BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Payment Card Reform Framework

Concept Paper

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Preface

This Concept Paper sets out the draft Policy Document which outlines the framework to regulate the setting of interchange fees for domestic payment card transactions and the measures to address other distortions in the payment card market in order to foster an efficient, transparent and competitive payment card industry in Malaysia.

Bank Negara Malaysia (the Bank) invites written comments on this Concept Paper. To facilitate the Bank's assessment, please support each comment with a clear rationale, supporting evidence or illustration and proposed alternative, where relevant. Please submit all written comments to the Bank by **10 November 2014** addressed to-

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PART A OVERVIEW

1. Introduction

1.1 Retail payment systems and instruments contribute to the broader effectiveness and stability of the financial system, in particular to facilitate the smooth functioning of commerce. Under the Financial Services Act 2013 *[Act 758]* (FSA) and the Islamic Financial Services Act 2013 (IFSA) *[Act 759]*, the Bank shall, amongst others, foster safe, efficient and reliable payment systems and payment instruments.

1.2 This Policy Document sets out the following requirements with the objective of fostering an efficient, transparent and competitive payment card industry in Malaysia:

(a) the framework to regulate the setting of interchange fees[1] for domestic payment card transactions[2] in order to prevent the indiscriminate increases in interchange fees and ensure that interchange fees are set in an objective and transparent manner; and

[1] Interchange fee is a fee which is typically payable by the acquirer (i.e. the party who deploys point-of-sale (POS) terminals and accept card payments on behalf of a merchant) to the issuer (i.e. the party who issues payment cards to cardholders) to compensate the issuer for costs incurred in facilitating the transactions such as the cost of authorisation, clearing and settlement, fraud and dispute management.

[2] Transactions for the purchase of goods and services using a payment card issued in Malaysia and acquired by an acquirer registered under the FSA.

(b) the measures to address other distortions in the payment card market in order to create an enabling environment for wider deployment of payment card acceptance devices or point-of-sale (POS) terminals and to promote greater usage and acceptance of cost-effective payment cards.

1.3 The recent revision and increase in interchange fee rates by operators of the major international payment card networks[3] had caused payment card acquirers (acquirers) to raise the merchant fees or merchant discount rates (MDR) of about 46,300 merchants to offset the increase in cost.[4] Merchants in turn are likely to recover the increase in cost by raising the prices of goods and services, thus adversely impacting not only the cardholders but the general public at large.

1.4 Instead of bringing about a reduction in fees, competition between operators of payment card networks is likely to result in further increases in interchange fee rates which would cause MDR to be raised to even higher levels on a system-wide basis. This is because operators of payment card networks compete by raising interchange fees to attract as

[3] The increase in interchange fee rates are applicable to transactions in the “All Others” category for consumer cards which represent a significant share of the total credit and debit card transactions for operators of the major international payment card networks.

[4] The number of merchants affected by the increase in MDR would have been higher had the Bank not issued a circular on 15 July 2013 requesting all acquirers to cease further increase in MDR pending the development of a framework to regulate the setting of interchange fees for domestic payment card transactions.

many issuers to issue payment cards under their payment card networks instead of their competitors'.

1.5 As identified by the World Bank and the International Monetary Fund (IMF) in their Technical Note on "Sustainable Adoption of Innovative Channels for Financial Inclusion"[5] published in January 2013 which forms part of the Financial Sector Assessment Programme on Malaysia, the higher MDR level in Malaysia which averages between 1.5% to 2.5% is one of the key hindrances to the wider acceptance of payment cards amongst small merchants in Malaysia[6]. The number of POS terminals per 1,000 inhabitants in Malaysia is also relatively low at 8 compared to about 22 to 33 in advanced countries such as Australia, the United Kingdom (UK), Sweden and Norway as at end-2012.

1.6 Malaysia also has a higher ratio of credit card[7] transactions at 11.3 transactions per capita as compared to debit card[8] transactions at 1.6 transactions per capita in 2013. Although the total credit card transaction volume and value has increased by 15% and 25.5% respectively over the past three years from 295 million transactions amounting to RM79.8 billion in 2010 to 339 million transactions amounting to RM100.1 billion in 2013,

[5] http://documents.worldbank.org/curated/en/2013/01/18639521/malaysia-sustainable-adoption-innovative-channels-financial-inclusion-technical-note

[6] Small merchants normally pay a higher MDR compared to large merchants.

[7] For the purpose of this Policy Document, "credit card" refers to both credit card and credit card-i.

[8] For the purpose of this Policy Document, "debit card" refers to both debit card and debit card-i.

there has been a slowdown in the growth rate of POS terminals since 2012, which indicates a potential saturation of POS terminals at merchants who can afford the current MDR level. The recent interchange fee hikes by operators of the major international payment card networks had made the acceptance of payment cards increasingly less affordable to small merchants.

1.7 Another key development is the change in the interchange fee structure by operators of the major international payment card networks, i.e. from a flat structure where the same interchange fee rate is applicable irrespective of card types to a step-up structure[9] where higher interchange fee rates are applicable for premium cards[10]. This has resulted in payment card issuers (issuers) promoting premium cards to their cardholders instead of standard cards with lower interchange fee rates[11]. Some issuers have also set a low minimum income requirement for premium cards which is likely to spur other issuers to follow suit in order not to be competitively disadvantaged. An industry-wide lowering of the minimum income requirement for premium cards would lead to indiscriminate issuance of premium cards as more individuals would qualify for such premium cards with higher interchange fees, thus putting pressure on the acquirers' profit

[9] The step-up structure is applicable to transactions in the "All Others" category for consumer cards.

[10] Premium cards refer to cards that are of a higher tier than Classic and Gold cards.

[11] Examples of standard cards are Classic and Gold credit cards, Standard debit cards and the domestic debit cards.

margin resulting in an eventual system-wide increase in MDR. Details of the minimum income requirement set by issuers of premium credit cards under the major international payment card networks are set out in Table 1 of **Appendix 1**.

1.8 In addition, some of the prevailing market practices further contribute to the distortions in the payment card market. Although the cost of a debit card transaction is significantly lower than the cost of a credit card transactio[12], the interchange fee rates set by operators of the international payment card networks for both payment cards are almost similar. Moreover, acquirers charge merchants a single “blended” or “bundled” MDR[13] for both debit card and credit card transactions despite their differing cost structure. It is also difficult for merchants to distinguish a debit card from a credit card as most debit cards do not have the word “Debit” imprinted on the face of such cards. Such distortions suppress the sending of the correct price signals to the merchants and prevent the use of the debit card as a cost-effective payment card to displace cash.

1.9 The market distortions highlighted above have caused Malaysia to have a higher retail payment cost than is necessary as banks promote the higher

[12] The lower cost of a debit card transaction is due primarily to the absence of the cost of funding a line of credit and an interest-free period incurred for a credit card transaction.

[13] A “blended” or “bundled” MDR means that the same MDR is charged for both debit card and credit card transactions.

cost payment cards to maximise their interchange fee revenue. Consequently, consumers, including those who do not use payment cards, would have to pay higher prices of goods and services to subsidise the higher interchange fees paid to the issuers, which are mainly used to fund the loyalty points and other incentives enjoyed by cardholders, especially the premium cardholders. As the higher interchange fees are passed through to merchants in terms of higher MDR, merchants are likely to find it less affordable to accept payment cards, thus impeding the growth of the POS network in Malaysia.

1.10 The recent market developments and the prevailing distortions highlight the need for appropriate regulatory action to be taken to address the distortions and promote competition in the payment card market in order to achieve more efficient outcomes.

