connections, there would likely be fewer total connections, and thus lower costs for participants in establishing and maintaining the system.

On balance, the Bank was not convinced that the cost savings that might result from fewer institutions establishing direct connections outweighed the potential adverse effects on competition. In reaching this view, the Bank recognised the possibility that an increase in the number of institutions seeking direct connections may prompt the industry to consider evaluating the potential alternative access arrangements under which there would be a single point of access. Such arrangements often exist in overseas payment systems in which there are many participants.

The Bank's view is that the trade-offs struck in the draft Access Regime and APCA's Access Code are appropriate.

32 See the submission to the Bank by FDI, 17 February 2006.

33 See submission to the Regulation Review Taskforce by the ABA, 16 December 2005, p26.

Given the above considerations, the Bank has not made any material changes to the proposed Access Regime for the EFTPOS system and is not requesting that APCA make any changes to its draft Access Code. It has, however, made some minor drafting changes to the Access Regime. The definition of a debit card has been changed following comments received in consultation. In particular, the definition now refers to a deposit account held at an authorised deposit-taking institution, rather than at the participant that issued the card. The Access Regime now also uses APCA's term of 'self-acquirer', rather than 'merchant principal'. Finally, the drafting of paragraph 16 has been altered to provide for the possibility that the survey may be slightly different in detail from that conducted by APCA in 2004.

The Access Regime is set out on pages 34 to 37.

EFTPOS interchange Standard

A number of submissions suggested changes to the EFTPOS interchange Standard.

One option considered by the Bank was to reduce the interchange fee to zero. While this option had considerable appeal, the Bank viewed it as raising considerable legal risks, given the uncertainty over whether a requirement to set the interchange fee to zero would meet the legal test of a 'standard'. Given this legal uncertainty, the Bank did not consider this option further. The Bank also considered setting a common interchange fee but again elected not to do so, given the legal uncertainties surrounding such an approach.

A second option considered was to reverse the current EFTPOS interchange fees so that any fees would be paid by acquirers to issuers. The Bank, however, does not believe that a convincing economic case for moving these fees past zero has been made.

A third option considered was to allow separate interchange arrangements for transactions involving cash out and those involving just a purchase.³⁴ This option was suggested by merchants and appears to be mainly relevant to merchants with high volumes of cash receipts, such as large supermarkets, which provide the option of cash out to customers. As discussed earlier, these merchants are typically paid a fee by their bank for EFTPOS transactions and lowering the interchange fee is likely to result in them receiving a smaller, or even no, fee for EFTPOS transactions. The merchants argued that this would tip the balance against the economics of providing cash out, with the result that they may no longer offer this service. They further argued that, since interchange fees for ATMs are not currently regulated, the same should be the case for EFTPOS transactions involving cash out.

In the Bank's view, the arguments for exempting cash out from the Standard are finely balanced.

At the margin, the proposed Standard, if implemented, would not materially affect merchants' incentives to offer cash out. For most EFTPOS transactions involving cash out, merchants currently do not receive any incremental revenue; the same interchange fee and merchant rebate apply on a transaction involving just a purchase as on a transaction involving a purchase and the provision of cash. The only case in which incremental revenue is earned is where cash is provided without a purchase being made; in this case the merchant earns the same

³⁴ Around 15 per cent of EFTPOS transactions involve a component of cash out, and a further one per cent of transactions only provide cash out.

rebate as for any other EFTPOS transaction. This situation would remain unchanged under the proposed Standard. As a result, as is the case now, the decision to offer cash out would be driven primarily by cost considerations and consumer demand.

Notwithstanding this analysis, the Bank recognises that for many people the withdrawal of cash through the EFTPOS system and an ATM are close substitutes. Given that, at this stage, the Bank has decided not to regulate interchange fees in the ATM system, there is a case to apply the same approach to cash out through the EFTPOS system.

On balance, the Bank is not convinced that the overall efficiency of the payments system would be improved by regulating the interchange fee that issuers pay acquirers for transactions involving cash out. Accordingly, the Standard has been amended so that it does not apply to transactions involving cash out. For these transactions, issuers and acquirers are able to negotiate an interchange fee that differs from the interchange fee on purchase-only transactions.

