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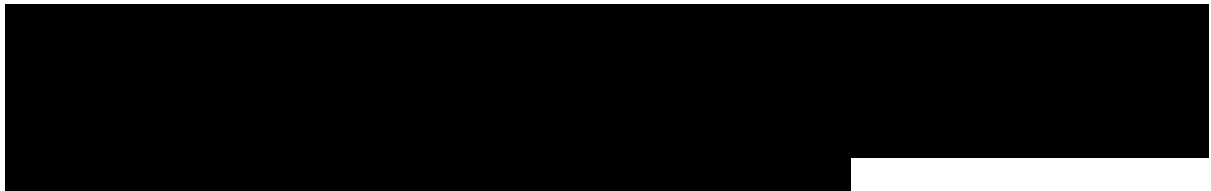
By email: [market.regulation@comcom.govt.nz](mailto:market.regulation@comcom.govt.nz)

### **Draft IPS Guidance submission**

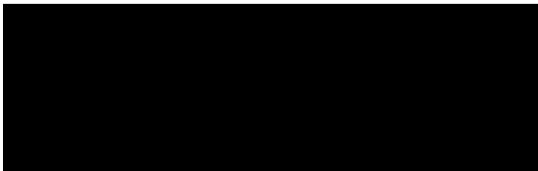
ASB Bank Limited (**ASB**) welcomes the opportunity to respond to the Commerce Commission's Draft guidance on the initial pricing standard.

ASB participates in the New Zealand payments system in a wide variety of roles, including as both an issuer of cards to its customers to use to make transactions, and as an acquirer providing services to merchants who wish to accept card transactions. ASB has worked hard to ensure transparency and flexibility around merchant fee pricing and in the last few years have introduced new pricing options to improve pricing transparency for our merchant customers.

We would be happy to discuss this submission with you if that would be of assistance. If so, please contact Jennie Cade, Senior Manager, Government Relations and Regulatory Affairs



Yours faithfully,



Nigel Annett  
Executive General Manager, Corporate Banking  
ASB Bank Limited

Enc.

## **Responses to questions in the Issues Paper**

*5A Are you aware of any issuer setting or bilaterally agreeing an interchange fee which is below the maximum rates since 31 March 2021? If so, please provide details of the arrangement.*

ASB will leave this for issuers involved in any such arrangements to comment.

*5B Have we accurately described how interchange fees are set, assigned and charged in practice? If not, please provide an explanation.*

Yes, although it doesn't directly describe at what point the merchant interchange fee is assigned. For clarity (5.9.2) the acquirer uses information within the transaction from the switch to assign the merchant interchange fee category. This information is then used to charge the merchant and is sent to schemes to initiate the exchange of interchange between acquirer and issuer.

On-Us transactions (ASB cards accepted at ASB merchants) are processed slightly differently in that these are not sent to schemes. The exchange of interchange value is managed internally.

*5C (i) Do you agree with our analysis of scenario one? Why/why not?*

The issuer does not charge the acquirer. In practice, the schemes set the maximum interchange rates, the issuers then advise what rates (maximum or below) they would like to utilise and the acquirers then ensure systems adhere to the rates published by the schemes. Under 5.18.3, it is correct that the acquirer would have been involved in setting the rates up within systems but they would have done so by following the rules set by the schemes.

*5C (ii) Do you agree with our analysis of scenario two? Why/why not?*

From an acquiring perspective, we agree that we have no visibility of Issuers Net Compensation arrangements. From an Issuing perspective, ASB has some concerns around the attribution of 'compensation' to transactions (and therefore 'assessed' interchange). These are covered in more detail under questions related to net compensation (Question 6C).

*5C (iii) Are there any additional high-level scenarios you see benefit in us considering at this stage? If so, please provide a description of those scenarios.*

None at this stage.

*6A (i) Do you agree with our interpretation of the interchange fees which are considered to be the 1 April 2021 fees? Why/why not?*

ASB agrees with this interpretation.

*6A (ii) Do you agree with our proposed approach for determining those 1 April 2021 fees for each issuer? Why/why not?*

ASB agrees with the proposed approach.

*6A (iii) What information could issuers (or other participants, such as the schemes) reasonably provide us to verify the applicable 1 April 2021 fees for each issuer?*

We suggest the Commerce Commission seek this information from the schemes.

