



Brussels, 29.6.2020  
SWD(2020) 118 final

**COMMISSION STAFF WORKING DOCUMENT**

**Report on the application of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions**

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#### I. Introduction

Card-based payments are the most common cashless means of payments in the EU, with nearly 70 billion transactions in 2017, totalling (52%) of all non-cash transactions<sup>1</sup>. It is also conceivable that Covid-19 accelerates consumer and merchant trends away from cash and towards contactless and electronic payments (of which many are card-based), to reduce in-store physical interaction, with a possible permanent shift of 10% of users<sup>2</sup>.

To foster the Internal Market and competition in EU card payments, Regulation (EU) 2015/751 on interchange fees for card-based payment transactions<sup>3</sup> (“the IFR”) harmonizes diverging laws and administrative decisions and addresses restrictive business rules and practices. The IFR introduced caps for hitherto high interchange fees for consumer debit and credit cards, therefore setting harmonized ceilings for interchange fees for consumer cards in the EEA. Such high interchange fees can form an entry barrier for new card schemes and have in the past contributed to the exit of a number of domestic card schemes with relatively low interchange fees. Interchange fees were also found to constitute a floor for merchant fees, below which they cannot negotiate, resulting in higher costs to merchants and consumers. The IFR does allow for lower national levels of interchange fees for domestic credit and debit card payments to allow consumers to benefit from efficient national debit card markets in terms of card acceptance and card usage and with lower interchange fees. The IFR also introduces business rules and aims at removing barriers to the internal market, such as restrictions on cross-border acquiring or the prevention of choice of payment brand or payment application for consumers and merchants.<sup>4</sup>

The IFR is without prejudice to the application of EU and national competition rules and does not prevent Member States from maintaining or introducing lower caps or measures of equivalent object or effect through national legislation. The IFR is closely related to the revised Payment Services Directive<sup>5</sup> (“PSD II”), as the card-specific provisions of PSD II<sup>6</sup>

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<sup>1</sup> ECB, ‘Card payments in the EU: current landscape and future prospects April 2019’

<sup>2</sup> Payments Journal, Contactless and Covid-19, 26 March 2020. There is also evidence of large decreases in cash volumes and ATM withdrawals, although it has to be taken into account that cash acceptance by retailers is currently limited in many countries.

<sup>3</sup> Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions, OJ L 123, 19.5.2015.

<sup>4</sup> Consistent application of the IFR is promoted through a Government Expert Group on the Interchange Fee Regulation. A number of National Competent Authorities have signed a voluntary Memorandum of Understanding to monitor the implementation of separation of schemes from processing entities, to foster co-operation and streamline enforcement.

<sup>5</sup> Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC, OJ L 337, 23.12.2015.

complement the IFR in promoting entry, including of pan-European card schemes or in preventing payees from requesting charges for the use of payment instruments for which the interchange fees are regulated in Chapter II of the IFR. The CJEU confirmed that this legislative framework on payment services is to be applied consistently.<sup>7</sup> Entry into force of IFR provisions was staggered from June 2015 until June 2016. The separation of schemes from processing entities was specified by Regulatory Technical Standards (“RTS”)<sup>8</sup>, which entered into force on 7 February 2018.

Article 17 IFR requires the Commission to submit to the European Parliament and to the Council a Report on its application to be accompanied, if appropriate, by a legislative proposal. The Commission informed the European Parliament and the Council that it will submit the Report by summer 2020 instead of June 2019, to allow for more comprehensive data collection. In line with the requirements of Article 17, the present report examines the appropriateness of the levels of fees and market developments with a focus on the entry of new players, new technologies and innovative business models, the development of cross-border acquiring, the pass-through of fee reductions to consumers, the effects of co-badging, of the exclusion of commercial cards and other technical requirements.

The Report is based on a comprehensive Study on the application of the IFR,<sup>9</sup> commissioned by the European Commission and published on 11 March 2020. It further processes extensive additional input, provided by stakeholders including major card schemes, retailers and a number of payment service providers including representative bodies, and input from national competent authorities.

Overall, it can be concluded that major positive results have been achieved through the implementation of the IFR (Cf. Part A), including but not limited to reduced merchants' charges resulting ultimately in improved services to consumers or lower consumer prices and enhanced market integration. Some areas, for instance the assessment of the compliance with the caps and of their possible circumvention (Cf. Part B) would necessitate reinforced data gathering and enhanced monitoring to support continuous robust enforcement, due to the inherent complexities in implementation of the related provisions, even as specific issues have not been detected. In other areas (Cf. Part C) the full effects of the IFR will need more time to materialise on the account of its limited application period, the long-term nature of contracts and recent market developments. Lack of awareness and incentives might also explain for instance the limited uptake by market participants so far of enhanced choice of application or of cross-border acquiring. Overall, further monitoring and data gathering

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<sup>6</sup> For instance, article 62 on charges applicable or 65 PSD II on the confirmation on the availability of funds.

<sup>7</sup> Case C-304/16 American Express - ECLI:EU:C:2018:66, para 57.

<sup>8</sup> Commission Delegated Regulation (EU) 2018/72 of 4 October 2017 supplementing Regulation (EU) 2015/751 of the European Parliament and of the Council on interchange fees for card-based payment transactions with regard to regulatory technical standards establishing the requirements to be complied with by payment card schemes and processing entities to ensure the application of independence requirements in terms of accounting, organisation and decision-making process, OJ L 13 of 18.1.2018.

<sup>9</sup> Study on the application of Interchange Fee Regulation, 2020, prepared by Ernst&Young and Copenhagen Economics, hereafter ‘the Study’, available at <https://ec.europa.eu/competition/publications/reports/kd0120161enn.pdf>

including over a longer period are necessary to comprehensively assess the impact of recent developments and possible limiting factors and to decide on the necessity of a legislative proposal to review the IFR, including the maximum cap for interchange fees. The full benefits of the IFR and possible areas for improvement will need to be assessed over a longer time period.

## **II. Impact of Regulation 2015/751 on interchange fees for card-based payment transactions**

### **A. Achieved benefits following the introduction of the IFR.**

#### **a) Market developments and competition in card payments (article 17 (b) IFR)**

##### **Key findings**

The number and value of card payments has been increasing across the EU (Figure 1) since implementation of the IFR. Integration of the internal market is evidenced by an increase in cross-border card payments, even though they still represent a limited share of all card-based transactions. Growth in domestic and cross-border card transactions is partly due to the implementation of the IFR, as they reflect higher acceptance of cards by merchants, driven in part by lower interchange fees. The market shares of international card schemes remained high (Figure 6). Since the implementation of the IFR, the exit of domestic schemes from the market stopped and they kept stable market shares (Figure 5). While the increased concentration in the acquiring market may, on the one hand, provide further savings for merchants, on the other, substantial market shares also will require close monitoring under competition rules. Competition dynamics are shifting with the emergence of innovative, instant means of payments and the entry of Big Techs into payments, with 25 global e-wallet providers active on the European market in 2019<sup>10</sup>.

Card payment transactions continued to increase in the EU, in terms of number (see Figure 1<sup>11</sup>), but also of value of card transactions per capita, with four-party debit and credit card transactions accounting for most of card payments. The gap between Member States narrowed as the ones with the lowest level of card usage experienced the highest growth rates (see Figure 2). Cross-border card transactions increased, even though they are still limited considering the total number of card transactions.<sup>12</sup> This increase matches the one in acceptance, as merchants have more incentives to accept cards. This is in part explained by cost reductions, including lower acceptance costs induced by the reduction in interchange fees. New and cheaper devices such as mobile point of sale (POS) terminals are expected to

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<sup>10</sup> Overview of regional and global e-wallets, the Paypers, ‘Payment Methods Report 2019 - Innovations in the Way We Pay’, p. 43

<sup>11</sup> All references to figures and tables refer to the Annex to this Report

<sup>12</sup> Cross-border card transactions increased from 6.7% to 8.7% over the period 2014-2017 (see Figure 3).

reinforce this trend, in particular for small merchants given lower investment costs. The sustained growth of e-commerce also increased acceptance.<sup>13</sup>

At the same time, the market situation regarding card schemes remained relatively stable. Nine domestic schemes operate in the EEA (see Table 1), mostly issuing debit cards only. Before the IFR, a number of domestic schemes exited the market as banks were attracted by higher interchange fees offered by MasterCard and Visa. However, since the IFR entry into force, no further exit of domestic scheme took place, and where domestic schemes are present, their share of issued cards is stable (see Figure 5). The two major international card schemes Visa and MasterCard retained very high market shares. Due to widespread co-badging, MasterCard or Visa remain present on almost every card. Other international schemes, which are predominantly three-party schemes (in particular American Express and Diners Club) have a stable but limited presence (see Figure 6). New pan-European card schemes have yet to emerge, with the still limited cross-border transactions a possible explanatory factor. Market entry may be facilitated now by the emergence of innovative means of payment, based on instant payment systems, supported by new pan-European infrastructures initiatives to process Single Euro Payments Area ('SEPA') Instant Credit Transfers in line with the SEPA End dates Regulation<sup>14</sup>.

The acquiring market, which enables acceptance, processing, and settling of transactions on behalf of the merchant, has become more concentrated, with a reported increase in the number of notified mergers and acquisitions in the acquiring market<sup>15</sup>. The creation of large acquirers, independent from banks and present in multiple Member States would contribute to more cross-border acquiring activity and is likely to foster economies of scale. It may also provide further savings for merchants, especially the ones with substantial bargaining power. At the same time, the market shares of these large acquirers increased, hence deserving close monitoring under competition rules.

Finally, the rise in digital payments has spurred the entry of innovative suppliers of financial services, such as FinTechs and BigTechs, with 25 global e-wallet providers active on the European market in 2019<sup>16</sup>, and Apple, Google and Alibaba having entered the market with

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<sup>13</sup> See the Eurostat news '7% of EU business turnover is through web sales', from 27 February 2019. See also Figure 4.

<sup>14</sup> Regulation (EU) No 260/2012 of the European Parliament and of the Council, of 14 March 2012, establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009, OJ L 94, 30.3.2012. The European Payments Council has defined rulebooks and implementation guidelines for the SEPA instant credit transfer scheme

<sup>15</sup> At EU level, a consolidation process has taken place in recent years, with more than forty large M&A deals in the European acquiring market, with the view to achieve large volumes of acquired transactions, maximise economies of scale and to offer merchants increased geographic coverage and central acquiring services, Cf. Study pp. 70 and 71

<sup>16</sup> 25 global and 42 regional e-wallet providers including Payconiq (Germany, Belgium, the Netherlands), Payback (Germany), Paylib and Lyf Pay (France), Pingit (the UK), Vipps (Norway), Swish (Sweden), MobilePay (Denmark, Finland), and OK (the Netherlands) were active on the European market in 2019, Cf. Overview of regional and global e-wallets and 'E-wallets, Mobile Wallets, and P2P Payments The Evolution and Adoption of E-wallets', the Paypers, 'Payment Methods Report 2019 - Innovations in the Way We Pay', p. 43 and 26-30 respectively

their wallet products<sup>17</sup>. FinTech activities in payments usually focus on alternatives to card-based products such as account-based online transfers.<sup>18</sup> The entry of BigTechs into finance currently focuses on payment and other retail banking services. In payments, they primarily provide card-based wallets. Even though BigTechs still rely predominantly on cards, they represent a potential competitive constraint on card schemes, given their capacity to benefit from large existing customer networks, proprietary data, financial resources, technological capabilities and established reputation when introducing new services and entering new markets.