A fourth option considered by the Bank was a modification of the definition of eligible costs. This follows the argument by the merchants that the costs of purchasing or renting PIN pads should be included in eligible costs. Some merchants also argued that the time taken at the checkout to process an EFTPOS transaction, over and above that taken to process a cash transaction, should also be included in eligible costs on the basis that the merchant is providing a banking service to banks' customers. As noted in the previous section, some merchants also argued that their investment in the system would suffer if they could not earn a return through rebates from acquirers. It was also argued that the costs of all nominated acquirers should be taken into account in calculating the benchmark, not just those of the three acquirers with the lowest costs.

The Bank was not persuaded by these arguments. The Bank's view is that interchange fees are appropriately viewed as a device to balance the costs and revenues of issuers and acquirers to promote efficiency, rather than a means for one side of the transaction to compensate the other side for specific costs. The Bank's decision to proceed with an interchange standard reflects a view that lower EFTPOS interchange fees would promote a more efficient payment system and that, given other interchange fees in the system, the EFTPOS interchange fee should be reasonably close to zero.

The Bank's decision to use cost-based standards – with eligible costs defined with respect to just one side of the market – reflects the fact that such an approach is transparent and meets the legal test of a 'standard'. The use of this approach should not be interpreted as the Bank endorsing the idea that interchange fees should be used to compensate one side of the market for either all, or a particular subset, of its costs.

Given this, the Bank sees no case for expanding the range of eligible costs in the EFTPOS interchange Standard or for including the costs of higher-cost acquirers. Including the cost of PIN pads and taking account of the acquirers' costs of all nominated participants would increase the interchange fee in the EFTPOS system (relative to the draft Standard), potentially unwinding some of the beneficial effects discussed above.

Among remaining issues, CUSCAL argued that the floor under the EFTPOS interchange fee would prevent it from negotiating a more favourable interchange fee. The Bank weighed

this possibility against the benefit of the floor in constraining negotiations over interchange fees from being used to frustrate access to the system. It is not making any changes to this aspect of the Standard.

A further issue raised by Coles Myer was that the draft Standard could preclude it from participating in terminal-sharing agreements, such as those that some bank acquirers have with American Express. Under these agreements, American Express provides the terminal and facilities for merchants to accept cards. The merchant, however, has a separate acquirer for transactions undertaken on cards other than American Express and this acquirer typically pays American Express a fee for capturing the transaction and switching it to the acquirer. The agreements between American Express, as the terminal owner, and the acquirers are not subject to the standard, since these are agreements between acquirers, not between acquirers and issuers.

Finally, the Bank considered the suggestion that any changes to EFTPOS interchange fees should be delayed until 2007 when the Bank is scheduled to begin its review of the effects of the credit card reforms. However, the Bank does not see a case for further delays to reform of the debit card systems, particularly given that any changes flowing from that review are unlikely to come into effect until 2009.

Given the above considerations, the only material change the Bank is making to the EFTPOS interchange Standard is with respect to transactions involving a cash out component. In particular, paragraph 9 of the Standard has been altered to give effect to the exclusion of cash out. The Bank has also made the same change in definition of a debit card as in the Access Regime and likewise used 'self-acquirer' in place of 'merchant principal'. There are also minor changes to improve clarity.

The EFTPOS interchange Standard is set out on pages 38 to 40.

Visa Debit interchange Standard

A number of submissions also suggested changes to the Visa Debit interchange Standard. Most of these suggested alternative methodologies would result in a smaller reduction in interchange fees compared to the draft Standard.

One option considered by the Bank was to base the Standard on the eligible costs of current issuers of Visa Debit cards, rather than on costs calculated as part of the credit card interchange Standard. A second option considered was to include fraud-related costs in the Standard. A third option was to calculate the benchmark described in clause 14 of the Standard on the basis of the average cost per credit card transaction, rather than per debit card transaction as the Standard currently does. Data available to the Bank suggest that if all these options were adopted, the interchange fee in the Visa Debit system would be capped at around 37 cents, rather than around 15 cents under the proposed Standard.

The Bank decided to reject all three of these options. As discussed above, the Bank's approach to interchange fees is not one in which interchange fees are set to recover costs on one side of the system. Rather, the Bank is concerned with the overall effect on the efficiency of the payments system of the configuration of interchange fees across the various individual systems. Although these options were all based on the concept of removing apparent inconsistencies, they would result in changes to the Standard that would have the effect of increasing the cap

on interchange fees in the Visa Debit system. This would widen the difference in interchange fees between Visa Debit and EFTPOS, the consequences of which have been discussed extensively above.

As noted in Section 8, in reaching this decision the Bank took into account the possibility that there may be some substitution away from the use of scheme debit cards and towards credit cards. It also took account of the argument that the proposals would cause a deterioration in the competitive position of smaller financial institutions.

