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In reply please quote PY

15 September 2006

Mr Chris Hamilton
Chief Executive Officer
Australian Payments Clearing Association
Level 24
25 Bligh Street
SYDNEY NSW 2000

Dear Chris

NO DISCRIMINATION PROVISIONS IN THE EFTPOS ACCESS REGIME

I am writing concerning the operation of the no discrimination provisions of the EFTPOS Access Regime.

The Access Regime, and thus its no discrimination provisions, applies to all EFTPOS transactions, including cash outs. It is important to recognise that the no discrimination provisions only apply to interchange fees negotiated with new issuers and acquirers who become participants in the system after the commencement of the Access Regime on 13 September 2006. They do not apply to fees negotiated amongst existing participants.

The following examples may be useful in understanding how the arrangements might work in practice.

Suppose the most favourable interchange agreement for a current issuer has it paying 5 cents for purchase transactions and 15 cents for cash out transactions. In this case, the lowest interchange fee payable by that issuer is 5 cents. The effect of clause 18 in the Access Regime therefore is that the issuer must pay to a new acquirer at least 5 cents, regardless of the type of transaction. A new acquirer cannot seek to be paid any more than the cap in the interchange standard for purchase transactions but there is no cap on the fee it could be paid for cash out transactions because they are not subject to the EFTPOS interchange Standard. Clause 18 does not imply that for cash out transactions, a new acquirer must be paid at least 15 cents by the issuer.

Similarly, suppose the most favourable interchange agreement for a current acquirer has it receiving 5 cents for purchase transactions and 15 cents for cash out transactions. The effect of clause 19 is that the acquirer cannot ask a new issuer to pay

more than 15 cents for any type of transaction. The acquirer cannot receive more than the cap on the interchange fee for purchase transactions set in the interchange Standard. It could, however, ask to receive more for a cash out transaction – but no more than its most favourable existing rate of 15 cents.

Yours sincerely

A handwritten signature in black ink that reads "John Veale". The signature is written in a cursive style with a large, looping initial "J".

John Veale
Head of Payments Policy