1.11 In the development of this Policy Document, the Bank has considered the interchange fee regulations imposed in other countries, some examples of which are provided in **Appendix 2**, and the feedback from relevant stakeholders. Further details of the background and rationale of the requirements set out in this Policy Document are provided in **Appendix 3.**

2. Objective

2.1 This Policy Document outlines requirements which aim to-

(a) prevent indiscriminate increases in interchange fees and provide for an objective and transparent framework for the setting of interchange fees for domestic payment card transactions; and

(b) address other distortions in the payment card market in order to create an enabling environment for wider deployment of POS terminals and to promote the greater usage and acceptance of cost-effective payment cards.

3. Scope

3.1 This Policy Document sets out the requirements pertaining to-

(a) establishing an objective and transparent framework for the setting of interchange fees for domestic payment card transactions;

(b) unbundling of the MDR for domestic payment card transactions;

(c) facilitating the identification of debit cards and international prepaid cards;

(d) removing restrictions on the co-badging of payment cards;

(e) empowering merchants to steer cardholders to use the more cost-effective payment cards and to have the first priority in routing decisions;

(f) prohibition on exclusivity to an account or a line of credit;

(g) minimum product offering for payment cards; and

(h) reporting and data retention requirements.

4. Applicability

4.1 Subject to paragraph 4.2, this Policy Document is applicable to all issuers, acquirers and operators of payment card networks as defined in paragraph 7.2 below.

4.2 Paragraph 9.5 of this Policy Document is applicable to approved operators of payment systems as defined in paragraph 7.2 below including operators of payment card networks.

5. Legal provisions

5.1 The requirements in this Policy Document are specified pursuant to sections 33(1)(a) and 143 of the FSA and sections 43(1)(a) and 155 of the IFSA.

6. Effective date

6.1 This Policy Document comes into effect on 2 January 2015 unless otherwise stated.

7. Interpretation

7.1 The terms and expressions used in this Policy Document shall have the same meanings assigned to them in the FSA and the IFSA, as the case may be, unless otherwise defined in this Policy Document.

7.2 For the purposes of this Policy Document-

"**S**" denotes a standard, requirement or specification that must be complied with. Failure to comply may result in one or more enforcement actions;

"**G**" denotes guidance which may consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted;

"**acquirer**" means a registered operator of a payment system that provides merchant acquiring services for credit card, debit card and/or prepaid card transactions registered under section 17 of the FSA;

"approved operator of a payment system" means a person approved under section 11 to operate a payment system set out in paragraph 1 of Division 1 of Part 1 of Schedule 1 of the FSA or in paragraph 1 of Part 1 of Schedule 1 of the IFSA;

"**Bank**" means Bank Negara Malaysia;

"**cardholder**" means a person to whom a payment card or an Islamic payment card has been issued or any person who uses a payment card to obtain money, purchase goods or services or to make any payment;

"**co-badging**" means the act of issuing a payment card with two or more unaffiliated payment card network applications or brands;

"**co-badged payment card**" means a payment card with two or more unaffiliated payment card network applications or brands;

"**credit card**"[14] means a payment instrument or an Islamic payment instrument issued by an issuer approved under the FSA or the IFSA, which indicates a line of credit or financing based on Shariah principles granted by the issuer to the cardholder and where any amount of the credit or financing utilised by the cardholder has not been settled in full on or before a specified date, the unsettled amount may be subject to interest, profit or other charges and for the Islamic payment instrument,

[14] Based on the definition provided under the Financial Services (Designated Payment Instruments) Order 2013 [P.U.(A)202] and the Islamic Financial Services (Designated Payment Instruments) Order 2013 [P.U.(A)208]

the unsettled amount may be subjected to a lesser rebate *(ibra')* by the issuer, and any reference to "credit card" shall include a reference to both consumer and commercial cards;

"**credit card transaction**" means a transaction for the purchase of goods or services using a credit card and acquired by an acquirer registered under the FSA, and any reference to "credit card transaction" shall include a reference to both card-present or face-to-face transactions and card-not-present or non-face-to-face transactions;

"**debit card**"[15] means a payment instrument or an Islamic payment instrument based on Shariah principles that is linked to a deposit account at a financial institution that can be used-

(a) to pay for goods and services;

(b) to withdraw cash from an automated teller machine (ATM) or withdraw cash at participating retail outlets through debit card usage by debiting the user's account; or

(c) for the purposes of (a) and (b),

and any reference to "debit card" shall include a reference to both the domestic debit card and the international debit card and to both consumer and commercial cards;

[15] Based on the definition provided under the Financial Services (Designated Payment Instruments) Order 2013 [P.U.(A)202] and the Islamic Financial Services (Designated Payment Instruments) Order 2013 [P.U.(A)208]

"**domestic debit card**" means a debit card issued in Malaysia by an issuer approved under the FSA or the IFSA under a debit card network operated by an operator of a domestic payment card network such as the Malaysian Electronic Clearing Corporation Sdn. Bhd. (MyClear), and any reference to "domestic debit card" shall include a reference to both consumer and commercial cards;

"**domestic debit card transaction**" means a transaction for the purchase of goods or services using a domestic debit card and acquired by an acquirer registered under the FSA, and any reference to "domestic debit card transaction" shall include a reference to both card-present or face-to-face transactions and card-not-present or non-face-to-face transactions;

"**domestic payment card transaction**" or "**payment card transaction**" means a transaction for the purchase of goods or services using a payment card and acquired by an acquirer registered under the FSA, and any reference to "domestic payment card transaction" or "payment card transaction" shall include a reference to both card-present or face-to-face transactions and card-not-present or non-face-to-face transactions;

"**Effective Date**" means 2 January 2015;

"**electronic money**" means a payment instrument or an Islamic payment instrument that stores funds electronically in exchange of funds paid to the issuer and is able to be used as a means of making payment to any person other than the issuer;

"financial institution" means a licensed bank, a licensed Islamic bank, an issuer of a designated payment instrument as defined under the FSA or the IFSA or a development financial institution prescribed under the Development Financial Institutions Act 2002 *[Act 618]*;

"**Government or its agencies**" means

(a) the Federal Government, any State Government or local government, and includes any ministry, department or office of the Federal Government or of any State Government that accepts any statutory payment;

(b) any statutory body established under a written law passed by the Parliament or by any state legislative assembly that accepts any statutory payment; or

(c) any person as the Bank may specify from time to time;

"**industry indicators**" means the industry indicators as set out in the Schedule to this Policy Document that the Bank considers in deciding whether to adjust the interchange fee ceiling for a credit card transaction;

"**interchange fee**" means a fee paid by the acquirer to the issuer, whether directly or indirectly, for a domestic payment card transaction, including any fee or remuneration with a similar object or effect pursuant to the rules, condition or contract of an operator of a payment card network;

"**interchange fee framework**" means a framework for regulating the setting of interchange fees for domestic payment card transactions;

"**international debit card**" means a debit card issued in Malaysia by an issuer approved under the FSA or the IFSA under a debit card network operated by an operator of an international payment card network such as Visa, MasterCard or UnionPay International, and any reference to "international debit card" shall include a reference to both consumer and commercial cards;

"**international debit card transaction**" means a transaction for the purchase of goods or services using an international debit card and acquired by an acquirer registered under the FSA, and any reference to "international debit card transaction" shall include a reference to both card-present or face-to-face transactions and card-not-present or non-face-to-face transactions;

"**international prepaid card**" means a prepaid card issued in Malaysia by an issuer approved under the FSA or the IFSA under a prepaid card network operated by an operator of an international payment card network such as Visa, MasterCard or UnionPay International, and any reference to "international prepaid card" shall include a reference to both consumer and commercial cards;