**b) Interchange fees, MSCs and pass-through to consumers (article 17 (c), (d) and (h) IFR)**

**Key findings**

Interchange fees declined following the implementation of the IFR (Figure 7), in line with its expected impact. This resulted in lower merchant service charges (MSCs)<sup>19</sup> for consumer cards (Figure 8). More reductions are likely over an extended period of time, due to the gradual adjustment of acquirers' contractual terms, notably as regards blended fees schedules. The reduction in interchange fees resulted in a redistribution of revenues (Table 2) from issuers to acquirers and merchants, while consumers in the longer run benefit either directly via lower final prices or indirectly through improved retail services. Scheme fees, which are not within the scope of the IFR, appear to have increased to a limited extent, in particular those imposed by international card schemes, while domestic scheme fees remained low and stable. Developments in scheme fees after 2018, the impact of rebates and incentives and the acquiring market will however require further monitoring. Overall, the capping of interchange fees will over time entail significant benefits for consumers, by means of lower merchant service charges passed through into lower consumer prices, with estimated annual consumer cost savings of between EUR 864 million and EUR 1,930 million.

Before the IFR, card schemes offered ever increasing interchange fees to issuers to incentivise them to issue their cards. The higher interchange fees paid by acquirers to issuers were passed on to merchants and finally reflected in higher overall retail prices.

<sup>17</sup> Study p. 81. In addition to the analysis under the Study, the Dutch Central Bank has pointed out that Amazon, Facebook, Google and Alipay hold a payment institution licence and an electronic money institution licence in the EU, Cf. DN Bulletin: 'BigTech companies increasingly active in European payment markets', 4 June 2019

<sup>18</sup> Fintech entrants can be digital-only challenger banks without physical branches, providing digital banking services while holding a banking, payment or e-money licence, or firms without banking licence, which offer technology-enabled financial solutions. European operators are in particular active as digital-only banks, payments platforms and providers of money transfer, payment initiation or account information services. Their disruptive potential may be limited due to limited access to information about potential customers, lack of reputation and higher capital cost (higher interest rates).

<sup>19</sup> Merchant service charges ('MSC') are the fees that merchants are required to pay to acquirers for each payment transaction and are composed of interchange fees, acquirer scheme fees (collected by schemes), and acquirer margins.

Following the implementation of the IFR, a significant reduction of interchange fees for consumer cards was observed. The decline was particularly strong for credit cards. All Member States were in compliance with the IFR caps in 2017 (Figure 7). The overall decline in the interchange fees led to significant savings, with Member States from Central and Eastern Europe seeing relatively larger reductions (as interchange fees were relatively higher before the IFR). Annual interchange fee savings on the acquirers' side are estimated at around EUR 2,680 million in 2017.

On the basis of thorough data gathering, interchange fee savings are estimated to have been distributed in different proportions between stakeholders (Table 2). International schemes have gained revenue of EUR 550 million per year coming equally from larger issuer and acquirer scheme fees which are not regulated. Issuers have lost revenue of EUR 2,950 million per year due to lower interchange fees and higher scheme fees, partly compensated by increases in card usage and acceptance. Acquirers have gained revenue of EUR 1,200 million per year coming from lower interchange fee savings and offset by larger scheme fees and pass-through to merchants, the latter likely to increase over time (gains to acquirers were calculated indirectly). Merchants have saved costs in the range of EUR 1,200 million per year, of which a part will eventually be passed-through to consumers through lower retail prices or improved services.

Acquirers on average have experienced significant cost savings after the implementation of the interchange fee caps. While long-term contracts with merchants may have impeded immediate adjustment of acquirer fees, alongside the inability of many (small) merchants to switch acquirers and their limited bargaining power, reductions in interchange fees do lead to reductions in MSCs<sup>20</sup>.

Certain evidence from merchants indicates that savings are partly eroded by increases in scheme fees and interchange fees for commercial cards (see the chapter on commercial cards)<sup>21</sup>. There is also anecdotal evidence of additional scheme fees increases imposed by international card schemes since 2018.<sup>22</sup> International card schemes increased scheme fees to a limited extent and with similar overall increases for the issuing and the acquiring side. (Table 2). The highest scheme fee increases appear to have been recorded for cross-border transactions where only international card schemes are active. Scheme fees applied by domestic schemes have remained relatively low and stable. Overall, the available evidence does not allow to conclude on a causal link between decreases in interchange fees and higher scheme fees, following the implementation of the IFR.

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<sup>20</sup> Cf. Figure 8. In addition, the acquiring margin was largest in 2016 (this is further analysed under the Study p. 154, 155, 157), which indicates pass-on of savings, albeit gradual in the short time period since entry into force of the IFR

<sup>21</sup> For instance acquirer scheme fees would be greater than regulated interchange fees in Germany (Figure 9).

<sup>22</sup> EuroCommerce submission to the EU Interchange Fee Regulation Review February 2020, hereafter 'Eurocommerce submission', p. 43, publicly available at [https://www.eurocommerce.eu/media/174634/eu\\_interchange\\_fee\\_regulation\\_review\\_-\\_eurocommerce\\_submission\\_04-feb-2020.pdf](https://www.eurocommerce.eu/media/174634/eu_interchange_fee_regulation_review_-_eurocommerce_submission_04-feb-2020.pdf)

Increases in scheme fees may be explained partly by the incentives of international card schemes to maximize shareholder value, inter alia through higher revenues via scheme fees imposed on both issuer and acquirers. However, more information gathering and analysis are required, in particular to analyse developments after 2018, as for this period not all data was already fully available, with a view to ascertain whether developments in scheme fees are problematic.

Limited information is available on the impact of rebates and incentives, practiced in particular by international card schemes, on the net scheme fees imposed on issuers and acquirers. The use of rebates and discounts by international schemes appears highly discretionary and differs significantly with regard to individual issuers and acquirers.

This will merit further analysis, data gathering and market monitoring. The acquiring market will also merit continued focus, to measure future passing-on of interchange fee savings to retailers.

A key yardstick for the assessment of the effects of the IFR is its impact on retail prices for consumers. As the change in interchange fees induced by the caps of the IFR results in a very small impact per transaction, it makes it notoriously challenging to determine pass-through rates, which is the share of interchange fees reductions which are passed on as reductions of final consumer prices. However, since interchange fees transmitted through MSCs are one of several cost factors for merchants, competition between merchants should result in the longer run in interchange fee reductions being reflected in lower prices or improvement of services on the consumer side.<sup>23</sup>

According to econometric estimates, about 66% to 72% of the cost decreases in the longer run are passed through by merchants to consumers. This implies that pass-through of the interchange fee savings in the longer run is capable of generating total annual consumer cost savings of between EUR 864 million and EUR 1,930 million. The IFR therefore has a significant, positive impact on consumers.

### **c) Cardholder fees and issuing patterns (article 17 (a) and (b) IFR)**

#### **Key findings**

Following its implementation, the Commission has found no evidence of a causal link between the IFR and trend in banking or cardholder fees, or in loyalty programs or in issuing consumer cards. Claims by certain issuers of the existence of such a link between IF

<sup>23</sup> A qualitative survey among large retailers in United Kingdom, Poland, Luxembourg, Ireland and Romania found that approximately 60% of the responding merchants report that they pass through cost savings in form of lower retail prices and 70% report that they invest the cost savings to create a better shopping experience for consumers. In addition, a qualitative survey of selected merchants was conducted, to clarify price setting, and the factors influencing the extent and timing of pass through of decreased costs to final consumers by retailers, which confirmed these findings see Study p. 184 and 185



reductions and banking or cardholder fee increases remain unsubstantiated. Based on the evidence collected, the reduction in interchange fees could not be linked with a systematic increase in cardholder fees as they remained overall stable (Figure 10), nor with reductions in innovation in card payments. There was no particular impact on issuing, and historical upward trends were observed, albeit with a degree of variation pertaining to local market conditions or particular consumer habits (such as the higher reliance on credit cards in some Member States).

As the interchange fee caps impact issuers' revenues, they could in principle try to compensate for such revenue loss by raising fees for other services under their control, for example cardholder fees for using banking services, or by reducing investments in innovation, services, benefits and loyalty programs.

However, the reduction in interchange fees could not be linked with a systematic increase in cardholder fees. Rather, cardholder fees for stand-alone debit and credit consumer cards remained overall stable between 2015 and 2017 (Figure 10). Cardholder fees increased in half of the Member States covered by the analysis and declined in the other half. These trends are confirmed in Member States where periodic monitoring of cardholder and retail banking fees are in place. Similarly, almost three-fourth of issuers reported unchanged or improved card benefits, with variety of products and length of interest-free period for credit cards both unchanged. Hence there is no evidence of significant decline in the quality of packages, following the implementation of the IFR.

There is no notable development in terms of issuing consumer cards in the EU, following the implementation of the IFR. The total number of issued consumer cards in the EU changed moderately between 2015 and 2017.<sup>24</sup> There is no evidence of a link between the IF caps and the developments in issuing of either debit or credit cards<sup>25</sup>. There is also no evidence of a direct substitution of debit and credit cards by commercial cards - whose interchange fees are not capped - even if the number of commercial cards issued increased moderately.

#### **d) Commercial cards scope and definitions (article 17 (g) IFR)**

##### **Key Findings**

There is no evidence that the implementation of the IFR has led to a systematic substitution of consumer cards by commercial cards, with stable and limited shares both in overall number of cards in circulation (Figure 14) and transactions volumes (3%) and values (7%)<sup>26</sup>. There is also no evidence related to changes in interchange fees and MSCs applied to commercial card transactions. Evidence collected in all Member States shows that the

<sup>24</sup> The number of debit cards increased by 3% and 4% respectively in 2016 and in 2017 and the number of credit cards declined by 1%. For credit cards there are contrasting trends in issuing between Member States, pointing at specific national factors of relevance.

<sup>25</sup> This is further evidenced through an in-depth econometric analysis performed under the Study see p. 138

<sup>26</sup> Cf. Study p.201

average interchange fee and MSC applied to such transactions slightly decreased across the EU (Figures 11 and 12).

As commercial cards are exempted from the IFR caps, international and domestic schemes are allowed to set higher interchange fees for commercial card transactions. Therefore, schemes could in principle have incentives to increase IFs for such cards and to promote their issuing and use, to compensate for losses in interchange fee revenues to issuers from the caps for consumer cards. However, as lower IFs for consumer debit and credit cards resulted in increased card usage and thus mitigated losses to issuers, the issuers' incentives to increasingly issue commercial cards may also be partly mitigated. Besides, issuing more commercial cards instead of consumer cards is limited in principle due to the IFR's narrow definition of commercial cards, which must be used only for business expenses and charged directly to the account of the undertaking, while consumer cards are issued to private persons and are not limited to any specific type of transaction.

A member survey from Eurocommerce points to significant increases in commercial card interchange fees and in commercial card volumes since implementation of the IFR.<sup>27</sup> However, there does not seem to be evidence of a causal link between the implementation of the IFR on the one hand, and changes in interchange fees and merchant service charges applied to commercial card transactions, on the other, in the period 2015-17. A broader review of the significant evidence collected in all Member States shows that the average interchange fee and MSC applied to commercial cards transactions slightly decreased across the EU from 0.95% to 0.86% of the transaction value, in the period 2015-2017, and the average MSCs for commercial card transactions decreased from 1.22% to 1.20% during the same period, although with strong variations across Member States<sup>28</sup> (see Figures 11 and 12), even if the value and, in particular, the volume of commercial card transactions are on the rise (see Figure 13) albeit with a stable share of transactions in volume and value at 3% and 7% respectively<sup>29</sup>.

