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Les Matheson  
MANAGING DIRECTOR

March 14, 2002

John Veale  
Head of Payment Policy  
Reserve Bank of Australia  
GPO Box 3947  
Sydney NSW 2001

Dear Mr Veale

Further to the letter forwarded to you from Citibank chairman and CEO, Victor Menezes, dated February 26, 2002 I would like to take the opportunity to provide a local perspective.

As an established issuer of credit cards in Australia and as part of the world's largest credit card company, Citibank Australia expresses its concern with the draft standards presented in the RBA's consultation document released in December 2001.

While we welcome efforts to increase the transparency and competitiveness of the Australian financial services industry, we believe that the proposed changes to the payment networks through enforced regulation under-estimate the complexity of the system and have wide ranging ramifications for consumers, the industry and Australia's position on the world financial stage.

A significant reduction in the rate of interchange will almost certainly result in less competition and concentrate business in the hands of Australia's largest banks with scale economies and established businesses in issuing and acquiring. Our assessment sees the inevitable consolidation of financial service providers, loss of competition and of benefits to consumers and small businesses.


The reduction of interchange fees as a result of the RBA's proposed regulatory precedent will determine whether new entrants come into Australia, not only in the credit card business, but in others areas of the finance industry.

The credit card business has a high fixed cost structure and requires long-term investment in operations and technology. Australia's current interchange fee is one of the lowest in the world. Certainly, a significant reduction in interchange revenue will undermine the ability of Citibank to achieve an appropriate level of return on our very significant investment made over the past 11 years in the credit card business.

*It remains unclear to us that the RBA's objectives to enhance community welfare by increasing the efficiency and competitiveness of the payment system will be achieved through the proposed changes.*

*We urge an extensive consultation process with all constituencies before proceeding as proposed.*

*Yours sincerely,*

A handwritten signature in black ink that reads "Les Matheson". The signature is written in a cursive style. Below the signature is a horizontal line.

***Les Matheson***  
***MANAGING DIRECTOR***

*Cc: Mr John Laker*  
*Governor Ian Macfarlane*