



RESERVE BANK OF AUSTRALIA

Payment Systems (Regulation) Act 1998

The designated VISA credit card system

This notice is published in accordance with the requirements set out in Section 29(2)(a) of the *Payment Systems (Regulation) Act 1998* (the Act).

The Reserve Bank of Australia determines in accordance with Section 18 of the Act the following standards to be complied with by the participants in the designated credit card system operated within Australia known as the VISA system or the VISA network card system:

- (i) Standard No. 1 entitled The Setting of Wholesale (“Interchange”) Fees, as attached; and
- (ii) Standard No. 2 entitled Merchant Pricing for Credit Card Purchases, as attached.

Summary of purpose and effect of Standard No. 1, The Setting of Wholesale (“Interchange”) Fees

The purpose of Standard No. 1 is to ensure that the setting of wholesale (“interchange”) fees in the VISA credit card system is transparent and promotes efficiency and competition in the Australian payments system. The Standard requires that interchange fees in the VISA credit card system in Australia, which are paid by acquirers of credit card transactions in Australia to credit card issuers in Australia, be set subject to an objective, transparent and cost-based benchmark and be regularly reviewed. The Standard will promote the provision of efficient price signals to cardholders and merchants by participants in the VISA credit card system. The effect of the Standard is expected to be a reduction in the current level of interchange fees paid by acquirers in the VISA credit card system, which is expected to pass through to merchant service fees; the initial beneficiaries will be merchants that accept VISA credit cards, but the reduction is expected to pass through to all consumers in the final prices of goods and services. The Standard is also expected to reduce the size of the transfer from the community to financial institutions for credit card usage.

Summary of purpose and effect of Standard No. 2, Merchant Pricing for Credit Card Purchases

The purpose of Standard No. 2 is to promote efficiency and competition in the Australian payments system by providing merchants the freedom to charge according to the means of payment. The Standard prevents the rules of the VISA credit card system and the participants in this system from prohibiting a merchant from charging a credit cardholder any fee or surcharge for use of a VISA credit card in a credit card transaction. The Standard will introduce normal market disciplines into negotiations between merchants and acquirers over merchant service fees and allow merchants, if they wish, to charge a “fee for service” for accepting credit cards. To the extent that

merchants do charge, the price signals facing consumers choosing between different payment instruments would lead to a more efficient allocation of resources in the payments system, in the public interest.

Signed

A handwritten signature in black ink, appearing to read 'IJ Macfarlane', written in a cursive style.

IJ Macfarlane
Governor
Reserve Bank of Australia

Date 26 / 8 / 02

The Setting of Wholesale ("Interchange") Fees

Objective

The objective of this Standard is to ensure that the setting of wholesale ("interchange") fees in the designated credit card system is transparent and 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 credit card system operated within Australia known as the VISA system or the VISA network card system designated on 12 April 2001 by the Reserve Bank of Australia under Section 11 of the *Payment Systems (Regulation) Act 1998*, and referred to as follows as the Scheme.
3. In this Standard:

an "acquirer" is a participant in the Scheme in Australia that provides services to a merchant to allow the merchant to accept a credit card;

"credit card" means a card issued under the rules of the Scheme that can be used for purchasing goods or services on credit, or any other article issued under the rules of the Scheme and commonly known as a credit card;

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

"financial year" is the 12 month period ending 30 June;

an "issuer" is a participant in the Scheme in Australia that issues credit cards to the issuer's customers;

"merchant" means a merchant in Australia that accepts a credit card for payment for goods or services;

"nominated Scheme participants" are those issuers that issued, in aggregate, credit cards which were used in at least 90 per cent of credit card transactions by value in the Scheme in Australia in the financial year prior to the date by which the applicable cost-based benchmark must be calculated, those issuers being

determined by the administrator of the Scheme or the other participants in the Scheme in Australia;

“rules of the Scheme” mean the constitution, rules, by-laws, procedures and instruments of the Scheme as applied in Australia, and any other arrangement relating to the Scheme by which participants in the Scheme in Australia consider themselves bound;

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 by an acquirer, directly or indirectly, to an issuer in relation to a credit card transaction.
5. Each participant in the Scheme must do all things necessary on its part to ensure compliance with this Standard.
6. If any part of this Standard is invalid, it 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 2003.

Interchange fees

9. On each of the dates specified in paragraph 10, the average of interchange fees implemented in the Scheme in Australia, calculated in accordance with paragraph 15 below, must not exceed the cost-based benchmark calculated in accordance with paragraphs 11-14 below.
10. For the purposes of paragraph 9, the dates are:
 - (i) the thirtieth day after the date by which the cost-based benchmark must be calculated; and
 - (ii) the date any interchange fee is introduced, varied, or removed.