There is also no evidence of a systematic substitution of consumer cards by commercial cards. The increase in the number of commercial cards issued in the period of 2015 to 2017 is similar to the increase in the number of consumer cards issued. As a result the number of commercial cards in circulation has a stable and limited market share in the EU, of around 3% in volume (see Figure 14). This is substantiated by one of the major international card

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<sup>27</sup> EuroCommerce Submission, pp. 70 to 78. In addition, as evidenced under the same publicly available submission, a French merchant survey conducted in 2017 provided similar anecdotal evidence, with respondents claiming that increases in interchange fees for commercial cards would offset the positive effects of the caps whenever the share of commercial cards exceeds 10% of the card-based transactions. The survey was carried out from 18 January to 20 March 2017 with the members of the AFTE (French treasurers association), FCD (French retail association) and Mercatel (an association specialized in payment-related issues for the retail trade).

<sup>28</sup> Cf. Study p. 203-204

<sup>29</sup> Cf. Study p.201

schemes, according to which the growth in consumer cards even exceeded growth in commercial cards post-IFR in the number of cards in circulation and transactions volumes.<sup>30</sup>

The consistent application of the IFR definition of ‘commercial card transactions’ is key to properly addressing concerns that schemes, both international and domestic, and issuers would unduly promote issuing and use of commercial cards in order to maintain high overall interchange fee revenues, eroding savings from caps on consumer cards.

Consistent enforcement has to ensure that only such cards are qualified as commercial cards which are charged directly to the account of an undertaking or public entity and that merchants are properly charged for consumer card transactions for consumer initiated payments where there might be a break-down into separate consumer/commercial transactions, such as with the use of virtual (commercial) cards.<sup>31</sup>

#### e) Price transparency (article 17 (c) IFR)

##### **Key Findings**

The implementation of the IFR has led to increased price transparency, with a majority (60%<sup>32</sup>) of merchants both large and small sticking to the default option of unblended fees. Price transparency about the composition of the MSC empowers merchants to decide which cards to accept or steer consumers to, enhancing competition and strengthening merchants’ bargaining power. As a result, merchants choosing to have unblended fees benefit from savings arising from interchange fee reductions (see Figure 15). This seems to be the case for large merchants in particular<sup>33</sup>. Robust monitoring of the implementation of provisions on fee transparency over a longer time period is required due to relatively recent implementation of the IFR transparency provisions.

The IFR aims at improving price transparency as regards the MSC and its components for each card category and brand by requiring acquirers to offer all merchants unblended fees and transparent information about the composition of MSCs<sup>34</sup>. This shall allow merchants to identify any change in any fee for any brand and category. It therefore empowers merchants to decide which brand or category to accept or steer consumers to and enhance competition for and at the point of sale. It also allows merchants to check whether interchange fee savings are passed on and puts them in a better bargaining position towards their acquirer.

<sup>30</sup> See the ‘Interchange Fee Regulation Impact Assessment Study’, January 2020, prepared by Edgar, Dunn & Company for MasterCard, pp. 36 and 38, hereafter ‘MasterCard submission’

<sup>31</sup> ‘Virtual cards’ are disposable digital cards generated only for one transaction. An increasing use has been reported in the travel and entertainment sectors.

<sup>32</sup> “About 80% of responding merchants to the survey conducted under the Study reported that they had been given the default option to receive unblended and transparent information from their acquirer. Of these merchants, about 60% chose to receive unblended, transparent MSCs” (Study, p. 151).

<sup>33</sup> MasterCard submission, p. 26.

<sup>34</sup> Article 9 of the IFR.

Even though merchants can opt out, a majority of merchants both large and small stick to the default option of unblended fees<sup>35</sup>. Merchants who received unblended fees seem to have experienced the largest reduction in the MSC. From 2015 to 2017 the decline of the MSC for credit card transactions in particular seems to have been much stronger for respondents with an unblended and transparent pricing model, such as Interchange Fee++<sup>36</sup> (see Figure 15). This is confirmed by evidence from one of the international card schemes, according to which large merchants that have Interchange Fee++ in their pricing arrangements are the ones that have benefited the most from savings arising from interchange fee reductions.<sup>37</sup>

The provisions requiring acquirers to offer merchants unblended and transparent MSCs entered into force one year after most other IFR provisions.<sup>38</sup> While transparent, simple, and unblended price information for merchants should improve competition at the POS and the bargaining position of merchants, further increasing pass-through of interchange fee savings induced by the caps from acquirers to merchants, robust monitoring of the implementation of these provisions will be necessary, since their more recent entry into force.

## **B. Areas where continuous robust enforcement, enhanced monitoring and further fact finding are required**

In some areas where this Report does not identify specific issues at this stage, it is nevertheless necessary to support continuous robust enforcement including through enhanced monitoring by the Commission to assess proper application of the Regulation and continue comprehensive fact finding in view of certain inherent complexities in implementation. This is the case in particular for non-circumvention, application of the IFR caps to three-party card schemes issuing cards with a co-branding partner or through an agent, and transparency in particular for small retailers.

### **a) Circumvention of the caps/net compensation (article 17 (d) IFR)**

#### **Key Findings**

Member States are responsible for preventing circumvention of the caps through the provision to issuers of other forms of remuneration with equivalent object and effect as interchange fees. Specific enforcement activities are ongoing. While no circumvention seems to have been identified, this is a complex and challenging undertaking: additional data need to be collected, along with continuous and robust monitoring at national and EU level as well as consistent implementation of the existing rules.

<sup>35</sup> See footnote 27

<sup>36</sup> Unblended merchant service charge means that all components of the merchant service charge, including the interchange fee, are specified and billed separately.

<sup>37</sup> See footnote 28

<sup>38</sup> On 9 June 2016, see Article 18(2) IFR.

While IFs for consumer cards are capped under the IFR, card schemes, acquirers and intermediaries could in principle provide issuers with other forms of remuneration with an equivalent object or effect to interchange fees, circumventing the caps. The economic rationale for such circumvention could be generation of supplementary revenues to issuers directly or indirectly financed by merchants or consumers from card-based transactions, to compensate for issuer revenue decreases resulting from the caps.

The IFR provides Member States with extensive powers to collect all necessary information from schemes and payment service providers to effectively enforce non-circumvention. The Commission has not received, to date, any information from competent national authorities that circumvention has taken place within their jurisdictions.

Assessing non-circumvention is challenging, requiring extensive data collection of all alternative flows to issuers to be potentially considered, contextual assessment including any agreed remuneration with the same object or effect as interchange fees - of likely adjustments over time in fees and charges on the side of issuers, acquirers and card schemes. Reinforced data collection, continuous and robust monitoring at both national and EU level together with consistent implementation of the existing rules are necessary to ensure compliance.

#### **b) Three-party card schemes with a co-branding partner (Article 17 IFR)**

##### **Key Findings**

The IFR caps apply indifferently to 3PS or 4PS when issuing cards with a co-branding partner or agent. It implies capping the total net amount of payments rebates or incentives received by the co-branding partner from the 3PS, and for 4PS the ones received by the co-branding partner from the 4PS and the issuer, which is in both cases a complex individual assessment. Therefore, this requires reinforced data gathering on the respect of all rules relating to caps in such cases. The Commission will enhance its monitoring of the application of the provisions at stake.

The IFR caps do not apply to three party schemes (3PS)<sup>39</sup> except where the scheme is considered to be a 4PS because it licenses other payment service providers for issuance of card-based payment instruments or for acquiring card-based payment transactions or because it issues card-based payment instruments with a co-branding partner<sup>40</sup> or through an agent<sup>41</sup>.

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<sup>39</sup> Under a 4 party card scheme, the scheme intermediates for a transaction involving a cardholder, a merchant, an issuer (for the cardholder) and an acquirer (for the merchant) while under a 3 party card scheme, the scheme is also issuer and acquirer and only three parties: the scheme, the merchant and the cardholder are involved in a transaction. Cf. IFR article 2 § 17 and 18, recital 28

<sup>40</sup> “Co-branding” refers to the inclusion of at least one payment brand and at least one non-payment brand on the same card-based payment instrument (Art. 2 (32)). Typically the co-branding partner is an entity operating a non-payments business such as a retailer or airline. It allows the use of its trademarks and carries out supporting and distributing activities regarding the co-branded card, by providing marketing support and access to its customer base. Except for the use of a trademark, agents fulfil a similar role as co-branding partners in terms of supporting and distributing activities. A dentist association operating as a charity would qualify as an agent.

In the case of co-branding partners or agents however, the flows involved for the enforcement of the caps have to be analysed under ‘net compensation’ as set under Art. 2 (11), i.e. the total net amount of payments, rebates or incentives received by the co-branding partner or agent from the 3PS. This was confirmed in the Amex case<sup>42</sup>, in which the CJEU held that it would prove difficult to achieve the objective of ensuring a level playing field if situations where a co-branding partner or agent does not act as an issuer were to be exempted from the caps. Hence, a consideration or benefit such as a compensation by a 3PS to the co-branding partner can constitute an implicit interchange fee in such cases.

The assessment of net compensation implies in principle that all monies in relation to card-based payment transactions or related activities with an equivalent object or effect of the interchange fee accruing to the co-branding partner from the 3PS, minus any such monies going from the co-branding partner to the 3PS, have to be considered. In addition, since co-branding partners and agents fulfil a similar role under a 4PS and a 3PS agreement, the same principles would apply in terms of the flows between co-branding partner and 4PS with the added complexity that monies can also be channelled in all or in part to the co-branding partners and agents through the issuer.

In both cases an individual assessment of object, direction and net value of all payment flows is necessary. This requires reinforced data gathering on the respect of all rules relating to caps in such cases to which the Commission will contribute through enhanced monitoring of the application of the related rules.

### **c) Transparency and small retailers (Article 17 (c) IFR)**

#### **Key Findings**

In general, the transparency requirements regarding the MSC seem to be implemented and merchants choosing to have unblended fees benefit from savings (Cf. A e) above), but there are uncertainties for small retailers, as merchant surveys in general elicit limited responses from this category<sup>43</sup>. In addition, their limited administrative capacity to process a large number of fees and complex fee structures might induce them to request blended rates. As a result, more data gathering is needed specifically regarding the renewal of acquiring contracts for small retailers.

Small merchants might in principle be inclined to opt out of unblended fees as they find it challenging to reap the full benefits of fee transparency in absence of administrative capacity to process information on a large number of fees and complex fee structures usually applied

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<sup>41</sup> IFR Articles 1 (5) and 2 (18)

<sup>42</sup> Case C-304/16 – American Express, ECLI:EU:C:2018:66, paragraph 71

<sup>43</sup> This is the case also for the Study, see p. 152

by schemes. And in case they have blended pricing arrangements, they would only benefit from reduced MCS when blended rate contracts are renewed.

Therefore, capturing the future renewal of small and medium merchants acquiring contracts would also have to be assessed through more data gathering and robust monitoring of the IFR.

