

CommonwealthBank

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Dr John Veale
Head of Payments Policy
Reserve Bank of Australia
65 Martin Place
SYDNEY NSW 2000



Dear Dr Veale

PAYMENTS SYSTEM REFORM

On 20 July 2005, the Reserve Bank of Australia released material addressing further Payment System Reforms, specifically:

- A draft revised standard for the setting of interchange fees;
- A draft access regime for Visa Debit;
- EFTPOS access reform;
- Publication of BPAY interchange fees;
- Market shares of credit and charge card schemes; and
- American Express merchant agreements.

This letter sets out the Commonwealth Bank's views in relation to the first dot point above and is submitted further to our earlier submissions – especially our letter of 8 April 2005. The Commonwealth Bank (the Bank) again appreciates this opportunity to contribute to deliberations on this matter. As you are aware, the Bank has been an active supporter of reform in this area for a number of years, with our previous submissions available for public scrutiny on the Reserve Bank web site. We understand that this letter may also be published on the Reserve Bank web site.

While the Bank has previously supported the determination of Scheme specific credit card interchange fees, we note that the Reserve Bank was not convinced by such arguments and is instead proposing to establish a common benchmark interchange fee in the competing credit card schemes. We note further that two alternative standards addressing the “mechanics of the calculation” of such a benchmark fee, have been proposed.

The Bank supports "Version B" insofar as it relates to the mechanics of calculation. Under this version, scheme based calculations would be abandoned and a single independent expert would consider eligible issuer costs on an aggregated (non scheme specific) basis. The Bank supports this proposed approach on the basis of administrative and logistical efficiency. Furthermore, the Bank is assuming transparency of, and input to, the independent expert selection process. We would appreciate being advised if this assumption is invalid.

We thank you again for the opportunity to contribute to these discussions and we look forward to continuing our active participation in regard to matters relating to Payments System Reform. We remain willing to meet at any time to discuss these issues and to this end, we request you contact the writer directly.

Yours sincerely

(Signed)

Stuart Woodward
General Manager
Acquiring and Alliance Management