"**international prepaid card transaction**" means a transaction for the purchase of goods or services using an international prepaid card and acquired by an acquirer registered under the FSA, and any reference to "international prepaid card transaction" shall include a reference to both card-present or face-to-face transactions and card-not-present or non-face-to-face transactions;

"**issuer**" means any person, acting alone or under an arrangement with another person, who undertakes to be responsible for the payment obligation in respect of a credit card, debit card or prepaid card resulting from the cardholder being issued with or using such payment card, and who has obtained the approval from the Bank under section 11 of the FSA or section 11 of IFSA to issue such payment card;

"MDR" means a merchant fee or merchant discount rate paid by the merchant to the acquirer for each domestic payment card transaction comprising the interchange fee, the processing and other fees imposed by an operator of a payment card network, other costs incurred by the acquirer and the acquirer's margin;

"**merchant**" means a person who enters into a contract with an acquirer to accept payment cards for the purchase of goods or services;

"operator of a payment card network" means an operator of a payment system approved under section 11 of the FSA or section 11 of the IFSA that provides a payment card network operation which enables payment to be made through the use of credit cards, debit cards and/or prepaid cards;

"payment card" means any credit card, debit card, prepaid card or any other payment instrument as may be specified by the Bank[16] that is associated with or bears the logo of a payment card network, and any reference to "payment card" shall include a reference to both consumer and commercial cards;

"**payment card network**" means an electronic payment system or an Islamic electronic payment system based on Shariah principles, whether in

[16] Any reference to "payment card" shall include a reference to payment card in both physical or electronic form based on the definition of "payment instrument" in the FSA and the IFSA read together with the definitions provided under the Financial Services (Designated Payment Instruments) Order 2013 [P.U.(A)202] and the Islamic Financial Services (Designated Payment Instruments) Order 2013 [P.U.(A)208].

or outside Malaysia, which accepts, transmits or processes information on payment transactions resulting from the use of payment cards for purposes of facilitating authorisation, clearing and settlement among issuers, acquirers, merchants and cardholders;

“**point-of-sale**” means the point or location where a payment card transaction is conducted or completed;

“**point-of-sale terminal**” or “**POS terminal**” means a device that allows the acceptance of one or more payment cards to complete a payment card transaction;

“**prepaid card**” means an electronic money stored on a host system or in a card where interchange fee is payable to the issuer, and any reference to “prepaid card” shall include a reference to the international prepaid card and to both consumer and commercial cards;

“**restrict**” or “**restricting**” includes the act of imposing an obligation to pay a fee or other obligation with similar object or effect;

“statutory payment” means any payment made pursuant to a written law; and "**written law**" has the same meaning as defined in section 3 of the Interpretation Acts 1948 and 1967 *[Act 388].*

PART B POLICY REQUIREMENTS

8. Interchange fee framework

S 8.1 **Interchange fee ceiling for domestic debit card transactions**

(a) With effect from the Effective Date and subject to sub-paragraph (b) below, the amount of any interchange fee that an issuer may receive or charge or the amount of any interchange fee that an acquirer is required to pay with respect to a domestic debit card transaction shall not exceed 0.15% of the value of the transaction or 50 sen per transaction whichever is lower, or such other amount as may be calculated by the Bank in accordance with paragraph 8.7 below.

(b) With effect from the Effective Date until 31 December 2020, no interchange fee shall be payable to an issuer or by an acquirer for any domestic debit card transaction made for payments to the Government or its agencies.

S 8.2 **Interchange fee ceiling for international debit card transactions**

(a) With effect from the Effective Date and subject to sub-paragraph (b) below, the amount of any interchange fee that an issuer may receive or charge or the amount of any interchange fee that an acquirer is required to pay with respect to an international debit card transaction shall not exceed 0.21% of the value of the transaction or 70 sen per transaction whichever is lower, or such other amount as may be calculated by the Bank in accordance with paragraph 8.7 below.

(b) With effect from the Effective Date until 31 December 2020, no interchange fee shall be payable to an issuer or by an acquirer for any international debit card transaction made for payments to the Government or its agencies.

S 8.3 **Interchange fee ceiling for international prepaid card transactions**

(a) With effect from the Effective Date and subject to sub-paragraph (b) below, the amount of any interchange fee that an issuer may receive or charge or the amount of any interchange fee that an acquirer is required to pay with respect to an international prepaid card transaction shall not exceed 0.21% of the value of the transaction or 70 sen per transaction whichever is lower, or such other amount as may be calculated by the Bank in accordance with paragraph 8.7 below.

(b) With effect from the Effective Date until 31 December 2020, no interchange fee shall be payable to an issuer or by an acquirer for any international prepaid card transaction made for payments to the Government or its agencies.

S 8.4 **Interchange fee ceiling for credit card transactions**

(a) With effect from the Effective Date until 31 December 2020 and subject to sub-paragraphs (b) and (c) below, the amount of any interchange fee that an issuer may receive or charge or the amount of any interchange fee that an acquirer is required to pay with respect to a credit card transaction shall not exceed 1.00% of the value of the transaction.

(b) In the event the industry indicators for any particular year between 2015 and 2020 are not met, the interchange fee ceiling with respect to a credit card transaction in the subsequent year(s) shall be adjusted in accordance with the following formula:

Adjusted interchange fee ceiling for the subsequent year[17] (bps[18]) = *Interchange fee ceiling for the particular year (bps)* - ***X***

Where-

Interchange fee ceiling would start at 100 bps in 2015

And

X = *No. of bps to be deducted from the interchange fee ceiling for the particular year*

And

$$\boldsymbol{X} = \frac{\left(\dfrac{\text{Percentage of cumulative non-achievement of the industry indicators}^{19}}{600\%^{20}} \times 312 \text{ bps}^{21} \right) \times 2.1^{22}}{\text{No. of years between the year the interchange fee ceiling is to be adjusted and 2020}}$$

[17] Subject to a minimum of 48 bps or such number of bps as may be determined by the Bank in accordance with paragraph 8.7 of this Policy Document

[18] Basis points

[19] The industry indicators and the corresponding weightage are set out in the Schedule at page 33 of this Policy Document. Cumulative non-achievement of the industry indicators is calculated by adding the percentage of non-achievement for every year.

[20] The achievement of the industry indicators is measured in the ratio of 100% for 1 year and 600% for 6 years.

[21] This represents the excess interchange fee above the eligible costs for a credit card transaction which is 52 bps per year (calculated by deducting the interim ceiling of 100 bps with the eligible costs of 48bps) amounting to 312 bps for 6 years.

[22] A selected constant to ensure that the higher the level of non-achievement of the industry indicators, the faster the rate of reduction of the interchange fee ceiling to the interchange fee ceiling determined based on the eligible costs of a credit card transaction.

(c) With effect from 1 January 2021, the amount of any interchange fee that an issuer may receive or charge or the amount of any interchange fee that an acquirer is required to pay with respect to a credit card transaction shall not exceed 0.48% of the value of the transaction, or such other amount as may be calculated by the Bank in accordance with paragraph 8.7 below.

S 8.5 **Obligation to comply with the interchange fee ceilings by operators of payment card networks**

An operator of a payment card network shall ensure that the interchange fee rates that the operator sets in its rules, condition or contract with issuers and acquirers shall not exceed the interchange fee ceilings set out in paragraphs 8.1 to 8.4 above.

S 8.6 **Prohibition of circumvention**

(a) No person shall, directly or indirectly, evade or circumvent the interchange fee ceilings set out in paragraphs 8.1 to 8.4 above.

(b) Without prejudice to the generality of sub-paragraph (a) above, any net compensation received by an issuer from an operator of a payment card network with respect to a domestic debit card transaction, an international debit card transaction, an international prepaid card transaction or a credit card transaction or in relation to debit card, prepaid card or credit card related activities shall be treated as part of the interchange fees received by the issuer and are thus subject to the interchange fee ceilings set out in paragraphs 8.1 to 8.4 above.