### **C. Areas where the impact of the IFR requires further examination over a longer period of time**

On some aspects, the IFR has yet to produce its full effects, and further monitoring and data gathering are called for. Hence, the limited take-up of rules relating to co-badging and choice of application calls for further exploration of potentially uneven implementation of technical adaptation of terminals, or the existence of technical or other restrictions. Regarding the separation of schemes from processing and cross-border acquiring, more time is needed for a conclusive assessment, due to the recent adoption of the RTS<sup>44</sup> and limited data for most domestic schemes for the former (i.e. processing), and the long term nature of contracts, and limited information as regards small retailers for the latter (i.e. cross-border acquiring). Due to the specific national dimension identified though, the Commission will enhance its monitoring of the proper application of the separation rules. The same applies for the assessment of the impact of the Member States' options for lower interchange fees for domestic debit and credit card transactions where further data gathering is necessary to ascertain a link with acceptance, usage and to possibly discriminate between sub-options including specific caps for lower or higher transaction amounts. In addition, recent market evolution will have to be examined going forward, such as the effects of entry of wallet providers.

#### **a) Cobadging, choice of application at the Point of Sale and steering (article 17 (b), (e) and (f) IFR)**

##### **Key Findings**

Co-badging and the choice of application at the point of sale seem little used by consumers (Figure 17 and 18). While lack of awareness and incentives play a role, the ability of consumers to effectively choose which brand and category to be inserted in a payment instrument or a wallet and to exert their choice at the Point of Sale may also be hampered by technical or other restrictions. Restrictions may also apply to retailers, in particular small ones in countries where technical adaptation of terminals might be lagging behind, which would impair their ability to identify brands and categories at the point of sale, to set a priority selection and for consumers to override it. Finally, while big retailers seem to make use of steering mechanisms, possible obstacles including as regards wallets need to be monitored. All this calls for more time and further data collection regarding these aspects.

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<sup>44</sup> See footnote 8 for detailed reference



To promote competition between brands and categories, the IFR facilitates the choice of the brand and category to be inserted in the payment instrument (e.g. the card, the smartphone or in the mobile wallet) through co-badging. Provided the issuer is offering the service (i.e. the brand and category in the form of a payment application compatible with the payment instrument) consumers have the possibility to request issuers co-badging of two or more payment brands. This is particular relevant for mobile payments, as it prescribes to allow to effectively choose which payment application to upload on a mobile wallet and which wallet to upload on a smartphone.

However, few consumers have made use of this<sup>45</sup>. Where a domestic card scheme is present, a large proportion of cards are already co-badged with an international card scheme (for domestic and cross-border transactions) and the domestic card scheme (for domestic transactions), cf Figure 16. This might result in limited incentives for consumers to further co-badge their cards in such circumstances. However, it is probable that consumers are frequently not aware of such possibility.

The rationale for consumers to request such co-badging is more obvious for mobile wallets. The increasing reliance of consumers on digital devices and the concomitant rise in digital payments has made the wallet products offered by new players including Big Techs a significant point for attention. Restrictions on the use of a digital payment application or of a wallet at a POS, restrictions on the presence of payment applications on a wallet, (or of a wallet on a payment instrument) might result in effective access from the expanding mobile payment market being prevented or restricted, including for domestic schemes with low interchange fees. However, market entry is recent, and experience on the implementation of co-badging for these providers limited. This calls for additional data gathering and close monitoring on the rights of consumers to choose payment brand and payment application for mobile payments both on their wallets and at the point of sale, and the possible impact on such choice of technical restrictions such as limited access to the NFC infrastructure of mobile devices. The effects of new technologies and processes, e.g. tokenization<sup>46</sup>, that are offered mainly by international schemes, will also have to be monitored.

The IFR promotes the choice between brand and categories (debit, credit, commercial) at the POS, for both merchants and consumers. Merchants accepting consumer debit cards of a given brand may not be forced to accept consumer credit cards of this brand but can be required to accept other consumer debit cards of the same brand. Also, card schemes, issuers, acquirers, processing entities and technical service providers are prohibited from taking measures limiting choice at the POS. Merchants are allowed to make a priority selection of the payment brand or application, which consumers can override.

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<sup>45</sup> The Study p. 196 indicates that almost three quarter of issuers surveyed were not requested by consumers to co-badge their cards beyond their current offering

<sup>46</sup> Only a token code replacing the consumer's primary account number goes through the payment network



While most large merchants seem to have upgraded terminals to allow electronic identification of the card category and brand, default selection and consumer override<sup>47</sup>, the situation varies between Member States<sup>48</sup>. The situation is arguably more uncertain for smaller retailers where data is limited. In this context, retailers<sup>49</sup> point to the progressive removal of visual distinction by Visa and MasterCard and the ‘proliferation of different commercial card product names’, as significant impediments to effective identification, compounded with the increased use of contactless, mobile payments and tokenisation.

As a result, consumers seem to be rarely offered the possibility to override (Figure 17) and few merchants seem to have the ability to preselect a payment application. User-friendliness of the choice does not seem to be more problematic for elderly or vulnerable consumers (Figure 18). Although there is conflicting evidence on the practicalities for consumers of overriding the default selection<sup>50</sup>, few consumers use this possibility due to limited transparency, awareness and a lack of incentives in the absence of price differences. Overall, more time and further data collection is needed to assess in particular the effectiveness of ongoing technical adaptations of terminals, including possible national discrepancies and for small retailers, the ability of retailers to effectively identify brands and categories at the point of sale, the possibility for retailers to set a priority selection and for consumers to override. Only following such assessment it can be ascertained whether merchants and consumers’ ability to choose is effective.

Finally, retailers cannot be prevented by schemes and payment service providers from steering consumers towards the use of specific payment instruments preferred by retailers. Steering methods applied are surcharging for commercial cards (when allowed by Member States), rebates or acceptance only above a given transaction value. While large merchants continue to accept commercial cards (cf. Figure 19), they often use surcharging on these cards or other steering methods.<sup>51</sup> At the same time, anecdotal evidence<sup>52</sup> points to anti-steering rules from wallet providers, while other anecdotal evidence highlights persistent surcharging of non-commercial cards<sup>53</sup>. This calls for further monitoring of the prohibition of anti-steering rules, including of possible obstacles to steering arising from new payment methods being introduced, including wallets.

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<sup>47</sup> The Study conducted a survey of merchant, acquirers and regulators in 19 Member States BE, DK, FI, DE, EL, HU, IE, IT, BG, LV, LT, MT, NL, PL, PT, RO, SI, ES and UK. 89% of the acquirers and 75% of the merchants responding to the survey agreed that this was the case, Cf. p. 187. However, most merchants responding were large ones.

<sup>48</sup> Cf. AFTE, FCD and Mercatel (2017), “European regulation on Interchange fees, results of the joints questionnaire AFTE-FCD-Mercatel” and Danish Competition and Consumer Authority DCCA (2018), “Betalingsrapport 2018, Regler og udvikling på betalingsmarkedet”

<sup>49</sup> Eurocommerce submission p. 129

<sup>50</sup> While the Study p. 189 and following points to 80% of responding merchants stating that consumers do not need to refuse the merchants’ default selection first, a survey conducted in 2018-2018 by the French national competent authority DGCCRF highlights that consumers have to use the ‘yellow’/‘correcting’ button on the payment terminal and this results in either the transaction being slowed down or cancelled altogether.

<sup>51</sup> The Study p. 202-203 points to nearly all merchants accepting commercial cards and over half of them surcharging or using otherwise steering mechanisms but most respondents were big merchants.

<sup>52</sup> Eurocommerce submission p. 132-133

<sup>53</sup> MasterCard submission p.38, with delayed implementation of PSD 2 being a possible factor

## **b) Separation of scheme and processing (article 17 (j) IFR)**

### **Key Findings**

The implementation of rules relating to the separation of scheme and processing entities is ongoing due to recent adoption of the related regulatory technical standards (RTS) introducing detailed requirements in this respect<sup>54</sup>. As a consequence, the formal obligations of separation need to be further monitored, especially for a number of domestic schemes where only one entity processes domestic transactions (Table 3). This, in combination with the limited market impact so far, including switching to independent processors, calls for data gathering over a longer period in order to assess compliance with formal separation requirements, as well as identifying possible obstacles to switching. To assess proper application of the separation obligations, the Commission will enhance its assessment of the situation in this respect.

The separation of card schemes and processing entities promotes the choice of processors, which handle payment instructions between acquirers and issuers, and of clearing and settlement service providers for issuers and acquirers. This aims at preventing card schemes from favouring their processing entities e.g. through technical requirements and from bundling their services. It shall allow independent providers to enter and increase competition, with a view to ultimately decrease processing costs.

While separation is subject to monitoring by National Competent Authorities, it seems that the formal obligations on separation including organisational and decision-making have been achieved at least for MasterCard and Visa, with some uncertainty for domestic schemes.<sup>55</sup> This would call for a stronger focus on the application of the related obligations to be assessed by the Commission. The regulatory technical standards (RTS) introducing detailed requirements entered into force in February 2018. This, together with the slow phasing out of long-term contracts for processing services, explains the limited impact, with limited switching to independent processors and limited changes in the share of transactions they process. With most of its effects likely still to materialise, assessment requires future collection of the relevant evidence related to the effective implementation of the RTS and of possible obstacles to switching to independent processors for domestic transactions, especially in the countries identified<sup>56</sup>.

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<sup>54</sup> See footnote 8 for detailed reference

<sup>55</sup> This includes Italy, Spain, France, Bulgaria, Denmark, Portugal, where only one entity, in most cases an interbank organisation, processes most domestic transactions (Table 3). Similarly, Payment Europe highlights that its acquiring members 'have experienced difficulties entering markets which are dominated by a domestic scheme with a dominant processor.' See Payments Europe Position Paper on the upcoming revision of the Interchange Fee Regulation, April 2020.

<sup>56</sup> Italy, Spain, France, Bulgaria, Denmark, Portugal as under footnote 55

### c) Cross-border acquiring (article 17 (i) IFR)

#### **Key Findings**

Cross-border acquiring has increased since the implementation of the IFR, together with the emergence of pan-European acquirers, but its take up remains limited overall (15% and 16.8% of the total value of transactions for debit and credit cards<sup>57</sup>) and seems restricted to larger merchants (Figure 22). This, together with the long-term nature of contracts, calls for a renewed focus on smaller merchants and a longer time period for data collection.

The IFR enables acquirers to acquire transactions for a merchant whose point of sale is located in a different Member State, and in turn enables merchants to choose any acquirer across Member States. Such increased competition in acquiring would lower fees for merchants. For (large) merchants operating across several Member States, a single acquirer avoids the need to reconcile payment settlements and improves their technical efficiency.

Cross-border acquiring has increased both in terms of value and number of transactions (cf. Figure 20), a clear sign of further completion of the Internal Market for payments. Increased concentration in acquiring and the emergence of pan-European players may contribute to increased cross-border acquiring activity, but this deserves close monitoring. While large merchants with higher bargaining power (cf. Figure 21) and operating in a number of Member States demand cross-border acquiring services (such as the food retail sector Cf. figure 22) and can reap benefits (cf. Figure 23), the take up of cross-border acquiring remains limited<sup>58</sup>. In addition, retailers point to evidence<sup>59</sup> that cross border acquirers may not procure merchants with fees based on the prevalent lower scheme fees in the country where the acquirer is located.

