

CCS issues a clearance decision on Visa's MIF system

1. The Competition Commission of Singapore ("CCS") has cleared the Notification for Decision received from Visa Worldwide regarding its Multilateral Interchange Fee ("MIF") system.
2. Visa Worldwide sought a decision from CCS as to whether its MIF system would violate the Competition Act, in particular, the Section 34 prohibition against anti-competitive agreements. CCS assessed whether Visa's MIF system (see Annex A) has the effect of preventing, restricting or distorting competition within Singapore. After extensive consultation with the relevant stakeholders and a careful review of the facts and evidence, CCS finds that the evidence available to it does not suggest that the MIF system has resulted in an appreciable adverse effect on competition in Singapore, in any of the relevant markets considered. Such being the case, CCS has issued a clearance decision on Visa's MIF system.
3. In assessing the Notification, CCS consulted a wide range of industry participants including merchants, banks, payment processors, and card schemes in Singapore, as well as cardholder surveys. CCS conducted two surveys of merchants of different sizes and industry categories in Singapore to gather feedback on any concerns regarding card payments, including merchant practices towards card acceptance and their participation in card promotions and incentive programmes in Singapore.
4. CCS assessed the competitive effects of Visa's MIF system on the market involving bank issuers in Singapore ("issuing market"), the market involving Visa acquirers in Singapore ("acquiring market"), and the market for card scheme administration services in Singapore ("card scheme market").
5. In making its assessment, CCS compared the present state of competition in each of these markets with the degree of competition that would exist in those markets if the MIF system was not in place. The difference in competition between the two scenarios provides an indication of whether Visa's MIF system has resulted in an appreciable adverse effect on competition in Singapore. CCS regards bilaterally negotiated interchange fees only between banks that are both issuers and acquirers in Singapore as the likely outcome to arise in the absence of the MIF system. For all other situations, in the absence of such bilaterally negotiated arrangements, no interchange fees would apply.
6. In the card scheme and issuing markets, CCS finds that it is unlikely that there would be more competition in these markets without the MIF system. In the acquiring market, CCS finds that it is not clear that competition would be significantly greater in this market without the MIF system. It is likely that barriers to entry and expansion for

small or new acquirers (with no issuing business) in Singapore would be higher. This is because banks that are both issuers and acquirers are unlikely to have an incentive to reach bilateral agreements with these pure acquirers, and so are unlikely to structure their cardholder reward and rebate programmes for such transactions, which do not generate interchange fees.

7. On the evidence available to it, CCS concludes that Visa's MIF system has not infringed Section 34 prohibition of the Act.
8. Assistant Chief Executive of CCS, Mr. Toh Han Li commented, "We have examined the effect of Visa's MIF by analysing the state of competition in the relevant markets in Singapore, with and without the MIF system. Based on the evidence available to CCS, we assessed that Visa's MIF system has not resulted in appreciable adverse effects on competition in Singapore. However, CCS reserves the right to re-examine the matter if there is a material change in current circumstances."
9. More details may be found at the CCS website:

http://www.ccs.gov.sg/content/ccs/en/Public-Register-and-Consultation/Public-Register/Anti-competitive-Agreements.detail.visa_internationalserviceassociation.html

Annex A – Diagram illustrating Visa's MIF system

Annex B – Glossary of terms

About The Competition Commission of Singapore (CCS)

CCS is a statutory board established under the Competition Act (Chapter 50B) on 1 January 2005 to administer and enforce the Act. It comes under the purview of the Ministry of Trade and Industry. The Act empowers CCS to investigate alleged anti-competitive activities, determine if such activities infringe the Act and impose suitable remedies, directions and financial penalties.

For more information, please visit www.ccs.gov.sg.