Given the above considerations, the Bank has made no material changes to the Visa Debit interchange Standard although it has made a number of changes to the processes required. These are now better aligned with those required under the revised credit card interchange Standard published in November 2005. The main changes are to clarify: the dates on which the weighted average of interchange fees must be no higher than the benchmark; how the weighted average is to be calculated; the requirement to provide information; and a number of definitions. These changes reflect submissions made throughout the consultation process.

To clarify the Standard, the Bank has introduced a new paragraph (paragraph 11) similar to one in the credit card interchange Standard. This paragraph specifies the dates on which the weighted average interchange fee must not exceed the benchmark, namely on 1 November of the year the benchmark is calculated, and on the date any interchange fee is introduced, varied or removed. This means that, as for credit card interchange fees, the weighted average does not need to be below the benchmark at every point in time; it only needs to conform at the points in time set out in paragraph 11. Paragraph 10 (previously paragraph 9) has been amended to refer to these dates. In response to comments that it was unclear how the weighted average of interchange fees is to be calculated, a clarifying paragraph has also been added (paragraph 12).

Some submissions also commented that the calculation of the benchmark requires information that the Bank does not have; namely the average value of a Visa Debit transaction in Australia. The Bank has therefore added paragraph 9 to require the administrator of the Visa Debit scheme to provide the Reserve Bank with data on the value and number of Visa Debit transactions in Australia for the relevant year. Visa has commented that it will need some time to comply with this data request and, in any case, it only has access to data on the number and value of Visa Debit transactions that are exchanged between financial institutions (that is, it does not have data on on-us transactions). To ensure that the appropriate calculation can be conducted, the Bank has also amended the Standard to include a provision that allows the average value of a Visa Debit transaction *processed through the Visa system* to be used in the relevant calculation where the average value of Visa Debit transactions, based on all transactions, is not available.

In addition to these changes, the Bank has made a number of changes to clarify definitions and align dates with those in the credit card interchange Standard. The definitions of acquirer and issuer have been amended to clarify that these are participants in Australia. In line with the credit card interchange Standard, the definition of a Visa Debit transaction has also been altered to make it clear that transactions are net of credits, reversals and chargebacks. As in the case of the EFTPOS interchange Standard and Access Regime, the definition of a Visa Debit card has been changed to refer to a deposit account held at an authorised deposit-taking institution rather than at the participant that issued the card.

Finally, the date by which the administrator must certify compliance with the Standard has been changed from 30 September to 30 November each year. This addresses Visa's argument that, for administrative ease and convenience, the compliance reporting schedule should align with that for the credit card interchange Standard.

One aspect of the drafting raised by Visa that the Bank has not changed is the absence of a provision for recalculation of the benchmark within the three-year cycle embedded in the Standard. The credit card interchange Standard allows for recalculation within three years if the Bank agrees. Visa asked if the same provision is to be allowed in the Visa Debit case. The Bank considered this issue but decided that it would introduce too many complications into the methodology and the Standard. It therefore decided not to alter the drafting to address this issue.

There are a number of other issues raised by Visa that the Bank has decided do not require drafting changes. These are:

- Visa noted that, as drafted, the Standard does not cover pre-paid cards. This is the Bank's intention and no drafting changes are necessary.
- Visa has asked whether data used to calculate the benchmark for the Visa Debit system will be required to be published. In the Bank's view, it is clear that this is not required.
- Visa noted that publication of the benchmark is required in the Visa Debit interchange Standard. In the credit card interchange Standard released in August 2002, the benchmark was not required to be published and Visa argued the same should apply in this case. Under the amended Standard for credit card interchange fees released in November 2005, however, the benchmark is published. The Visa Debit interchange Standard is thus consistent with the credit card interchange Standard released in November 2005.

The Visa Debit interchange Standard is set out on pages 41 to 43.

Honour all cards Standard

Submissions also suggested that the Bank consider some changes to the honour all cards Standard. In particular, a number of submissions noted the potentially high costs of complying with the Standard.

One option considered by the Bank was to introduce transition provisions to allow more time for issuers to meet the requirement that Visa Debit cards be visually distinguishable. Doing so would mean that costs of replacement will not be brought forward and the fraud risks of having two cards with valid expiry dates in circulation would be avoided. On the other hand, merchants would not be able to visually identify all Visa Debit cards until after the transition period has been completed, and this might reduce some of the benefits of having the honour all cards rule abolished.