The limited period for change in the market structure, together with the potential influence of the duration of contracts on the ability to choose a cross-border acquirer, call for more time to monitor developments. In addition, the effective ability of smaller retailers with limited bargaining power to resort to cross-border acquiring and their possible inability to renegotiate contracts in the shorter run needs to be monitored more closely.

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<sup>57</sup> Cross border acquiring transactions represent a share of 15% and 16.8% of the total value of transactions for debit and credit cards, Cf. Study figure 96 p. 222

<sup>58</sup> Cf. Study figure 96 p. 222

<sup>59</sup> Eurocommerce submission p. 122-123

- d) Articles 3.1, 3.2, 3.3 and 4 IFR – options for lower interchange fees for domestic credit and debit card-based payment transactions or for a maximum fee amount per transaction possibly combined with a percentage cap (article 17 (h) and (k) IFR)**

### **Key Findings**

While lower caps for domestic credit and debit card transactions do not seem to result in lower issuing of consumer cards (figures 24 and 25) or higher cardholder fees (Cf. A c) above), ascertaining a link with acceptance (figure 26), usage and possibly innovation will require further data gathering. Discriminating between sub-options including specific caps for lower or higher transaction amounts also requires a more in-depth assessment.

Eight Member States apply a lower cap on interchange fees or a maximum fee per transaction for domestic debit and/or credit card transactions (Cf. Table 4). The special provisions would result in lower interchange fee revenues – and therefore reduce incentives to issue the cards affected – unless increases in card usage and acceptance compensate for these.

There is however no evidence that special provisions had a negative influence on issuing of either debit or credit cards in these Member States (Cf. Figures 24 and 25 respectively). Usage of debit cards for domestic transactions has increased faster, except in the Netherlands which already had a high level of card usage and acceptance before the IFR<sup>60</sup>. There is some evidence of increased acceptance, especially for Italy (Cf. Figure 26), which introduced lower caps for both debit and credit cards for small amount transactions.

To draw firm conclusions on the effects of lower interchange fee caps options, additional fact finding will be necessary, to ascertain more clearly the possible link between those options and the developments in terms of acceptance by retailers, usage by consumers and possibly the level of innovation in individual Member States. Identifying more precisely the role of specific sub-options, including a maximum fee amount per transaction possibly combined with a percentage cap, and lower caps designed for specific lower or higher amounts is also called for.

### **III. Conclusions and next steps**

The extensive fact finding and analysis carried out in preparation of this report through the comprehensive Study, information collected from stakeholders and the input of National

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<sup>60</sup> The Study p. 214 highlights that in the Netherlands the growth in the number of debit card transactions was overall in line with the EU average but points to high levels of card usage and acceptance prevailing already in the Netherlands prior the IFR and concludes that it was less likely to see significant increases.

Competent Authorities show that the IFR has achieved its major objectives. Notably, interchange fees for consumer cards declined and this decline was reflected in reduced merchants' charges for card payments, resulting ultimately in improved services to consumers or lower consumer prices. Market integration improved through the increase in cross-border acquiring activities, although their uptake remains quite limited.

However, at this stage of the implementation of the IFR it appears that in some areas further monitoring and reinforced data gathering to support continuous robust enforcement are necessary. These include the assessment of the implementation of the caps and of their possible circumvention, the implementation of the caps when co-branding partners or agents are involved and market transparency for small retailers. Besides this, the IFR has not yet produced its full effects due to its limited application period (and the even more recent application of the RTS) and many long-term payment service contracts not yet having been renewed. Market dynamics, such as the recent increase of mobile payments and market entry of wallet providers, and the possible lack of awareness and incentives may explain the limited uptake by market participants of enhanced choice of application or of cross-border acquiring. Further monitoring and data gathering are necessary to comprehensively assess the impact of these recent developments.

The additional data gathering would include aspects currently covered under the IFR such as cross border acquiring, impact of lower caps and the implementation of technical requirements at the POS including identification of category of cards. Broader issues to be considered include the effective application of the non-circumvention clause, developments in scheme fees, with a focus on possible recent increases and the role of rebates and bonuses, an analysis of the acquiring market and commercial cards. Some of these issues have been highlighted as potentially problematic by stakeholders.

Application and enforcement of the IFR and related acts is shared at EU and national level, and uniform application is essential to ensure effective application. To achieve this, the Commission will ensure proper application of the obligations under the IFR, including through enhanced monitoring and making use of its investigative powers when appropriate. Robust enforcement by national competent authorities is without prejudice to a possible review of the IFR, on the basis of further monitoring and data gathering.

## ANNEX

### Article 17

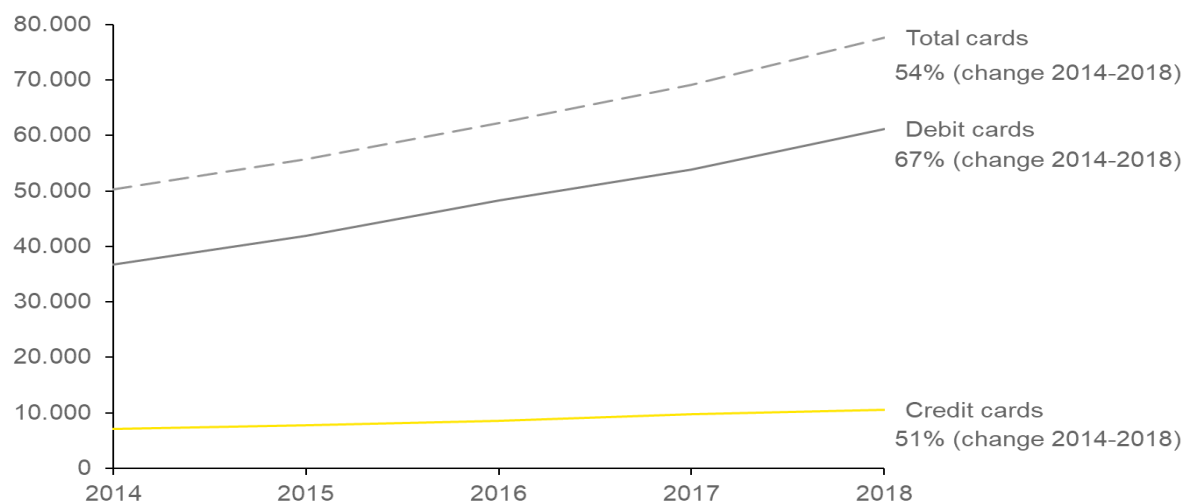
#### **Review clause**

By 9 June 2019, the Commission shall submit a report on the application of this Regulation to the European Parliament and to the Council. The Commission's report shall look in particular at the appropriateness of the levels of interchange fees and at steering mechanisms such as charges, taking into account the use and cost of the various means of payments and the level of entry of new players, new technology and innovative business models on the market. The assessment shall, in particular, consider:

- (a) the development of fees for payers;
- (b) the level of competition among payment card providers and payment card schemes;
- (c) the effects on costs for the payer and the payee;
- (d) the levels of merchant pass-through of the reduction in interchange fee levels;
- (e) the technical requirements and their implications for all the parties involved;
- (f) the effects of co-badging on user-friendliness, in particular for the elderly and other vulnerable users;
- (g) the effect on the market of the exclusion of commercial cards from Chapter II, comparing the situation in those Member States where surcharging is prohibited with those where it is permitted;
- (h) the effect on the market of the special provisions for interchange fees for domestic debit card transactions;
- (i) the development of cross-border acquiring and its effect on the single market, comparing the situation for cards with capped fees and cards which are not capped, to consider the possibility of clarifying which interchange fee applies to cross-border acquiring;
- (j) the application in practice of the rules on separation of payment card scheme and processing, and the need to reconsider legal unbundling;
- (k) the possible need, depending on the effect of Article 3(1) on the actual value of interchange fees for medium and high value debit card transactions, to revise that paragraph by providing that the cap should be limited to the lower amount of EUR 0,07 or 0,2 % of the value of the transaction.

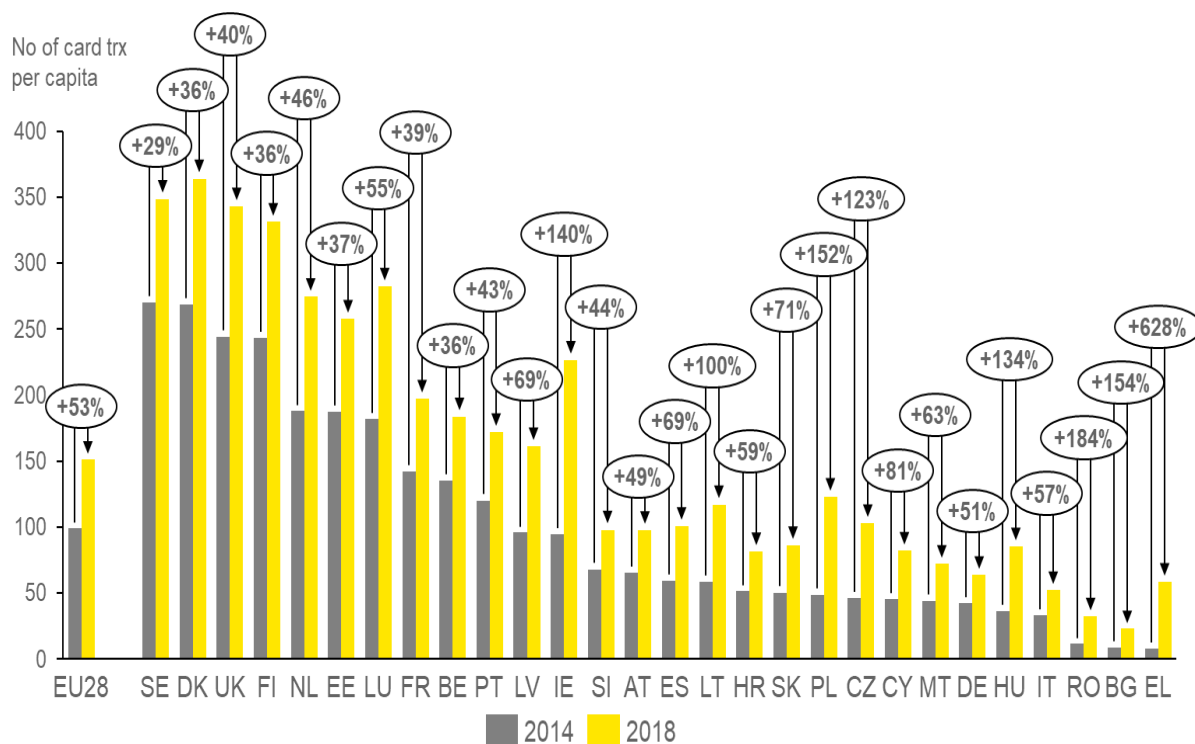
The report by the Commission shall, if appropriate, be accompanied by a legislative proposal that may include a proposed amendment of the maximum cap for interchange fees.