(c) For the purpose of sub-paragraph (b) above-

(i) an issuer is deemed to have received net compensation if the total amount of payments, incentives, fees or funds received by an issuer from an operator of a payment card network during a calendar year exceeds the total amount of all fees, payments or funds paid by the issuer to the operator of the payment card network during that calendar year; and

(ii) any payment, incentives or funds received by an issuer from an operator of a payment card network for the purpose of payment card infrastructure development shall not be included in the computation of net compensation subject to the prior written approval from the Bank.

S 8.7 **Recalculation of the interchange fee ceilings by the Bank**

(a) Subject to sub-paragraphs (b) and (c) below, the Bank shall review, recalculate and adjust the interchange fee ceilings set out in paragraphs 8.1 to 8.4 above at the end of every three-year interval commencing from the Effective Date or at such other date as may be determined by the Bank in writing due to changes in eligible costs and other relevant factors, and an issuer, an acquirer and an operator of a payment card network shall comply with the adjusted interchange fee ceilings.

(b) The Bank shall review the cost incurred by issuers to fund an interest-free period for the credit card business on a yearly basis.

(c) The interchange fee ceiling for credit card transactions shall not exceed 1.00% of the value of transaction for the period between the Effective Date and 31 December 2020 except where the sum of the eligible costs for a credit card transaction determined by the Bank exceeds 1.00% of the value of the transaction.

S 8.8 **Publication of interchange fee rates**

An operator of a payment card network shall publish prominently on the website of the said operator the interchange fee rates for domestic debit card transactions, international debit card transactions, international prepaid card transactions and credit card transactions which are applicable to the payment card network in Malaysia.

9. Measures to address other distortions in the payment card market

S 9.1 **Unbundling of the MDR for domestic payment card transactions**

An acquirer shall charge merchants specified and separate MDR for each of the following transactions which reflects the cost structure of the respective transactions:

(a) domestic debit card transactions;

(b) international debit card transactions and international prepaid card transactions; and

(c) credit card transactions.

S 9.2 **Facilitating the identification of debit cards and international prepaid cards**

(a) With effect from the Effective Date, an issuer shall ensure that any new or replacement debit card and international prepaid card issued by the issuer are visually and electronically identifiable including through the prominent display of the word “Debit” and “Prepaid” on the face of the debit card and the international prepaid card, respectively.

(b) With effect from 1 January 2018, an issuer shall ensure that all its debit cards and international prepaid cards on issue or in circulation are visually and electronically identifiable including through the prominent display of the word “Debit” and “Prepaid” on the face of the debit cards and the international prepaid cards, respectively.

S 9.3 **Removing restriction on co-badging of payment cards**

(a) An operator of a payment card network shall not, either directly or indirectly or through an agent or a third party, by rule, condition, contract or by any means whatsoever, do or omit to do an act which has the following object or effect:

(i) restricting or preventing an issuer from issuing a co-badged payment card or an acquirer from acquiring a transaction carried out using a co-badged payment card;

(ii) restricting or preventing an issuer from giving equal branding to the payment card networks that are available on a payment card; or

(iii) imposing an obligation to pay a fee or other obligation with similar object or effect in relation to a transaction carried out using a co-badged payment card which is not routed or processed via the payment card network of the said operator.

(b) An issuer shall give equal branding to the payment card networks that are available on a payment card by ensuring that the logo of the payment card networks are of equal size and are displayed on the same side of the payment card.

S 9.4 **Empowering merchants to steer cardholders to use cost-effective payment cards and to have the first priority in routing decisions**

(a) An operator of a payment card network or an acquirer shall not, either directly or indirectly or through an agent or a third party, by rule, condition, contract or by any means whatsoever, do or omit to do an act which has the following object or effect:

(i) restricting or preventing a merchant from steering a cardholder to use any payment card, or any payment card network available on a payment card including by indicating preference or offering discount or other benefit for the use of a payment card or a payment card network but excluding surcharging;

(ii) restricting or preventing a merchant from routing or setting priority routing to route a transaction made using a co-badged payment card to the payment card network of the merchant's choice; or

(iii) restricting the number of payment card networks on which a payment card transaction may be routed or processed at the point-of-sale; or

(iv) restricting or preventing an acquirer or a merchant from giving equal prominence to a competing payment card network at the point of sale.

(b) For transactions made using a co-badged payment card-

(i) merchants shall have the first priority in deciding which payment card network that a transaction is to be routed or processed, followed by cardholders;

(ii) acquirers shall ensure that the POS terminals that they deploy to merchants are enabled to allow merchants to choose the payment card network of the merchant's choice; and

(iii) acquirers shall ensure that a merchant who decides to set priority routing at the POS terminals display a prominent notice at the point of sale to inform customers about the payment card network that is prioritised by the merchant for routing purposes over other payment card networks.

(c) An acquirer shall provide in the monthly or periodic statement sent to all its merchants the following information:

(i) the respective MDR applicable for each payment card transaction;

(ii) the respective interchange fee rate applicable for each payment card transaction; and

(iii) the website address of each payment card network where details of interchange fee rates are published.

(d) An acquirer shall provide in its monthly or periodic statement sent to all its merchants a prominent notice to notify the merchants of any reduction in interchange fee rates together with-

(i) a notice of the corresponding reduction in the MDR charged to the merchants; or

(ii) an explanation as to why there is no corresponding reduction in the MDR charged to the merchants.

S 9.5 **Prohibition on exclusivity to an account or a line of credit**

An approved operator of a payment system including an operator of a payment card network shall not do or omit doing an act which has the object or effect of restricting or preventing the access or use of, an account maintained by a customer with a financial institution or a line of credit extended by a financial institution to a customer, via other payment card networks, payment systems or payment instruments.

S 9.6 **Minimum product offering for payment cards**

(a) An issuer who issues a debit card, a prepaid card or a credit card shall offer to its cardholders, at the minimum, the option of obtaining a basic debit card, a basic prepaid card or a basic credit card as the case may be, with minimal or no cardholder incentives or rewards, and at zero or a nominal fee charged to cardholders subject to the prior written approval from the Bank.

(b) For the purpose of sub-paragraph (a) above, a basic debit card, a basic prepaid card or a basic credit card as the case may be, shall at the minimum enable the cardholder to-

(i) make payment to any merchants acquired in or outside Malaysia under the payment card networks available in the respective payment card; or

(ii) make payment to any merchants acquired in Malaysia under the payment card networks available in the respective payment card, if requested by the cardholder in writing.

S 9.7 **Reporting and data retention requirements**

(a) Each issuer, acquirer and operator of a payment card network shall submit to the Bank a report in such format and at such periodic intervals as the Bank may specify in writing.

(b) Information or data required in the report in sub-paragraph (a) above may include details of costs incurred in relation to a debit card, prepaid card and credit card transaction, interchange fees, MDR, the processing or other fees imposed by operators of payment card networks, incentives, funds and payments received from operators of payment card networks, transaction decline rates and such other information and data as the Bank may specify in writing.

(c) Each issuer, acquirer and operator of a payment card network shall retain evidence of compliance with the obligations set out in paragraphs 8 and 9 above for a period of not less than seven years after the completion of the transactions, operations or events related to the respective obligations.

