

February 26, 2002



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

Dear Mr. Veale,

As the largest credit card company in the world, with a sizeable business in Australia, Citigroup has taken great interest in the Reserve Bank of Australia's review of the credit card payment schemes. This letter serves to again express our concern with the draft standards presented in the RBA's consultation document released in December 2001.

Citigroup welcomes the efforts being made to increase the transparency and competitiveness of the Australian financial services industry and efforts to attract foreign financial institutions to the Australian market. But, the proposed wholesale changes to the payment networks enforced through regulation will significantly undermine the ability of our Australian operation to achieve the appropriate level of return from the investment required to operate a competitive credit card business and our appetite to invest and expand.

Bob Rubin, my colleague at Citigroup, has written Governor Macfarlane on this matter last September. The head of our retail bank in Australia, Leslie Matheson, and his associates have, I know, presented more detailed particulars of our concern over the efficacy of the proposed policy and its effect on our own operations.

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. The recommendations appear to underestimate the economic complexity and importance that the current Interchange Fee structure and no-surcharge rules serve in the ongoing development and operation of the credit card payment networks. Our assessment sees the inevitable consolidation of financial service providers, abuse by the large retailers (especially those providing their own credit facilities) and significantly reduced consumer benefits/credit card utility.

We urge you to reassess the potential outcome of the proposed regulated changes on all constituencies before proceeding as proposed.

Sincerely,

A handwritten signature in black ink that reads "Victor Menezes". The signature is written in a cursive style with a long, sweeping tail on the letter 's'.

cc: Governor Ian Macfarlane