No of card transactions in billions



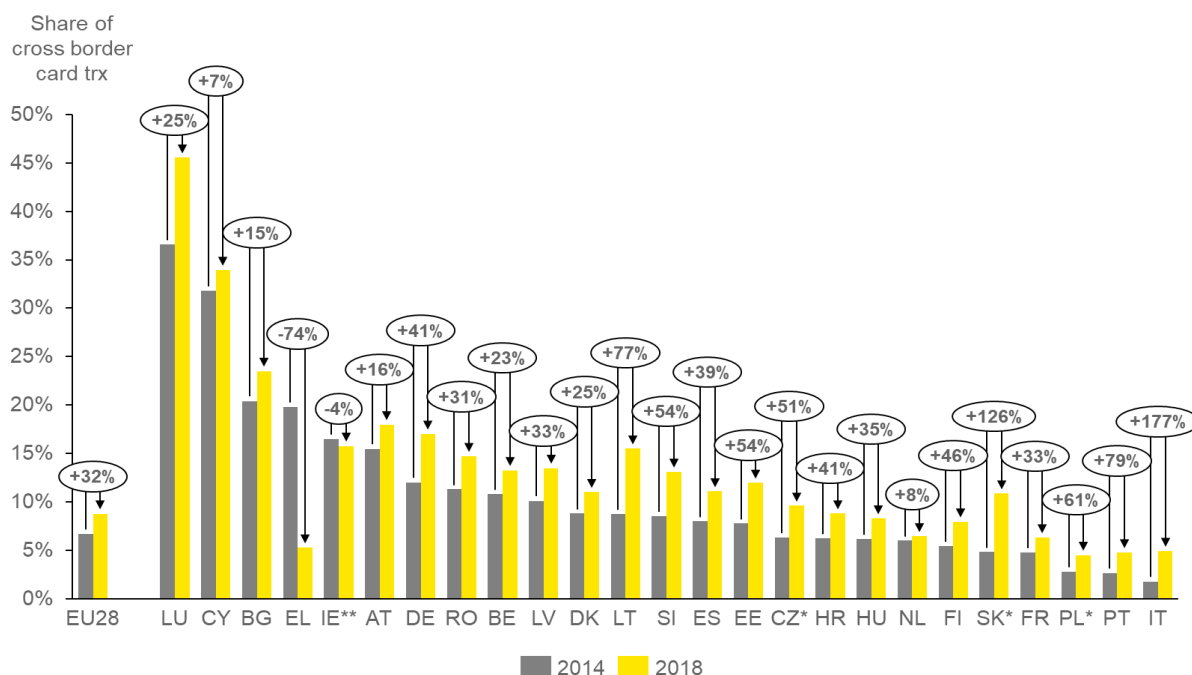
Note: Cards issued by resident payment service providers (PSPs) except cards with an e-money function only. Credit cards include cards with a credit/delayed debit function. The sum of the debit and credit cards transactions does not equal the total due to certain Member States not reporting figures for subgroups of card types.

Figure 1 - Number of card payments in EU-28, 2014 and 2018. Source: ECB Statistical Data Warehouse.



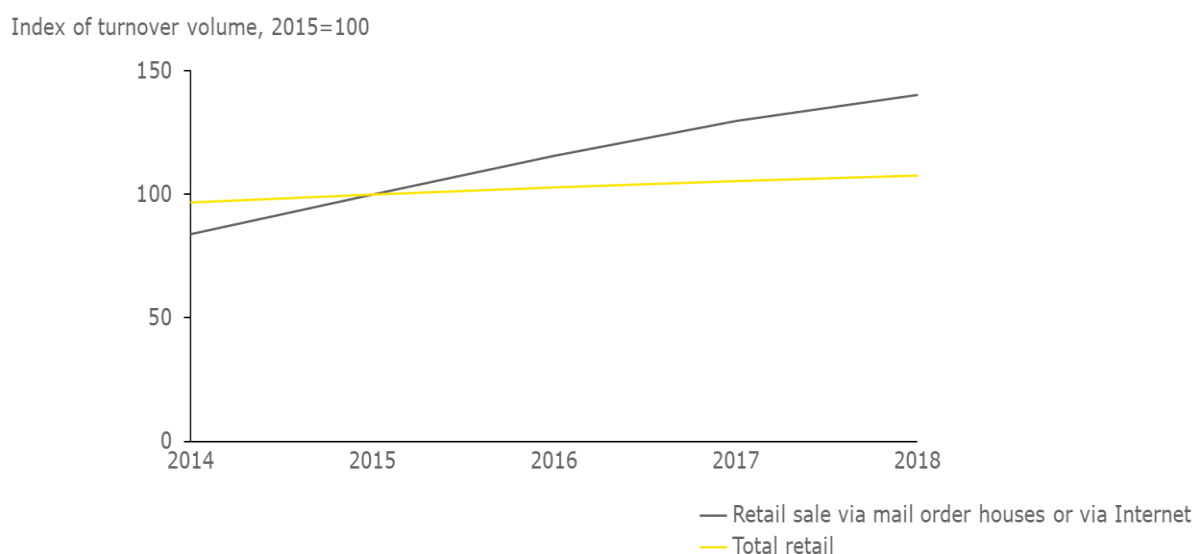
Note: Cards issued by resident PSPs, except cards with an e-money function.

Figure 2 - Card payment transactions per capita, 2014 and 2018. Source: ECB Statistical Data Warehouse.



Note: Cards issued by PSPs resident in EU, except cards with an e-money function.  
 (\*) 2015 values, (\*\*) 2017 values. No data available for Malta, Sweden, UK

Figure 3 - Cross-border payments as a share of total card payments, 2014 and 2018, Source: ECB Statistical Data Warehouse.



Note: Index (2015=100) of turnover volume is deflated and seasonally adjusted. Indices are calculated by Eurostat on the monthly activity in value and volumes. A change from 100 to 110 in the index indicate a 10% increase in turnover from the two periods. The index for total retail refers to the NACE category: 'Retail trade, except of motor vehicles and motorcycles' while the one for e-commerce refers to NACE category: 'Retail sale via mail order houses or via Internet'.

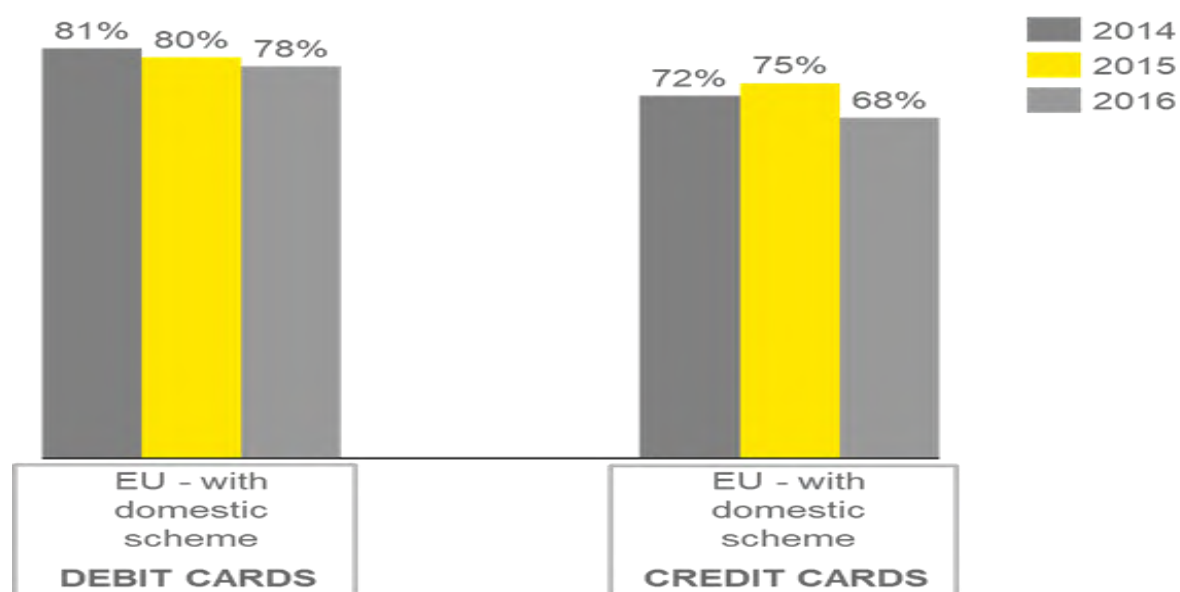


Figure 4 - E-commerce vs retail turnover growth in EU-28, 2014-2018, Source: Eurostat database.

MEMBER STATE	DOMESTIC SCHEME
BELGIUM	Bancontact
BULGARIA	Borica/BCARD
DENMARK	Dankort
FRANCE	Carte Bancaire (CB)
GERMANY	Girocard
ITALY	PagoBancomat
PORTUGAL	Multibanco (MB)
SLOVENIA	Activa/Karanta
SPAIN	STMP* (EURO 6000/ServiRed/ Sistema 4b)

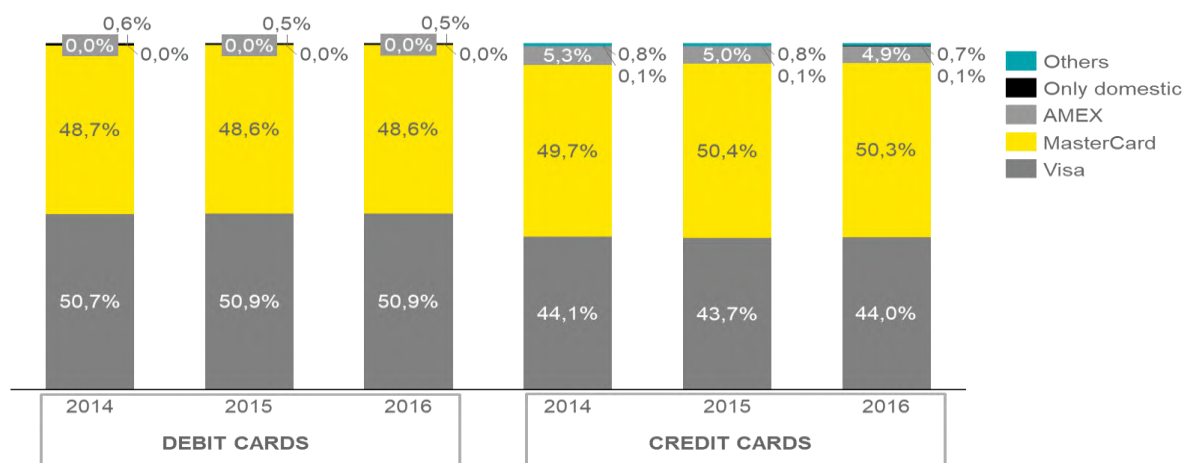
Note: \*In February 2018 the three Spanish card schemes merged to Sistema de Tarjetas y Medios de Pago (STMP). Close-looped schemes are not included.

Table 1: Overview of domestic card schemes in EU-28 in 2019, Data collected by European Commission.



Note: Number of domestic cards includes cards co-badged with international schemes. Figures for EU- with domestic scheme in debit cards include Belgium, Bulgaria, Denmark, France, Germany, Italy, Portugal and Slovenia. Figures for EU- with domestic scheme in credit cards include Bulgaria, France and Slovenia. No data available for Spain.