Methodology

11. The cost-based benchmark is calculated as the aggregate value of eligible costs of the nominated Scheme participants for the financial year prior to the date by which the cost-based benchmark must be calculated, divided by the aggregate value of credit card transactions for the same period undertaken using credit cards issued by the nominated Scheme participants, and expressed as a percentage. Eligible costs are:

- (i) issuers' costs incurred principally in processing credit card transactions, including the costs of receiving, verifying, reconciling and settling such transactions;
 - (ii) issuers' costs incurred principally in respect of fraud and fraud prevention in connection with credit card transactions;
 - (iii) issuers' costs incurred principally in providing authorisation of credit card transactions; and
 - (iv) issuers' costs incurred in funding the interest-free period on credit card transactions, calculated using the average of the cash rate published by the Reserve Bank of Australia over the three financial years prior to the date by which the cost-based benchmark must be calculated.
12. Data on eligible costs must be drawn from accounting records of the nominated Scheme participants, prepared in accordance with generally accepted accounting principles and Australian accounting standards.
13. Data on eligible costs of each nominated Scheme participant must be provided by that participant to an independent expert agreed to by the Reserve Bank of Australia. The expert must review the data to determine if the costs included are eligible costs and must use the data on eligible costs to calculate the cost-based benchmark.
14. The cost-based benchmark must be calculated by the end of the third month after the date this Standard comes into force and by the end of the third month of every third year after the date this Standard comes into force. If the Reserve Bank of Australia agrees in writing, a recalculation of the cost-based benchmark may be undertaken at another date if changes in eligible costs or other factors warrant. In such a case, the cost-based benchmark must be calculated by the date specified in writing by the Reserve Bank of Australia.
15. For purposes of paragraph 9, the average of interchange fees is a weighted average calculated as follows:
- (i) each interchange fee rate, net of applicable taxes, is expressed as a percentage of transaction value for the transactions to which that interchange fee rate applies for the financial year prior to the applicable date specified in paragraph 10;
 - (ii) the weights to be applied to these percentages are the shares of transactions to which each such interchange fee rate applies in the total value of transactions in the Scheme in Australia for the financial year prior to the applicable date specified in paragraph 10.

Transparency

16. The administrator of the Scheme or a representative of the participants in the Scheme in Australia must publish the interchange fee rates of the Scheme in

Australia on the Scheme's website or make the interchange fee rates generally available through other means.

17. The administrator of the Scheme and the nominated Scheme participants must provide to the Reserve Bank of Australia the cost-based benchmark and the data on eligible costs used by the independent expert to calculate the cost-based benchmark, by the date by which that benchmark must be calculated.
18. The administrator of the Scheme and the nominated Scheme participants must each certify annually in writing to the Reserve Bank of Australia, on or before 30 November each year, that interchange fees of the Scheme in Australia over the prior twelve months ending 31 October were in compliance with this Standard.

Transition provision

19. In reference to paragraph 11, the initial cost-based benchmark for the Scheme may be calculated using data on eligible costs for the six-month period ending 30 June 2003, rather than for the full financial year.

Reserve Bank of Australia
SYDNEY

Merchant Pricing for Credit Card Purchases

Objective

The objective of this Standard is to promote:

- (i) efficiency; and*
- (ii) competition*

in the Australian payments system by providing merchants the freedom to charge according to the means of payment.

Application

1. This Standard is determined under Section 18 of the *Payment Systems (Regulation) Act 1998*.
2. This Standard applies to the credit card system operated within Australia known as the VISA system or the VISA network card system designated on 12 April 2001 by the Reserve Bank of Australia under Section 11 of the *Payment Systems (Regulation) Act 1998*, and referred to as follows as the Scheme.
3. In this Standard:
 - an “acquirer” is a participant in the Scheme in Australia that provides services to a merchant to allow the merchant to accept a credit card;
 - “credit card” means a card issued under the rules of the Scheme that can be used for purchasing goods or services on credit, or any other article issued under the rules of the Scheme and commonly known as a credit card;
 - “credit card transaction” or “transaction” means a transaction in Australia between a credit cardholder and a merchant involving the purchase of goods or services using a credit card;
 - “merchant” means a merchant in Australia that accepts a credit card for payment for goods or services;
 - “rules of the Scheme” mean the constitution, rules, by-laws, procedures and instruments of the Scheme as applied in Australia, and any other arrangement relating to the Scheme by which participants in the Scheme in Australia consider themselves bound;
 - terms defined in the *Payment Systems (Regulation) Act 1998* have the same meaning in this Standard.
4. Each participant in the Scheme must do all things necessary on its part to ensure

compliance with this Standard.

5. If any part of this Standard is invalid, it 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 2003.

Merchant pricing

8. Neither the rules of the Scheme nor any participant in the Scheme shall prohibit a merchant from charging a credit cardholder any fee or surcharge for a credit 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 credit cardholder will be limited to the fees incurred by the merchant in respect of a credit card transaction.

Transparency

10. Each acquirer must notify, in writing, each merchant to whom the acquirer provides services of the provisions of this Standard as soon as practicable after this Standard comes into force.

Reserve Bank of Australia
SYDNEY