Schedule

Industry indicators

(*sub-paragraph 8.4(b)*)

Industry Indicators	2015	2016	2017	2018	2019	2020
1) Cumulative POS terminals comprising:	**280,000**	**330,000**	**430,000**	**560,000**	**690,000**	**800,000**
a. Contact terminals	252,000	264,000	301,000	392,000	483,000	560,000
b. Contactless terminals	28,000	66,000	129,000	168,000	207,000	240,000
2) Debit card transactions (million)	**89**	**137**	**246**	**433**	**681**	**1,000**

Notes:

1. The industry indicator on “Cumulative POS terminals” represents the cumulative total number of POS terminals deployed in Malaysia (net of terminals that have been terminated) which satisfy the following characteristics:

   (a) There is at least one (1) payment card transaction per month for each of the POS terminals; and

   (b) Any new POS terminal deployed commencing from the Effective Date is deployed at new merchants or at new merchant outlets.

2. For the purpose of determining the level of non-achievement of the industry indicators under paragraph 8.4(b) above, equal weightage of 50% is assigned to each of the industry indicators set out above.

Appendix 1

Minimum Income Requirement for Premium Credit Cards

Table 1: Minimum income requirement imposed by the industry prior to the Bank's circular dated 10 April 2014

Credit card type	Minimum annual income requirement (Industry range)
Platinum	RM24,000–RM100,000
Super Premium 1	RM36,000–RM200,000
Super Premium 2	RM120,000–RM240,000

Table 2: Interim minimum income requirement set by the Bank to address the risk of indiscriminate issuance of premium credit cards pending the formulation of the interchange fee framework

Credit card type	Minimum annual income requirement
Platinum	RM60,000
Super Premium 1	RM100,000
Super Premium 2	RM150,000

Note: The minimum income requirements set out above are interim measures and do not form part of the requirements in this Policy Document.

Appendix 2

Interchange Fee Regulation in Other Countries

Country	Interchange fee ceiling[23]
Australia	• Credit Card: 0.50% • Debit card: 12 cents[24]
United States of America (USA)	• Debit Card: 21 cents + 0.05% (fraud losses) + 1 cent (fraud prevention adjustment)
European Union (EU)[25]	• Debit Card: 0.2% or 7 cents, whichever is lower • Credit Card: 0.3%
South Africa[26]	• Credit card (card-present): 1.48% • Credit card (card-not-present): 1.73% • Debit card (card present): 0.44% • Debit card (card-not-present): 0.48%

[23] Interchange fee ceilings that are expressed as a percentage refer to a percentage of the transaction value.

[24] Except for Debit MasterCard where the interchange fee ceiling is not a result of regulation but pursuant to a voluntary undertaking by MasterCard

[25] Pending adoption of the proposed regulation in accordance with the legislative procedure in the EU.

[26] Applicable interchange fee rates for transactions for purchase of goods or services where both the issuer and the acquirer are EMV (Europay-MasterCard-Visa standard) compliant for card-present transactions and 3D Secure compliant for card-not-present transactions. Different rates apply if either the issuer or the acquirer is not EMV compliant or 3D Secure compliant for card-present and card-not-present transactions, respectively.

Appendix 3

Background and Rationale of the Policy Requirements

1. Malaysia's payment card landscape

1.1 Malaysia remains a relatively high user of cash with currency-in-circulation over GDP (CIC/GDP) of 6% in 2012 compared to 2% to 4% in advanced countries such as Australia, the United Kingdom, Sweden and Norway. Unlike countries with low CIC/GDP, Malaysia has a higher ratio of credit card transactions to debit card transactions and a lower number of POS terminals.

2012 data	CIC/GDP (%)	Debit card trans. per capita	Credit card trans. per capita	POS per 1,000 inhabitants
Malaysia	6	1	11	8
Australia	4	132	78	33
UK	4	132	32	26
Sweden	3	195	35	22
Norway	2	298	24	27

Table 1: Comparison of payment indicators between Malaysia and other advanced countries.

1.2 Despite having a high debit card penetration of about 42 million cards for a population of about 30 million as compared to approximately 8 million credit cards as at end-2013, there were only 1.6 debit card transactions per capita compared to 11.3 credit card transactions per capita in 2013. The number of POS terminals is also relatively low at 8 compared to about 22 to 33 per 1,000 inhabitants in the advanced countries referred to above. The average MDR payable by a merchant who accept payment cards in Malaysia is between 1.5% and 2.5%, where small merchants normally pay a higher MDR compared to large merchants.

2. Market distortions in the payment card industry and their consequences

2.1 The cost of a debit card transaction is significantly lower than that of a credit card transaction mainly due to the absence of the costs of funding a credit line and an interest-free period incurred for a credit card transaction.

2.2 The following market distortions prevent the debit card from being positioned as a cost-effective payment card to widen the POS network and to enable card acceptance by small merchants:

(a) Firstly, competition among operators of payment card networks results in higher rather than lower fees as payment card networks compete for market share by raising interchange fees to entice issuers to issue payment cards under their payment card networks instead of their competitors'. Issuers also compete by promoting the higher cost premium cards with higher interchange fees; and

(b) Secondly, despite the differing cost structure, the interchange fees for debit card and credit card issued under the international payment card networks are almost similar and a “bundled” MDR is charged for both debit card and credit card transactions. As such, debit cards cease to be a cost-effective payment card for merchants to accept in view of the higher interchange fees and the “bundled” MDR.

2.3 Based on a cost study conducted by the Bank, the issuers’ interchange fee revenue is mainly used to fund cardholder incentives and loyalty programmes. The costs of such cardholder incentives and loyalty programmes are borne by merchants through the MDR and ultimately by the public, including those who do not use payment cards, when merchants pass on the MDR cost to their customers in the form of higher prices of goods and services.

2.4 The market distortions highlighted above have caused Malaysia to have a higher retail payment cost than is necessary as banks promote the higher cost payment cards to maximise their interchange fee revenue. The loyalty points and cardholders’ incentives funded by such interchange fee revenue fuel increases in the MDR and lead to inflationary pressure on the prices of goods and services. The higher MDR also deters small merchants from accepting payment cards, thus hindering the wider acceptance of payment cards in Malaysia. This is further compounded by the bundled MDR for both credit card and debit card transactions which prevent the use of the debit card as a cost-effective payment card. In addition, merchants also find it difficult to distinguish debit card from credit card as most of the debit cards issued in Malaysia do not have the word "Debit" clearly imprinted on the face of the cards.

3. Recent developments and the need for regulatory action

3.1 Prior to 1 May 2013, the interchange fee structure for the operators of two major international payment card networks was a flat structure where the applicable interchange fee rate for the operators' consumer debit and credit cards was a flat rate of 1.10% and 1.20%, respectively.[27]

3.2 In order to ensure that its interchange fee rates remain competitive vis-à-vis other payment card networks, the operator of one of the major international payment card networks (Operator of Payment Card Network A) had revised the interchange fee rates for its credit card with effect from 1 May 2013 resulting in an increase in the effective or average interchange fee rate[28] from 1.08% to 1.22%. While the Operator of Payment Card Network A had lowered the interchange fee rates for selected merchant categories, the said operator had also altered its

[27] While lower rates are applicable for selected merchant categories, the flat interchange fee rate of 1.10% and 1.20% apply to transactions in the "All Others" category for consumer cards which represent a significant share of the total credit and debit card transactions for the two major international payment card networks, respectively.

[28] The effective or average interchange fee rate is calculated by dividing the total amount of interchange fee payable with the total value of transactions.

interchange fee structure where the interchange fee rates for transactions in the “All Others” category are amended from a flat rate of 1.10% to a series of rates differentiated by card types ranging from 1.32% for its standard credit cards to 1.80% for its super premium credit cards. The transactions in the “All Others” category represent a significant share of the said operator’s total credit card transactions in Malaysia.