*6B (i) What other forms of monetary or non-monetary compensation should be included in our consideration of net compensation, if any?*

Only compensation that relates to a transaction would be included in net compensation as per 6.12. We ask that the Commerce Commission provide additional clarity on the term 'reasonably be attributed'. For example, whether it is expected to include all charges fixed and variable.

*6B (ii) How is the value of non-monetary compensation (a) determined between the provider and the recipient; and (b) accounted for in the recipient's accounts?*

[REDACTED]

*6C (i) Whether compensation has to be linked to a specific transaction in order to be reasonably attributed to it? If so, why?*

Given the intent of the changes, to reduce transaction costs for merchants, this suggests linking compensation to a specific transaction best supports the policy intent.

*6C (ii) What principles or other matters do you consider to be relevant for the purposes of attributing compensation to specific transactions?*

ASB would welcome the opportunity to discuss this topic with the review team if that will assist in their formulation of the final guidance.

*6D (i) What do you consider the effect of the IPS to be?*

We consider the IPS will support small businesses to manage the cost of accepting payments. As submitted previously, regulating fees charged by payment service providers should balance the need for those providers to continue to invest in security and innovation and obtain a fair return for the service provided and risk taken. We also note the IPS is likely to impact the generosity of reward schemes offered by issuers.

*6D (ii) What other principles (if any) are relevant to determining the purpose of compensation?*

Further clarity needs to be provided, particularly in relation to 6.36, otherwise the assessment of the purpose of compensation is left up to interpretation and is unlikely to be predictable.

*6D (iii) What information could parties reasonably provide to enable us to assess the purpose of compensation?*

Compensation, where relevant to a transaction, will ultimately be linked to fees charged. The schemes will be well-placed to provide a schedule of fees and information on the purpose of the fees.

*6E (i) What mechanisms do issuers have in place, and how do those mechanisms operate, to:*

*(a) Ensure that a cardholder understands and agrees that a CCPP is to be used wholly for purposes other than personal, domestic or household purposes;*

This is primarily through our suitability assessment, product details and terms and conditions. ASB business card products are only available to entities (businesses) as opposed to individuals.

*(b) Determine whether a cardholder is using a CCPP for a prohibited purpose (ie, for a personal, domestic or household purpose);*

There is no reliable way to monitor the purpose of a transaction. As per 6.49, the purpose should be considered at account opening.

*(c) Remedy the use of a CCPP for a prohibited purpose? For example, by blocking the use of that product; and*

If the business is no longer operating the entity and any associated products will be closed. As above determining use for a prohibited purpose at a transaction level is not possible.

*(d) Ensure that a CCPP is being charged directly to the account of the business?*

Because a business card is only available to entities it is linked to a business account.

*6E (ii) How can we best get assurance from participants that credit products are correctly being categorised and treated as CCPPs?*

Again, this is primarily through participants' suitability assessment, product details and terms and conditions in addition to the product only being available to businesses.

*6F Should ATM transactions be subject to the fee caps under the IPS?*

ASB does not consider ATM transactions be subject to the fee caps under the IPS, noting interchange fees go towards the cost of providing the ATM service.

*6G (i) What mechanisms do participants currently have in place, and how do those mechanisms work, to:*

*(a) Identify whether an erroneous interchange fee has been charged; and*

A third party manages interchange tables on our behalf and a testing framework and corresponding controls are in place to manage this.

*(b) Address a situation where an erroneous interchange fee has been charged?*

ASB has a remediation process in place to manage any issues of this kind should they arise.

*6G (ii) How are parties made good after an erroneous interchange fee has been detected? In particular, how are merchants made good where the effect of any erroneous interchange fee has flowed directly through to them via the interchange plus pricing model?*

As above, any issues of this kind would be managed through the remediation process.

*7A (i) Do you agree that the information we have identified is the right information to enable us to assess compliance with the obligations under the IPS? Why/why not?*

We agree from an Acquiring perspective because this is the only level of information available to assess compliance.

*7A (ii) What alternative information, if any, can provide us with assurance that the IPS is being complied with?*

Information about the work that parties have undertaken to support the objective of the RPS (e.g. changed pricing so customers benefit from interchange fee reductions. customer communications) may provide this assurance. So to may information on parties' transition to the new requirements and related controls. Confirmation from parties that commercials have not changed (in response to the IPS) between the scheme and issuer could also demonstrate that there has been no activity (between the parties) to compensate for the impact (reduced interchange).