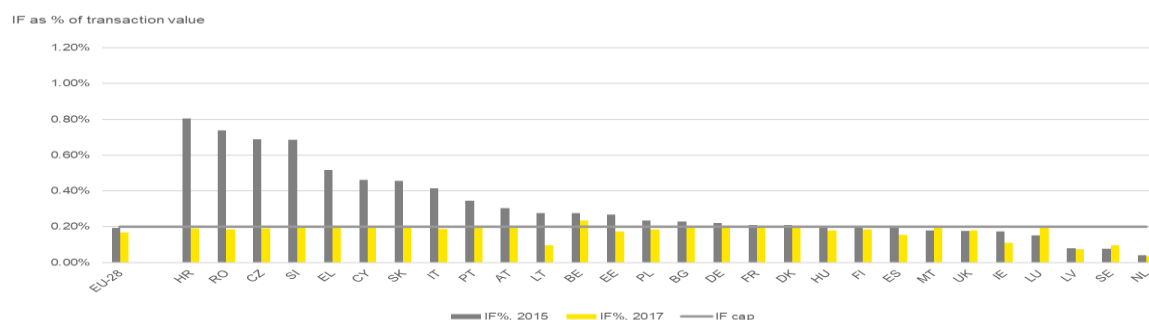
Figure 5 - Market share of domestic schemes in number of issued cards, 2014-2016. Source: Study on the application of the Interchange Fee Regulation<sup>61</sup>, Figure 19, p. 61.



Note: Others include Diners Club, JCB and Union Pay. Totals do not include private labels cards.. No data available for Cyprus, Luxemburg and Malta.

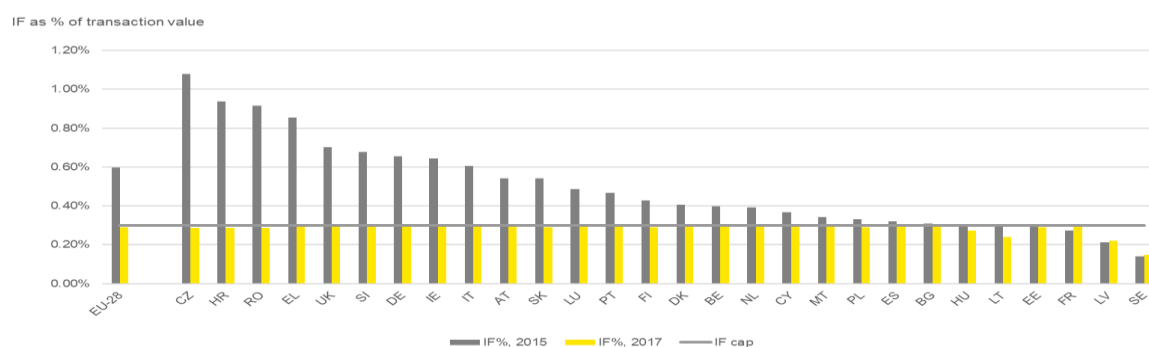
Figure 6 - EU market shares of international schemes by cards in circulation, 2014-2016, Source: Study on the application of the Interchange Fee Regulation, Figure 22, p. 64.

## Interchange fee for debit card transactions



<sup>61</sup> Study on the application of the Interchange Fee Regulation, 2020, prepared by Ernst&Young and Copenhagen Economics, published on 11 March 2020 by the European Commission available at <https://ec.europa.eu/competition/publications/reports/kd0120161enn.pdf>

## Interchange fee for credit card transactions



Note: The figures are based on data from Visa and MasterCard as well as data on interchange fees for debit card transactions from the domestic scheme in Portugal, which was the only domestic scheme providing these data. The horizontal grey line indicates the interchange fee cap for the type of card transaction. The bars in the figure represent weighted average interchange fees. Total transaction values corresponding to the interchange fees of each respondent are used as weights.

Figure 7 - Interchange fee, per card type and Member State, 2015 (before the Interchange Fee Regulation (IFR)) and 2017 (after the IFR), (Source: Study on the application of Interchange Fee Regulation, Figure 35, p. 90).

From/to	Schemes	Issuers	Acquirers	Merchants
Schemes		-270	-280	
Issuers	+270		+2,680	
Acquirers	+280	-2,680		+1,200
Merchants			-1,200	
<b>Total</b>	<b>+550</b>	<b>-2,950</b>	<b>+1,200</b>	<b>+1,200</b>

Table 2: Net effect of fee changes on stakeholders, 2015-2017 (in EUR million). Source: Study on the application of the Interchange Fee Regulation, Table 1, p. 15.

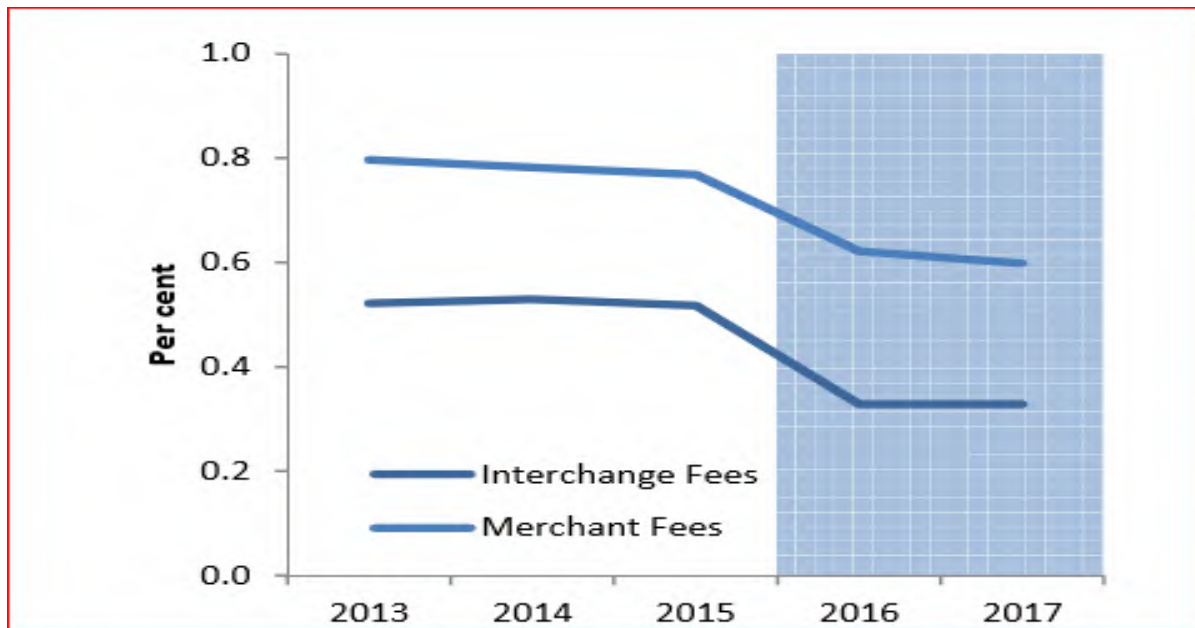


Figure 8 - Interchange fees and merchant service charges in Italy, Source: Ardizzi and Zangrandi (2018). "The impact of the Interchange Fee Regulation on merchants: evidence from Italy", Bank of Italy occasional papers, (434), June 2018, Figure 4, p. 10.

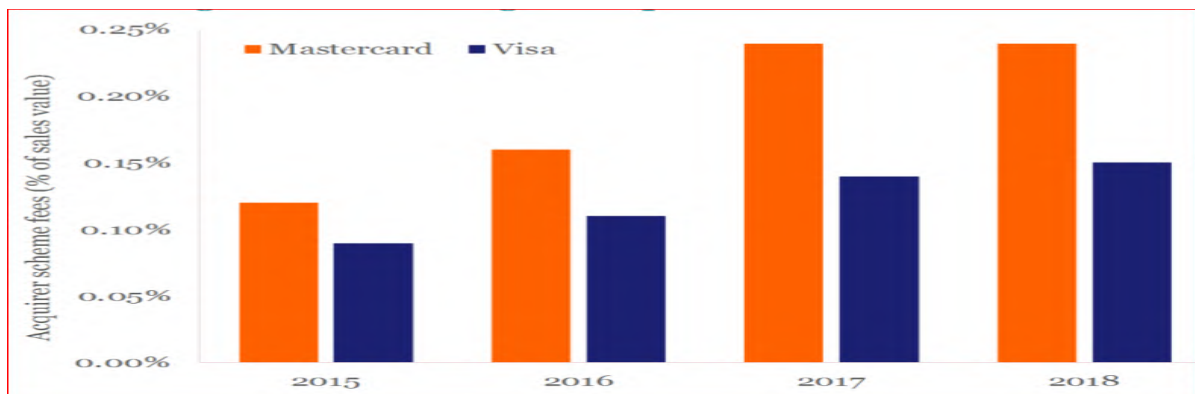
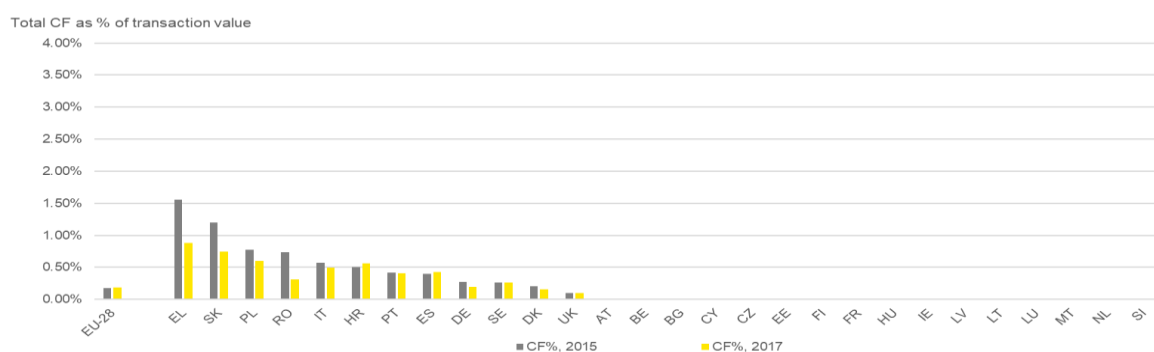
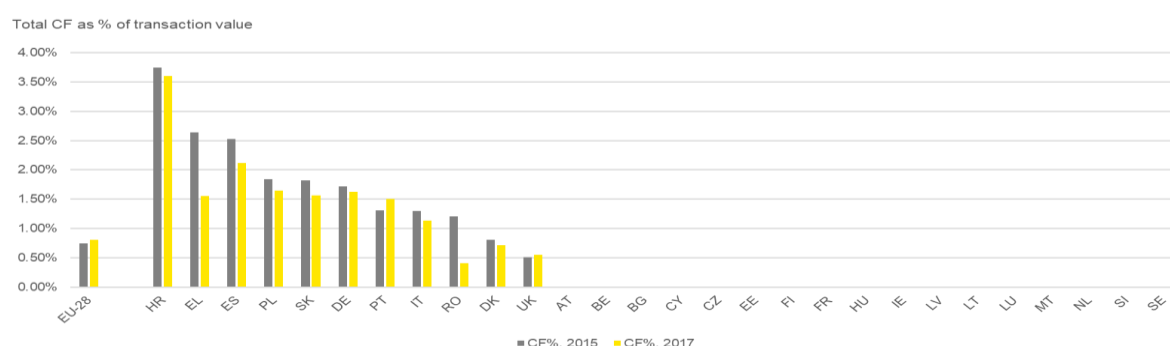


Figure 9 - Acquirer scheme fees in Germany as reported by the German Retail Industry Institute. Source: EuroCommerce submission to the EU Interchange Fee Regulation Review, February 2020, Figure 5, p. 41, ([https://www.eurocommerce.eu/media/174634/eu\\_interchange\\_fee\\_regulation\\_review\\_-\\_eurocommerce\\_submission\\_04-feb-2020.pdf](https://www.eurocommerce.eu/media/174634/eu_interchange_fee_regulation_review_-_eurocommerce_submission_04-feb-2020.pdf))