On balance the Bank has decided to introduce a transition provision, given the evidence that the potential costs of a rapid transition could be quite high, and that Visa Debit cards will be electronically distinguishable from an earlier date. The Standard will now come into force on 1 January 2007 rather than 1 July 2006 as previously proposed. In addition, the Standard now requires that only cards *issued* after 1 January 2007 be visually identified as debit cards and

sets a final date of 31 December 2009 by which all Visa Debit cards on issue must be visually identified. This three-year period is in line with the card replacement cycles of most institutions offering Visa Debit cards. While cards that can be used in the Visa Debit system must be clearly identified, this is not meant to preclude these cards from also being used for other purposes.

A second option considered by the Bank was to clarify what is required for Visa Debit cards to be distinguished electronically. A number of submissions noted that the requirement in the draft Standard was unclear and, depending upon how it was interpreted, could involve significant costs for the industry in changing systems. Given these submissions, the Bank has decided to make this requirement clearer. The Standard requires that separate Bank Identification Numbers (BINs) for Visa Debit cards be in place by 1 January 2007 so as to allow electronic identification of Visa Debit transactions from the time the Standard comes into force. Visa has indicated that this requirement can be met. Paragraph 11 requires that acquirers provide merchants with information on BINs for Visa Debit cards issued in Australia on request. The Standard places no further obligations on institutions that provide acquiring services to merchants. Merchants will be free to negotiate with their acquirer the development of arrangements that would allow them to electronically decline cards that they are not willing to accept.

In the Bank's view these arrangements meet the right balance of giving merchants the technical ability to select which cards they wish to accept, while not imposing unnecessary costs on the industry.

Visa also noted that unlike the credit card Standard, there was no requirement for acquirers to inform merchants of their new rights under the Standard. A new clause (11(d)) has been added to impose such a requirement. Considerable time has been given for acquirers to meet this requirement.

Finally, some small amendments were made to the definitions of acquirer, issuer, Visa Debit card and Visa Debit card transaction. These changes align with those that were made in the definitions in the Visa Debit interchange Standard.

The honour all cards Standard is set out on pages 44 to 46.

10.2 Implementation schedule

The reforms will be implemented in three steps.

The EFTPOS interchange Standard is being gazetted immediately and comes into force on 1 July 2006.

The EFTPOS Access Regime, as set out in this document, will not be gazetted until the Access Code has been adopted by the industry. This is expected to occur before the end of May. Once the Code has been adopted, the Access Regime will be gazetted, to come into force from the date of gazettal.

The Visa Debit interchange Standard and the honour all cards Standard will not be gazetted immediately. This reflects the view put by Visa that the proposed regulatory treatment of Visa Debit could put it at a competitive disadvantage with respect to MasterCard debit.

As noted in the Bank's Media Release of 20 December 2005, MasterCard has indicated that it will voluntarily conform with standards dealing with interchange fees and the honour

all cards rule should such standards be imposed upon the Visa Debit system. Visa has argued that such an approach is not ‘competitively neutral’, and that MasterCard has the option of voluntary compliance simply by virtue of the fact that its debit card was introduced only recently in Australia. While the Bank’s view is that the effect on the competitive landscape of the different potential treatments is minimal, it can see some merit in the position put by Visa.

Accordingly, the Bank will give both schemes the opportunity to comply voluntarily with the Standards. To facilitate voluntary compliance with the interchange Standard, the Bank would calculate a benchmark, along the lines of paragraph 14 of the Visa Debit interchange Standard, which it would publish. The schemes could then provide the Bank with a legally enforceable undertaking that the weighted average of interchange fees for their debit products would not exceed this benchmark.

The Visa Debit interchange Standard and the honour all cards Standard will only be imposed if, by 1 July 2006, Visa has not provided the Bank with a legally enforceable undertaking that would deliver the same outcomes as would these Standards. Similarly, if, by 1 July 2006, MasterCard has not provided an undertaking with the same effect, the Bank will consider designating the MasterCard debit system. If the MasterCard debit system were designated, the Bank would then consider imposing the same standards as proposed for Visa Debit.

10.3 Review

The Bank has previously committed to commencing a review of the regulation of the credit card schemes towards the end of 2007. That review will now also encompass arrangements in the debit card systems.