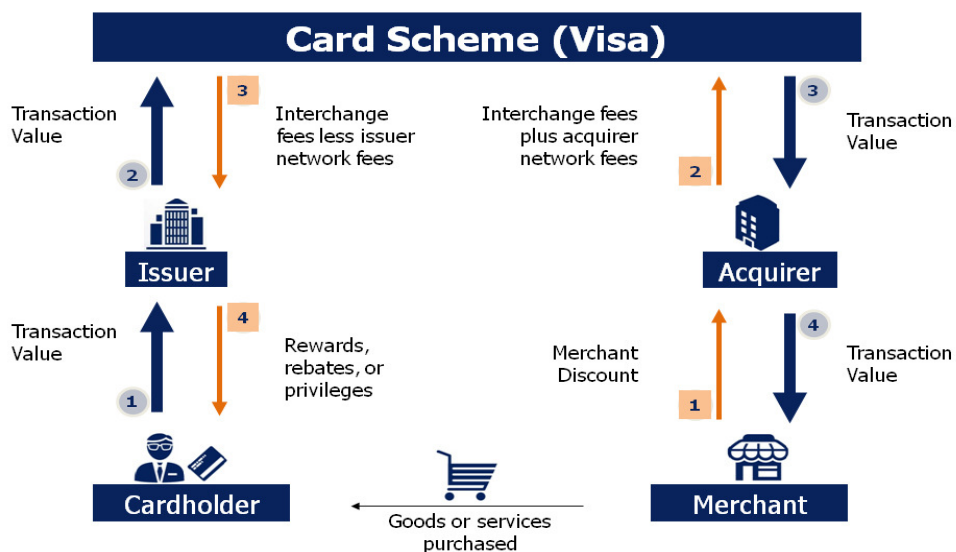
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Annex A: Typical card purchase transaction in the Visa Network



Notes:

The above diagram shows, in relation to a purchase transaction using a Visa card, the flow of funds from the cardholder to the merchant (orange arrows) and the flow of the various fees or incentives that are deducted from the transaction value in connection with the transaction (blue arrows).

The blue arrows show that:

1. the cardholder pays the transaction value to its issuer;
2. the issuer pays the transaction value to the card scheme;
3. the card scheme pays the transaction value to the acquirer; and
4. the acquirer pays the transaction value to the merchant.

Although this diagram indicates the flow of payments, the timing of payments would generally vary. For example, in a credit card transaction, the cardholder would generally settle the transaction with its issuer at a later date than the settlement of transactions between the issuer/acquirer and Visa, and the settlement of transactions between the acquirer and the merchant.

The orange arrows show that, in relation to the transaction:

1. the merchant pays the merchant discount to its acquirer;
2. the acquirer pays interchange fees plus acquirer network fees to the card scheme;
3. the card scheme pays the interchange fees less issuer network fees to the issuer; and
4. the issuer provides rewards/rebates/privileges to the cardholder.

Although interchange fees are settled between Visa and the issuers/acquirers as part of the net settlement amount which includes the relevant transaction values, and not collected separately, other fees or incentives, such as the provision of rewards, may be settled separately from the settlement of the relevant transaction value.

Annex B: Glossary of Terms

“**Acquirer**” means an entity that has a contract with a merchant to facilitate the merchant’s acceptance of a payment card.

“**Notification**” means a voluntary application to CCS by a party to an agreement for a decision on whether the agreement has infringed the section 34 prohibition of the Competition Act.

“**Card Schemes**” means an entity that operates a payment card network. The main card schemes in Singapore are Visa, MasterCard, American Express, and NETS.

“**Issuer**” means an entity that issues a payment card to a cardholder to facilitate the cardholder’s usage of the payment card.

“**MIF**” means the Multilateral Interchange Fee, which is a multilaterally determined fee payable by the acquirer to the issuer for a payment card transaction.

“**Visa Worldwide** ” means Visa Worldwide Pte. Ltd., which is a wholly-owned subsidiary of Visa International. Visa International’s payment card business in Singapore was transferred to Visa Worldwide in April 2009, following a global corporate restructuring of Visa International, which resulted in Visa International becoming a wholly-owned subsidiary of Visa Inc.

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