3.3 Following the hike in interchange fee rates by the Operator of Payment Card Network A, the operator of another major international payment card network (Operator of Payment Card Network B) had indicated to the Bank of its plans to increase its interchange fee rates in order not to be competitively disadvantaged. Through the Bank’s engagement with its stakeholders, the Bank had also received complaints from both acquirers and merchants on the rising cost of card acceptance due to increases in interchange fees and MDR respectively. In this regard, about 46,300 merchants were affected by an increase in MDR ranging from 0.05% to 1.76%. Due to the bundled MDR, some merchants, especially the small ones, had also resorted to surcharging not only for credit card transactions, but also for transactions made using debit card. Media reports had featured complaints among members of the public who felt that they should not be charged more for using their debit card as they were using their own funds, unlike credit card.

3.4 To prevent further interchange fee hikes in the payment card market which would pose detrimental consequences to merchants in the form of rising MDR and to the public in the form of higher prices of goods and services, the Bank had issued a circular on 15 July 2013 requesting both the Operators of Payment Card Networks A and B to cease further hikes in interchange fees, and acquirers to cease further increases in MDR pending the development of an interim solution and a framework to regulate the setting of interchange fees for domestic payment card transactions. To address the current market distortions and to reduce pressure on merchants to surcharge for debit card transactions, the Bank in the above circular had also requested acquirers to unbundle their MDR for debit card and credit card transactions to reflect their respective cost components, and issuers to ensure that the word “Debit” is clearly imprinted on the face of debit cards to facilitate merchants to differentiate debit cards from credit cards.

3.5 Following further discussions between the Bank and the operators of payment card networks, an interim solution was reached and recorded in the Bank’s circular dated 15 November 2013. The interim solution is intended to provide for a pause in the payment card market to avoid triggering any further interchange fee hikes pending the development of a framework for the setting of interchange fees for domestic payment card transactions. Under the interim solution, all operators of payment card networks agreed to ensure that their interchange fee rates for credit card do not exceed their current effective level. In addition, to minimise the risk of surcharging on debit card transactions, all payment card networks also agree to ensure that their interchange fee rates for debit card do not exceed the effective level of 0.90%.

3.6 Effective 1 March 2014, the Operator of Payment Card Network B adopted a differentiated interchange fee structure for transactions in the "All Others" category which represent a significant share of the said operator's total credit and debit card transactions in Malaysia. In the case of credit card, the interchange fee rates are adjusted from a flat rate of 1.20% into a series of differentiated rates ranging from 1.20% for standard credit cards to 1.80% for its super premium credit cards. To ensure that its effective interchange fee rates do not exceed the current effective level, the said operator had lowered the interchange fee rates for selected merchant categories. As for debit card, the said operator had also lowered the interchange fee rates for its standard and premium debit cards to ensure that the effective rate does not exceed the agreed ceiling of 0.90%.

3.7 In April 2014, the Operator of Payment Card Network A announced further increase in the interchange fee rates for its premium credit and debit cards and the introduction of a new super premium debit card category with a higher interchange fee rate with effect from June 2014. To ensure that it complies with the effective interchange fee rates provided in the interim solution, the said operator had also introduced a new merchant category with a lower interchange fee rate and reduced the interchange fee rate for standard debit cards. Upon engagement with the Bank in May 2014, the said operator subsequently revised downwards the interchange fee rates for its premium credit cards and the interchange fee rate for its super premium debit cards.

3.8 The agreement by the operators of payment card networks to adhere to specific levels of effective interchange fee rates was an interim solution to diffuse pressure for rising interchange fee rates in the immediate term. Experience in Australia over the past decade has shown that despite the implementation of a weighted-average interchange fee ceiling, the average interchange fee rates for the major international payment card networks tend to rise over time due to the introduction of new and significantly higher interchange fee categories. The cost of higher interchange fee cards in Australia tends to fall on typically smaller and medium-size merchants who do not benefit from preferential interchange status.[29]

3.9 Another key development that was observed by the Bank following the adoption of a differentiated interchange fee structure by the Operators of

[29] The Reserve Bank of Australia's Supplementary Submission to the Financial System Inquiry, August 2014, at pp. 3 and 5.

Payment Card Networks A and B was the promotion of premium credit cards with low minimum income requirements by some issuers. For instance, the minimum income requirement for a premium credit card with an interchange fee rate of 1.65% was set from as low as RM36,000 per annum to as high as RM200,000 per annum by the issuers in Malaysia. The Bank takes a serious view on the practice by some issuers in setting low minimum income requirement for premium credit cards as this is likely to spur other issuers to also lower their minimum income requirement so as not to be competitively disadvantaged. This would then lead to indiscriminate issuance of premium cards where higher interchange fees are payable, thus contributing to a system-wide increase in MDR, and consequently rising price of goods and services. To mitigate such risk from developing into a system-wide problem pending the development of the interchange fee framework, the Bank had engaged with the National Cards Group and issued a circular on 10 April 2014 requesting issuers to comply with a set of minimum income threshold for premium credit cards.[30]

3.10 The market developments and distortions in the payment card industry set out above highlight the need for appropriate regulatory action to–

[30] The minimum income requirement on premium credit cards imposed by the industry and the interim minimum income requirement for premium cards issued by the Bank on 10 April 2014 are set out in Appendix 1.

(a) prevent indiscriminate increases in interchange fees and provide for an objective and transparent framework for the setting of interchange fees for domestic payment card transactions; and

(b) address other distortions in the payment card market in order to create an enabling environment for wider deployment of POS terminals and to promote greater usage and acceptance of cost-effective payment cards.

4. Interchange fee framework

4.1 In establishing a transparent and objective framework for the setting of interchange fees for domestic payment card transactions, the Bank had conducted a series of consultations with relevant stakeholders. In addition, the Bank had also carried out a cost study of the credit card business and debit card business of 10 issuers and acquirers in the payment card market, which cumulatively represent 84% and 91% of the total credit card and debit card transactions in Malaysia, respectively.

4.2 While there are various methodologies for the setting of interchange fees, the Bank is of the view that a cost-based methodology, where interchange fee ceilings are set based on a set of eligible costs would provide for a transparent and objective means for the setting of interchange fees.[31]

4.3 With regard to eligible costs, the Bank takes the position that only the following cost categories may be included in the computation of the interchange fee ceilings:

Cost categories	**Eligible costs**
Cost incurred for processing a card transaction	Authorisation[32], transaction processing[33] and dispute management[34] costs
Cost incurred for reducing risk in card transactions	Fraud management costs[35] and fraud losses[36]
Cost incurred that are directly beneficial to merchants but are not recoverable from cardholders	Interest-free period funding cost[37] (for credit card only)

[31] The cost-based methodology has been adopted by the Reserve Bank of Australia (RBA) and the Federal Reserve Board System in the setting of interchange fee ceilings for the payment card markets in Australia and the United States of America, respectively. In the case of the RBA, the cost benchmark used for the setting of interchange fee ceilings was a means used to establish transparent benchmarks that meet the legal requirement of a “standard”, and does not reflect a view that interchange fees must be cost-based.

[32] Costs incurred in providing authorisation for a card transaction

[33] Costs incurred in processing a card transaction which include the costs for clearing and settlement

[34] Costs incurred for processing voucher retrieval requests, chargebacks and other disputed transactions

[35] Costs incurred for fraud prevention, detection and investigation

[36] Net fraud losses

[37] Cost for funding an interest-free period available to cardholders who pay off their outstanding balances by the payment due date or prior to the date on which interest begins to accrue on the unpaid balances

4.4 Interchange fee ceiling for credit card transactions

Based on the sum of the eligible costs below, the interchange fee ceiling for a credit card transaction is **0.48%** of the transaction value.