Access Regime for the EFTPOS System

Objective

The objective of this Access Regime is to promote competition and efficiency in the Australian payments system, having regard to:

- (i) the interests of current participants in the EFTPOS system;*
- (ii) the interests of people who, in the future, may want access to the EFTPOS system;*
- (iii) the public interest; and*
- (iv) the financial stability of the EFTPOS system.*

Application

1. This Access Regime is imposed under Section 12 of the *Payment Systems (Regulation) Act 1998*.
2. This Access Regime applies to the payment system operated within Australia known as the EFTPOS system, which was designated as a payment system on 9 September 2004 and referred to below as the EFTPOS system.
3. In this Access Regime:

‘Access Agreement’ has the same meaning as in the EFTPOS Access Code;

‘Access Charge’ means the charge payable by an Access Seeker to an Access Provider under an Access Agreement as described in clause 3 of Schedule 3 to the EFTPOS Access Code;

‘Access Provider’ has the same meaning as in the EFTPOS Access Code;

‘Access Seeker’ has the same meaning as in the EFTPOS Access Code;

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

‘APCA’ means the Australian Payments Clearing Association Limited (ABN 12 055 136 519);

‘APCA’s 2004 costs survey’ is the survey of Direct Connectors in the EFTPOS system, conducted by APCA, on the estimated incremental direct costs of connecting new Direct Connectors, the results of which were supplied to the Reserve Bank of Australia on 15 April 2005;

‘cash out’ means the provision of cash to a cardholder by a merchant, as a result of a debit card transaction at the merchant;

‘debit card’ means a card issued by a participant in the EFTPOS system that allows the cardholder to make payments to merchants for goods or services and/or obtain cash out using the EFTPOS system by accessing a deposit account held at an authorised deposit-taking institution;

‘debit card transaction’ or ‘transaction’ means a transaction in Australia using the EFTPOS system;

‘Direct Connector’ has the same meaning as in the EFTPOS Access Code;

‘EFTPOS Access Code’ means the EFTPOS Access Code adopted by EFTPOS Access Australia Limited [ABN] on [] and as varied from time to time;

an ‘interchange fee’ is a wholesale fee which is payable between an issuer and an acquirer or self-acquirer, directly or indirectly, in relation to a debit card transaction in the EFTPOS system;

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

‘merchant’ means a merchant in Australia that accepts a debit card for payment for goods or services and/or that provides cash out;

a ‘self-acquirer’ is a participant in the EFTPOS system that is a merchant that sends transactions directly to issuers rather than through an acquirer and takes on the responsibilities usually undertaken by an acquirer;

‘Standard Service’ has the same meaning as in the EFTPOS Access Code;

terms defined in the *Payment Systems (Regulation) Act 1998* have the same meaning in this Access Regime.

4. Each participant in the EFTPOS system must do all things necessary on its part to ensure compliance with this Access Regime.
5. If any part of this Access Regime is invalid, it is ineffective only to the extent of such part without invalidating the remaining parts of this Access Regime.
6. This Access Regime is to be interpreted:
 - in accordance with its objective; and
 - by looking beyond form to substance.
7. This Access Regime comes into force on [31 May 2006].

Price of access

8. The Access Charge levied by an Access Provider for providing the Standard Service to an Access Seeker must not exceed the benchmark, calculated in accordance with paragraphs 9 to 16 below, applying on the date the Access Agreement is entered into.

Methodology for calculation of the Access Charge benchmark

9. For the period from [31 May 2006] to 31 December 2009 the benchmark for the Access Charge in the EFTPOS system is the lowest estimated cost for providing a direct connection as measured in APCA’s 2004 costs survey. This cost is \$78 000 (excluding GST).

