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John Lonsdale
Head of Secretariat
Financial System Inquiry
The Treasury
Langton Crescent
PARKES ACT 2600

03 December 2013

Email: fsi@treasury.gov.au

Dear Mr Lonsdale

SUBMISSION RESPONDING TO DRAFT TERMS OF REFERENCE FOR THE FINANCIAL SYSTEM INQUIRY

Thank you for the opportunity to make a submission in response to the Draft Terms of Reference for the Financial System Inquiry.

MasterCard welcomes the Inquiry and supports the Draft Terms of Reference in their current form.

As you would be aware, the original Financial System Inquiry, and the subsequent implementation of payments system legislation and regulation in Australia, has had unintended consequences for most of the participants in the payment system.

Consumer detriment, best demonstrated by the consequences of regulations allowing surcharging, has in many cases resulted in gouging by merchants with market power and the masking of costs through the inappropriate blending of surcharge rates. Perversely, the outcome of this regulatory intervention has been to incentivise consumers to use payment types with the highest costs to merchants.

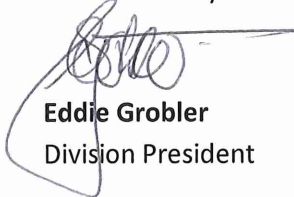
Detriment to the competitive landscape has been demonstrated by regulations (specifically credit interchange price regulations) applying to MasterCard's and Visa's businesses, but not to other competitors, including American Express. Whilst there is some complexity around this issue, it has clearly led to an unequal playing field, where government has effectively picked winners.

As a result, we are encouraged that this Inquiry will consider the impacts and implementation of the previous Inquiry, as well as the payments system, and that it will make recommendations which *"foster an efficient, competitive and flexible financial system, consistent with financial stability, prudence, integrity and fairness"*.

Over the next eleven months we look forward to actively and constructively participating in this Inquiry, and to advocating a fairer system of regulation, which rewards innovation and investment, recognises the value MasterCard and other payment providers bring to merchants and consumers, and provides a level playing field in the marketplace.

Please don't hesitate to contact me directly about this Inquiry, or alternatively to contact Brent Thomas, our VP of Public Policy and Corporate Affairs, at brent.thomas@mastercard.com or on +61 2 9466 3720.

Yours sincerely



Eddie Grobler
Division President