No.	Eligible cost	% of transaction value
1	Authorisation	0.05
2	Transaction processing	0.12
3	Fraud management	0.03
4	Fraud losses	0.01
5	Dispute management	0.01
6	Interest-free period funding	0.26
	Total[38]	**0.48**

4.5 Interchange fee ceiling for international debit card transactions

Based on the sum of the eligible costs below, the interchange fee ceiling for an international debit card transaction is **0.21%** of the transaction value subject to a maximum interchange fee of **70 sen** per transaction.

No.	Eligible cost	% of transaction value
1	Authorisation	0.05
2	Transaction processing	0.12
3	Fraud management	0.03
4	Fraud losses	0.00[39]
5	Dispute management	0.01
	Total[40]	**0.21**

[38] Figures may not necessarily add up due to rounding.

[39] 0.003%.

[40] Figures may not necessarily add up due to rounding.

4.6 Interchange fee ceiling for domestic debit card transactions

Based on the sum of the eligible costs below, the interchange fee ceiling for a domestic debit card transaction is **0.15%** of the transaction value subject to a maximum interchange fee of **50 sen** per transaction.

No.	Eligible cost	% of transaction value
1	Authorisation	0.03
2	Transaction processing	0.07
3	Fraud management	0.03
4	Fraud losses	0.00[41]
5	Dispute management	0.01
	Total[42]	**0.15**

4.7 Interchange fee ceiling for international prepaid card transactions

Based on the sum of the eligible costs below, the interchange fee ceiling for an international prepaid card transaction is **0.21%** of the transaction value subject to a maximum interchange fee of **70 sen** per transaction.

No.	Eligible cost	% of transaction value
1	Authorisation	0.05
2	Transaction processing	0.12
3	Fraud management	0.03
4	Fraud losses	0.00[43]
5	Dispute management	0.01
	Total[44]	**0.21**

[41] 0.003%.
[42] Figures may not necessarily add up due to rounding.
[43] 0.003%.
[44] Figures may not necessarily add up due to rounding.

4.8 Zero interchange fee rates for debit card and prepaid card transactions for payments to the Government or its agencies

(a) Significant progress has been made by the Government in migration to e-payments where in 2013, 99% of the total payments made by the Federal Government are in e-payments. However, a substantial number of payments received by the Government are still in cheques and cash. Based on a survey of 22 Federal Government agencies in Q1, 2014, only 32% [45] of the total payments received by 22 Federal Government agencies are via e-payments.

(b) Despite the huge potential for the debit card to displace cheques and cash for payments to the Government or its agencies, card acceptance infrastructure is still largely absent at most government counters and at bank branches which perform the function of collecting payments on behalf of the Government or its agencies. To incentivise the deployment of POS terminals and to promote card acceptance by the Government or its agencies, the Bank proposes to cap the interchange fee rate for transactions using the domestic debit card, the international debit card and the international prepaid card for payments to the Government or its agencies at **0%**. Banks will benefit from reduced cash handling cost

[45] The figure is based on the collection system of the 22 Federal Government agencies approved and monitored by Jabatan Akauntan Negara Malaysia (JANM) and which accept e-payments.

as the deployment of POS terminals would result in less cash transactions at government counters and at bank branches.

4.9 **Application of the interchange fee ceilings to operators of other payment card networks with similar business model**

(a) Interchange fee traditionally exists only in four-party[46] payment card networks where the issuer and the acquirer are two (2) separate parties and not in three-party[47] payment card networks where the issuer and the acquirer are the same party.

(b) However, over the years, some three-party payment card networks have evolved to mirror a four-party payment card network arrangement where the operator of a payment card network that previously acted as both the issuer and the acquirer, have licensed its issuing and/or acquiring business to third parties. Such development has also occurred in Malaysia with regard to the credit card scheme operated by a major international payment card network (Operator of Payment Card Network C).

[46] The 4 parties consist of the issuer, the cardholder, the acquirer and the merchant.

[47] The 3 parties consist of the cardholder, the merchant and the operator of a payment card network that acts as both the issuer and the acquirer.

(c) Although there is no explicit mention of "interchange fee" in the terms and conditions between the Operator of Payment Card Network C and its licensed issuers and acquirer, there is nevertheless an "issuer's rate" paid by the licensed acquirer to the said operator and by the said operator to the licensed issuers for each transaction made. Based on the Bank's assessment, the issuer's rate performs the same role as interchange fee with similar object and effect due to the following reasons:

(i) Both the issuer's rate and interchange fee are used by operators of payment card networks to incentivise issuers to issue payment cards under their payment card networks instead of their competitors'; and

(ii) Both the issuer's rate and interchange fee are transaction fees which, directly or indirectly, set the floor for the MDR charged by acquirers on merchants.

(d) In view of the similar object and effect of the "issuer's rate" and "interchange fee" and to prevent circumvention, the interchange fee ceilings would be applicable to the issuer's rate payable by the licensed acquirer to the Operator of Payment Card Network C. In the event the said operator becomes the sole acquirer of its payment card transactions, the interchange fee ceilings would apply to the issuer's rate payable by the said operator to its licensed issuer. The interchange fee ceilings would also be applicable to other payment card networks in the market which operates based on a similar business model.

4.10 **Proposals made by the industry**

(a) Since embarking on the development of a framework for the setting of interchange fees for domestic payment card transactions, the Bank had received numerous proposals from the industry requesting the Bank not to regulate the setting of interchange fees. In this regard, the industry had proposed to develop a set of Key Performance Indicators (KPIs) to achieve greater deployment of POS terminals and encourage the usage of debit cards and contactless cards.

(b) Given that one of the policy objectives of this Policy Document is to prevent indiscriminate increases in interchange fees, it is imperative for the Bank to establish an objective and transparent framework for the setting of interchange fees. At the same time, the Bank also welcomes the industry's willingness to achieve greater infrastructure development in the payment card market and to encourage the use of the more efficient debit cards and contactless cards through a set of KPIs. The Bank is of the view that such targeted industry collaboration with well-defined goals, if sustained on an industry-wide basis, may be more likely to deliver the desired outcomes of infrastructure development and greater usage and acceptance of cost-effective payment cards compared to the reliance on normal market forces to drive the achievement of such goals. Taking the above into consideration, the Bank proposes to–

(i) **Cap the interchange fee for debit card and international prepaid card transactions subject to ceilings determined based on eligible costs[48] with effect from 2 Jan 2015**

The interchange fee ceilings are intended to mitigate indiscriminate increases in interchange fees and position the debit card and the prepaid card as cost-effective payment cards to be accepted by merchants; and

(ii) **Cap the interchange fee for credit card transactions subject to an interim ceiling of 1.00% for the period between 2015 and 2020 where the Bank reserves the right to adjust the interim interchange fee ceiling in the event the industry indicators set out in the Schedule (page 33) to this Policy Document are not met, and to cap the credit card interchange fee subject to a ceiling determined based on eligible costs thereafter**

[48] Except for transactions for payments to the Government or its agencies where the interchange fee would be capped at 0%.

The interim interchange fee ceiling would serve as a safeguard against future indiscriminate increases in interchange fees. The Bank would monitor the industry indicators as set out in the Schedule on a yearly basis to assess whether the interim interchange fee ceiling of 1% is conducive in facilitating greater infrastructure development and higher debit card transactions. In the event the yearly industry indicators are not met, the Bank would adjust the interim interchange fee ceiling to the eligible cost level based on a pre-determined formula to spur greater POS deployment through lower payment card acceptance cost and consequently higher debit card transactions through the expanded POS network.