10. A new benchmark will apply from 1 January 2010, and every four years thereafter, determined in accordance with paragraphs 11 to 16 below.
11. In the final year of application of a given benchmark, to be known as the 're-calculation year', all Access Providers in the EFTPOS system who have provided the Standard Service to an Access Seeker during the four years to 30 June of that year must complete a survey of the eligible costs they incurred in providing the service to each such Access Seeker.
12. The form of the survey, including the set of assumptions, is to be substantively the same as APCA's 2004 costs survey, with any variations to be approved by the Reserve Bank of Australia prior to the survey being undertaken. Eligible costs are to be specified in the survey, and must be only incremental direct costs incurred in providing the Standard Service. Access Providers may appoint an agent to co-ordinate this survey.
13. Access Providers must use data on eligible costs drawn from accounting records prepared in accordance with generally accepted accounting principles and Australian equivalents to International Financial Reporting Standards. Where an Access Provider has provided the Standard Service to more than one Access Seeker during the four years to 30 June of the re-calculation year, it must provide separate data on the costs incurred in providing each Standard Service. Each such provision of data counts as a separate survey response for the purposes of paragraph 16.
14. Results of the survey are to be provided by each Access Provider to the Reserve Bank of Australia on a confidential basis by 15 August of the re-calculation year, unless an extension of this deadline is agreed to in writing by the Reserve Bank of Australia.
15. Each Access Provider may be required by the Reserve Bank of Australia to explain information in its survey responses. The Reserve Bank of Australia will review the data from each Access Provider to determine if the costs included are eligible costs and the Reserve Bank of Australia will use only eligible costs to calculate the benchmark in accordance with paragraph 16 below.
16. The Reserve Bank of Australia will calculate the new benchmark to apply for the four-year period commencing 1 January of the year following the re-calculation year. If the Reserve Bank of Australia receives survey responses from three or more different Access Providers, the new benchmark is to be the lowest actual cost for provision of the Standard Service from among all survey responses. If the Reserve Bank of Australia receives survey responses from fewer than three different Access Providers, the new benchmark is to be the lower of:
 - (i) the lowest actual cost for provision of the Standard Service from among all survey responses; and
 - (ii) the benchmark applying during the re-calculation year adjusted for the change in the Australian Consumer Price Index between the June quarter of that year and the June quarter of four years earlier.

Transparency

17. The Reserve Bank of Australia will publish the new benchmark by 30 September of the re-calculation year.

No discrimination

18. An acquirer or self-acquirer who becomes a participant in the EFTPOS system for the first time, on or after [31 May 2006], is for three years entitled to receive an interchange fee from an issuer with whom it has an Access Agreement no less than the lowest interchange fee payable by that issuer to an existing acquirer or self-acquirer.
19. An issuer who becomes a participant in the EFTPOS system for the first time, on or after [31 May 2006], is for three years not required to pay an acquirer or self-acquirer with whom it has an Access Agreement an interchange fee greater than the highest interchange fee payable by an existing issuer to that acquirer or self-acquirer.

Standard

The Setting of Interchange Fees in the EFTPOS System

Objective

The objective of this Standard is to ensure that the setting of interchange fees in the designated EFTPOS 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 the EFTPOS system, which was designated as a payment system on 9 September 2004 and referred to below as the EFTPOS system.
3. In this Standard:

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

‘cash out’ means the provision of cash to a cardholder by a merchant, as a result of a debit card transaction at the merchant;

‘debit card’ means a card issued by a participant in the EFTPOS system that allows the cardholder to make payments to merchants for goods or services and/or obtain cash out using the EFTPOS system by accessing a deposit account held at an authorised deposit-taking institution;

‘debit card transaction’ or ‘transaction’ means a transaction in Australia using the EFTPOS system;

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

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

‘merchant’ means a merchant in Australia that accepts a debit card for payment for goods or services and/or that provides cash out;

‘nominated EFTPOS acquirers’ are those acquirers and self-acquirers determined by the Reserve Bank of Australia, selected in order of their share of the number of transactions, who comprise the minimum number of such acquirers or self-acquirers required to account for at least 90 per cent of the number of transactions acquired in the EFTPOS system in the ‘reference year’;

‘reference year’ is the financial year prior to the relevant year;

‘relevant year’ is the financial year in which the interchange fee benchmark is calculated;

a ‘self-acquirer’ is a participant in the EFTPOS system that is a merchant that sends transactions directly to issuers rather than through an acquirer and takes on the responsibilities usually undertaken by an acquirer;

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 or self-acquirer, directly or indirectly, in relation to a debit card transaction in the EFTPOS system.
5. Each participant in the EFTPOS 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. From 1 November 2006, an interchange fee must be paid on any transaction, other than a transaction which includes a cash out component, by an issuer to an acquirer (or self-acquirer) and must be no more than the interchange fee benchmark applying in accordance with paragraph 15 and no less than the minimum fee specified in paragraph 16.

Methodology

10. The interchange fee benchmark for the EFTPOS system is to be calculated by the Reserve Bank of Australia as follows:
 - (i) for each of the nominated EFTPOS acquirers, the aggregate value of its eligible costs in the reference year is to be divided by the number of its debit card transactions in the reference year. The outcome is to be expressed as a number of cents per transaction;
 - (ii) the interchange fee benchmark is to be calculated by the Reserve Bank of Australia as the aggregate value of eligible costs in the reference year of the three nominated EFTPOS acquirers with the lowest outcome as calculated in paragraph 10(i), divided by the aggregate number of transactions undertaken by the same three

nominated EFTPOS acquirers in the reference year. The result is to be expressed as a number of cents per transaction, rounded to the nearest cent.

11. Eligible costs are those directly related to processing and switching EFTPOS transactions incurred by an acquirer or self-acquirer when performing the business responsibilities usually undertaken by an acquirer.
12. Data on eligible costs must be drawn from accounting records of the nominated EFTPOS acquirers, prepared in accordance with generally accepted accounting principles and Australian equivalents to International Financial Reporting Standards.
13. The data required to conduct the calculation in paragraph 10 must be provided by each nominated EFTPOS acquirer to the Reserve Bank of Australia, or its agent, by 15 August in the relevant year.
14. The Reserve Bank of Australia, or its agent, will review the data to determine if the costs included are eligible costs and the Reserve Bank of Australia will use the eligible costs to calculate the interchange fee benchmark in accordance with paragraph 10.
15. The Reserve Bank of Australia will publish the interchange fee benchmark for the EFTPOS system by 15 September in the relevant year, and this benchmark will apply for three years from 1 November in the relevant year.
16. The minimum fee determined for the purposes of paragraph 9 is 80 per cent of the applicable interchange fee benchmark.

Initial and subsequent interchange fee benchmarks

17. For the initial interchange fee benchmark the relevant year is the financial year 2006/07.
18. The interchange fee benchmark is to be re-calculated in the financial year 2009/10 and every three years thereafter.

Transparency

19. Commencing in 2007, each acquirer and self-acquirer in the EFTPOS system must report to the Reserve Bank of Australia the weighted average interchange fee it received and the range of interchange fees it received in the previous financial year by 1 November each year. The weights to be used in this calculation are the shares of transaction value to which each interchange fee applies. In 2007, this requirement applies to the 8 months ending 30 June 2007.
20. The Reserve Bank of Australia will publish the industry weighted average of interchange fees on its website.

Standard

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 23 February 2004.
3. In this Standard:

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

‘credit card transaction’ has the same meaning as in the Standard *The setting of wholesale (‘interchange’) fees in the designated credit card schemes*;

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

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

‘merchant’ means a merchant in Australia that accepts a Visa Debit card for payment for goods or 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;

‘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 or services by accessing a deposit account held at an authorised deposit-taking institution;

‘Visa Debit card transaction’ means a transaction in Australia between a Visa Debit cardholder and a merchant involving the purchase of goods or services using a Visa Debit card (net of credits, reversals and chargebacks);

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].

Information

9. The administrator of the Visa Debit system must provide to the Reserve Bank of Australia data on the number and value of Visa Debit card transactions in Australia in the reference year, if such data are available. In the event that such data are unavailable, the administrator must provide information on the number and value of Visa Debit card transactions in Australia that were processed by the Visa system in the reference year.

Interchange fees

10. From 1 November 2006, on each of the dates specified in paragraph 11, the weighted average of interchange fees implemented in the Visa Debit system in Australia must not exceed the benchmark calculated in accordance with paragraphs 13 and 14 below.
11. For the purposes of paragraph 10, the dates are:
 - (i) 1 November in any year the benchmark must be calculated; and
 - (ii) the date any interchange fee is introduced, varied or removed in the Visa Debit system.
12. For the purposes of paragraph 10, the weighted average of interchange fees is to be expressed as a number of cents per transaction. It is to be calculated by dividing the total interchange revenue that would have been payable had the interchange fees implemented on the dates specified in paragraph 11 been applicable in the previous financial year, by the number of transactions in that year.

Methodology

13. The benchmark is to be calculated by the Reserve Bank of Australia using data for the reference year supplied by the credit card schemes designated by the Reserve

Bank of Australia and to which the Standard *The setting of wholesale ('interchange') fees in the designated credit card schemes* applies.

14. The benchmark is to be calculated as follows:
 - a. A cost base will be calculated for each designated credit card scheme by dividing the costs of processing and authorisation described in paragraphs 13(i) and 13(iii) of the Standard *The setting of wholesale ('interchange') fees in the designated credit card schemes* 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 of each designated credit card scheme in the value of total credit card transactions in the 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, calculated using the data provided to the Reserve Bank of Australia in accordance with paragraph 9, to yield a benchmark expressed as a number of cents per transaction.
15. The Reserve Bank of Australia will calculate the benchmark by 30 September of the relevant year and publish it on its website.