4.11 The interchange fee ceilings are summarised as follows:

Payment card transaction	**Interchange fee ceiling**	
	Payment to all merchants (except to the Government or its agencies)	**Payment to the Government or its agencies**
Domestic debit card	0.15% or 50 sen, whichever is lower	• Nil (from 2015 to 2020) • 0.15% or 50 sen, whichever is lower (2021 onwards)

Payment card transaction	Interchange fee ceiling	
	Payment to all merchants (except to the Government or its agencies)	**Payment to the Government or its agencies**
International debit card	0.21% or 70 sen, whichever is lower	• Nil (from 2015 to 2020) • 0.21% or 70 sen, whichever is lower (2021 onwards)
International prepaid card	0.21% or 70 sen, whichever is lower	• Nil (from 2015 to 2020) • 0.21% or 70 sen, whichever is lower (2021 onwards)
Credit card	• 1.00% (from 2015 to 2020)[49] • 0.48% (2021 onwards)	

4.12 For the avoidance of doubt, the interchange fee ceilings are single-rate ceilings where the interchange fee for each and every payment card transaction shall not exceed the applicable ceiling set out above. Such single-rate ceilings are different from and should be contrasted with the weighted-average ceilings adopted in other jurisdictions such as Australia where operators of payment card networks may set varying interchange fee rates for different merchant categories, card types and/or transaction types provided that the interchange fee rates on a weighted-average basis, do not exceed the prescribed weighted-average ceiling.

[49] The interim interchange fee ceiling for credit card transactions may be adjusted downwards based on the formula set out in paragraph 8.4(b) of this Policy Document if the yearly industry indicators are not met.

4.13 **Prohibition of circumvention**

(a) To strengthen compliance, any evasion or circumvention of the interchange fee ceilings is prohibited.

(b) While evasion and circumvention may come in varied forms, an example of such evasion or circumvention is when an issuer receives “net compensation” from an operator of a payment card network. In this regard, an issuer is deemed to have received “net compensation” if the total amount of payments, incentives, fees or funds received by an issuer from an operator of payment card network in a calendar year exceed the total amount of fees, payments or funds paid by the issuer to the operator of payment card network during that calendar year. Any “net compensation” shall be treated as part of the interchange fee received by the issuer which is subject to the interchange fee ceilings set out in this Policy Document.

(c) The Bank recognises that there may be certain *bona fide* payments, incentives or funds contributed by an operator of a payment card network to an issuer to develop the issuer’s payment card infrastructure which are beneficial to the overall development of the country’s payment card infrastructure. In this regard, the Bank would assess such payments, incentives or funds on a case by case basis. If written approval is granted by the Bank upon an application made by an issuer or an operator of a payment card network, such payments, incentives or funds would not be included in the computation of "net compensation" to the issuer.

4.14 Recalculation of the interchange fee ceilings by the Bank

To ensure that the interchange fee ceilings reflect any changes in the eligible costs and other relevant factors, the Bank shall review, recalculate and adjust the interchange fee ceilings every 3 years commencing from the Effective Date or at such other date as may be determined by the Bank in writing. The cost of funding the interest-free period however, would be reviewed by the Bank on a yearly basis.

4.15 Publication of the interchange fee rates

To promote transparency, all operators of payment card networks are required to publish prominently in their website the interchange fee rates for domestic debit card transactions, international debit card transactions, international prepaid card transactions and credit card transactions which are applicable to their respective payment card network in Malaysia.

5. Measures to address other distortions in the payment card market

5.1 Being the party who is responsible for and bears the cost of payment card acceptance, merchants are best positioned to influence the type of payment instruments used at the point-of-sale. As such, the following measures are designed to improve the price signals to merchants in order to promote the acceptance of cost-effective payment cards which would contribute towards minimising the cost of the retail payment system in this country:

(a) Unbundling the MDR for domestic debit card, international debit card and prepaid card transactions;

(b) Facilitating merchants to differentiate debit card and international prepaid cards through visual and electronic identification of debit cards and international prepaid cards;

(c) Prohibiting operators of payment card networks from-

(i) restricting or preventing an issuer from issuing a co-badged payment card or an acquirer from acquiring a transaction made using a co-badged payment card;

(ii) restricting or preventing an issuer from giving equal branding to the payment card networks available on a co-badged payment card; or

(iii) imposing an obligation to pay a fee or other obligation with similar object or effect in relation to a transaction made using a co-badged payment card which is not routed or processed via the payment card network of the said operators;

(d) Requiring the provision of equal branding to the payment card networks available on a co-badged payment card to enable merchants to identify the different payment card networks available on a payment card;

(e) Empowering merchants to steer cardholders to use cost-effective payment cards through the following means–

(i) Prohibiting operators of payment card networks and acquirers from–

(A) restricting or preventing merchants from steering their customers to use cost-effective payment cards including by indicating preference or offering discount or benefit, but excluding surcharging;

(B) restricting or preventing merchants from routing a transaction made using a co-badged payment card to the payment card network of the merchant's choice;

(C) restricting the number of payment card networks on which a transaction may be routed or processed in at the point-of-sale;

(D) restricting or preventing acquirers or merchants from giving equal prominence to competing payment card networks at the point of sale;

(ii) Allowing merchants to have the first priority in the routing decision when a co-badged payment card is used, followed by the cardholder;

(iii) Requiring acquirers to ensure that the POS terminals that they deploy to merchants are enabled to allow merchants to choose the payment card network of the merchant's choice;

(iv) Requiring acquirers to ensure that merchants display a prominent notice at the point of sale to inform customers about the prioritized payment card network decided by the merchants;

(v) Improving transparency of the MDR and interchange fee rates in the monthly or periodic statement sent to merchants by acquirers; and

(vi) Requiring acquirers to notify merchants of any reduction in interchange fee rates and the corresponding reduction in MDR if any, or an explanation if there is no corresponding reduction in the MDR.

5.2 Prohibition on exclusivity to an account or a line of credit

(a) With the advance of payment innovation, an account maintained by a customer with a financial institution or a line of credit extended by a financial institution to a customer may be accessed and used by the customer via different payment instruments and payment systems. This has occurred nowadays where the funds in a savings or current account can be accessed by an account holder not only via different debit card networks in a co-badged debit card, but also via different payment systems such as Interbank GIRO (IBG) and Shared ATM Network. Likewise, it is also a practice by some issuers to grant their customers access to the same line of credit via different credit card products.

(b) The Bank welcomes such development as it promotes efficiency by removing the need for financial institutions to create separate accounts for or to extend different lines of credit to the same customer who is offered different payment facilities by the financial institutions. Besides providing convenience by enabling customers to access and use their account or line of credit via different means, such practice by financial institutions also promotes competition among operators of payment card networks and payment systems. As such, a financial institution may allow an account or a line of credit to be accessed and used by a customer via multiple payment card networks, payment systems or payment instruments. Any rule or practice by approved operators of payment systems including operators of payment card networks which claim exclusivity to the access and use of an account or a line of credit would be prohibited.

5.3 Minimum product offering for payment cards

To provide choices to customers and to minimise the risk of customers paying excessive fees for features of payment cards that the customers do not really need such as loyalty points and other cardholder rewards, issuers of debit cards, prepaid cards and credit cards are required to offer to their customers the option of obtaining a basic debit card, a basic prepaid card or a basic credit card respectively with the following features subject to the Bank's prior written approval:

(a) minimal or no rewards or incentives to the cardholder;

(b) zero or a nominal fee charged to the cardholder; and

(c) enabling the cardholder to, minimally, make payment to–

(i) any merchants acquired in or outside Malaysia under the payment card network available on the payment card; or

(ii) any merchants acquired in Malaysia under the payment card network available on the payment card, if requested by the cardholder in writing.

5.4 **Reporting and record retention requirements**

To monitor the compliance of the obligations set out in this Policy Document, each issuer, acquirer and operator of a payment card network would be required to submit periodic reports to the Bank and to retain the relevant data and information for a period of not less than seven years.