Initial and subsequent benchmarks

16. For the initial benchmark the relevant financial year is 2006/07.
17. The benchmark is to be re-calculated in the financial year 2009/10 and every three years thereafter.

Transparency

18. The administrator of the Visa Debit system must publish the interchange fees applying to Visa Debit transactions on its website.
19. The administrator of the Visa Debit system must certify in writing to the Reserve Bank of Australia, on or before 30 November each year, that interchange fees in the Visa Debit system complied with this Standard over the prior twelve months ending 31 October.

Standard

The ‘Honour All Cards’ Rule in the Visa Debit and Visa Credit Card Systems and the ‘No Surcharge’ Rule in the Visa Debit System

Objective

The objective of this Standard is to ensure that the rules of the Visa Debit system and the Visa credit card system promote:

(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 23 February 2004, and to the Visa credit card system operated within Australia which was designated as a payment system on 12 April 2001.
3. In this Standard:

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

‘merchant’ means a merchant in Australia that accepts a Visa Debit card or Visa credit card for payment for goods or services;

‘rules of the Scheme’ means the constitution, rules, by-laws, procedures and instruments of the Visa Debit system and of the Visa credit card system as applied in Australia respectively, and any other arrangement relating to each Scheme by which participants consider themselves bound;

‘Visa credit card’ means a card issued by a participant in Australia in the Visa credit card system, under the rules of the Scheme, that allows the cardholder to make payments to merchants for goods or services on credit, or any other article issued under the rules of the Scheme and commonly known as a credit card;

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

‘Visa Debit card’ means a card issued by a participant in Australia in the Visa Debit system, under the rules of the Scheme, that allows the cardholder to make payments to

merchants for goods or services by accessing a deposit account held at an authorised deposit-taking institution;

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

terms defined in the *Payment Systems (Regulation) Act 1998* have the same meaning in this Standard.

4. Each participant in the Visa Debit system and the Visa credit card system must do all things necessary on its part to ensure compliance with this Standard.
5. 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.
6. This Standard is to be interpreted:
 - in accordance with its objective; and
 - by looking beyond form to substance.
7. This Standard comes into force on 1 January 2007.

Merchant pricing

8. Neither the rules of the Scheme, nor any participant in the Visa Debit system, shall prohibit a merchant from charging a Visa Debit cardholder any fee or surcharge for a Visa Debit card transaction.
9. Notwithstanding paragraph 8, an acquirer and a merchant may agree that the amount of any such fee or surcharge charged to a Visa Debit cardholder will be limited to the fees incurred by the merchant in respect of a Visa Debit card transaction.

Honouring cards

10. Neither the rules of the Scheme, nor any participant in the Visa Debit system, or the Visa credit card system, may require a merchant to accept Visa Debit cards as a condition of the merchant accepting Visa credit cards. Likewise, neither the rules of the Scheme, nor any participant in the Visa Debit system or the Visa credit card system, may require a merchant to accept Visa credit cards as a condition of the merchant accepting Visa Debit cards.

Transparency

11. a. All Visa Debit cards issued after 1 January 2007 must be visually identified as debit cards. By 31 December 2009, all Visa Debit cards on issue must be visually identified as Visa Debit cards.
- b. From 1 January 2007, all Visa Debit cards issued in Australia must be issued with a Bank Identification Number (BIN) that allows them to be electronically identified as Visa Debit cards.

- c. On request, acquirers must provide to merchants for which they acquire Visa Debit and credit card transactions, BINs that would permit the merchant to identify separately Visa Debit and Visa credit card transactions electronically.
- d. Each acquirer must notify merchants to which it provides acquiring services of the provisions of this Standard. This requirement must be met by 31 December 2007.

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Organisations that Provided Submissions and Other Material

Australia and New Zealand Banking Group Limited
Australian Consumers' Association
Australian Financial Counselling and Credit Reform Association Incorporated
Australian Merchant Payments Forum
Australian Payments Clearing Association
Australian Settlements Limited
Bank of Queensland Limited
Bunnings Group Limited
Coles Myer Ltd
Commonwealth Bank of Australia
Consumers' Federation of Australia
CreditLink Services Ltd
Credit Union Industry Association (formerly known as Credit Union Services Corporation (Australia) Ltd)
First Data International
Mair, P
MoneySwitch Limited
National Australia Bank Limited
Spark's Shoes
St George Bank Limited
Suncorp-Metway Ltd
Visa International Service Association
Westpac Banking Corporation