### Debit card transactions

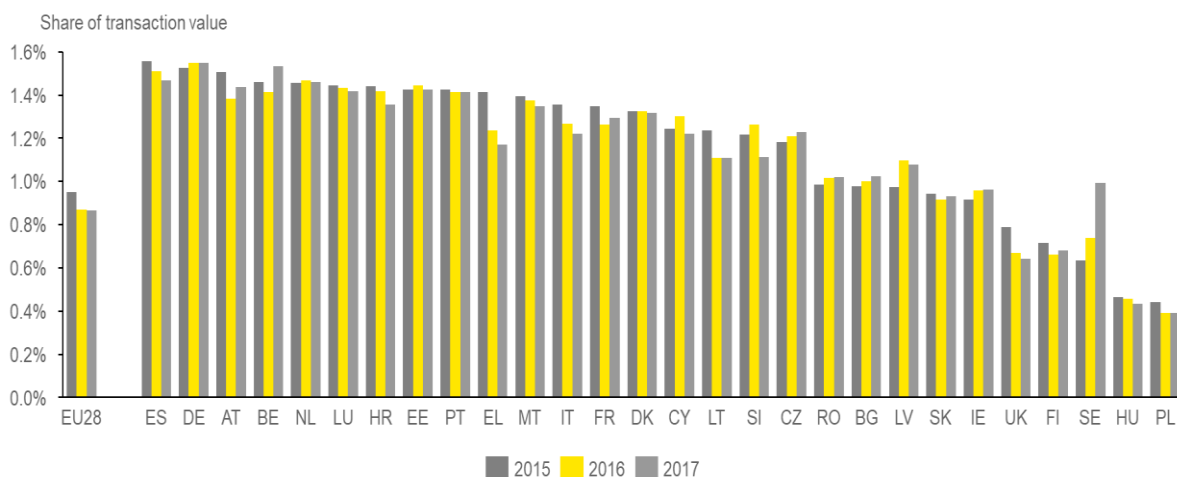


### Credit card transactions



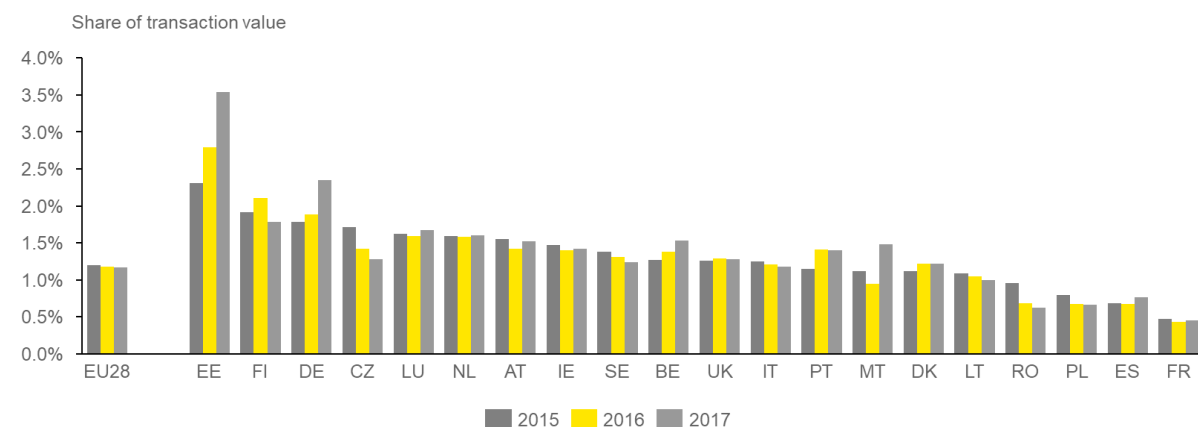
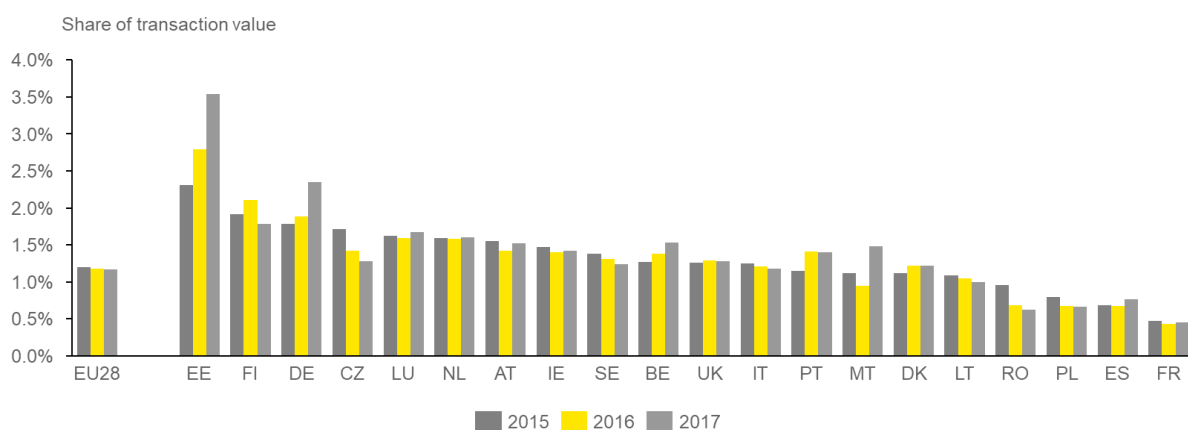
Note: The Study on the application of Interchange Fee Regulation collected data on cardholder fees in EUR per card, total number of cards and total value of transactions. Total cardholder fees include annual cardholder fees, transaction fees, ATM withdrawal fees, foreign currency fees, currency exchange fees and any remaining other cardholder fees. The numbers in the figure are calculated as cardholder fee as % of transaction value = annual total cardholder fees in EUR per card \* total number of issued cards / total value of transactions, for debit and credit card transactions respectively.

Figure 10 - Cardholder fees for debit and credit card transactions, 2015 and 2017. Source: Study on the application of the Interchange Fee Regulation, Figure 56, p. 135.



Note: No data available for Malta.

Figure 11 - Average interchange fee for commercial card transactions, 2015-2017. Source: Study on the application of the Interchange Fee Regulation, Figure 85, p. 203.



Note: No data available for Bulgaria, Croatia, Cyprus, Greece, Hungary, Latvia, Slovakia and Slovenia.

Figure 12 - Average merchant service charges for commercial card transactions, 2015-2017. Source: Study on the application of the Interchange Fee Regulation, Figure 86, p. 203.

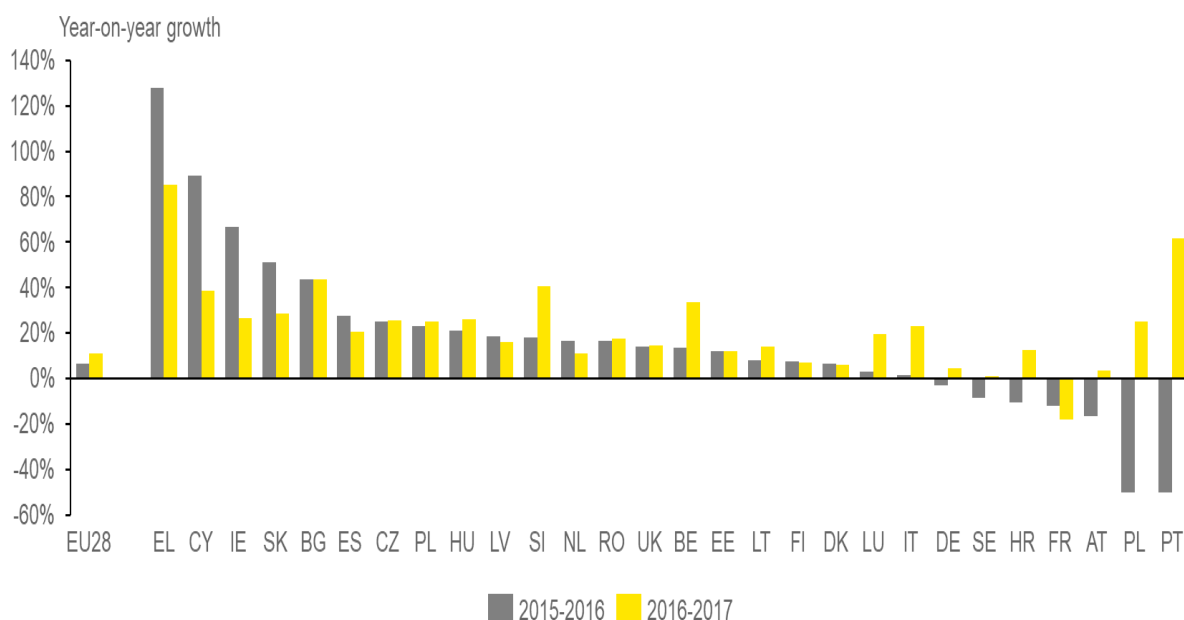
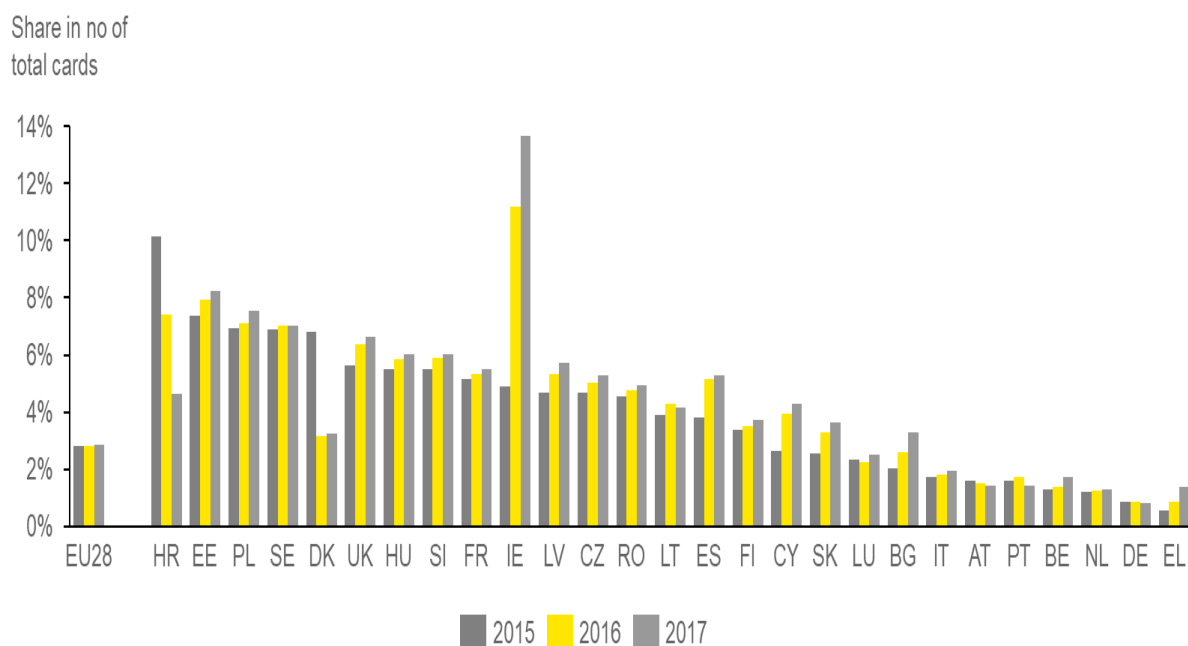
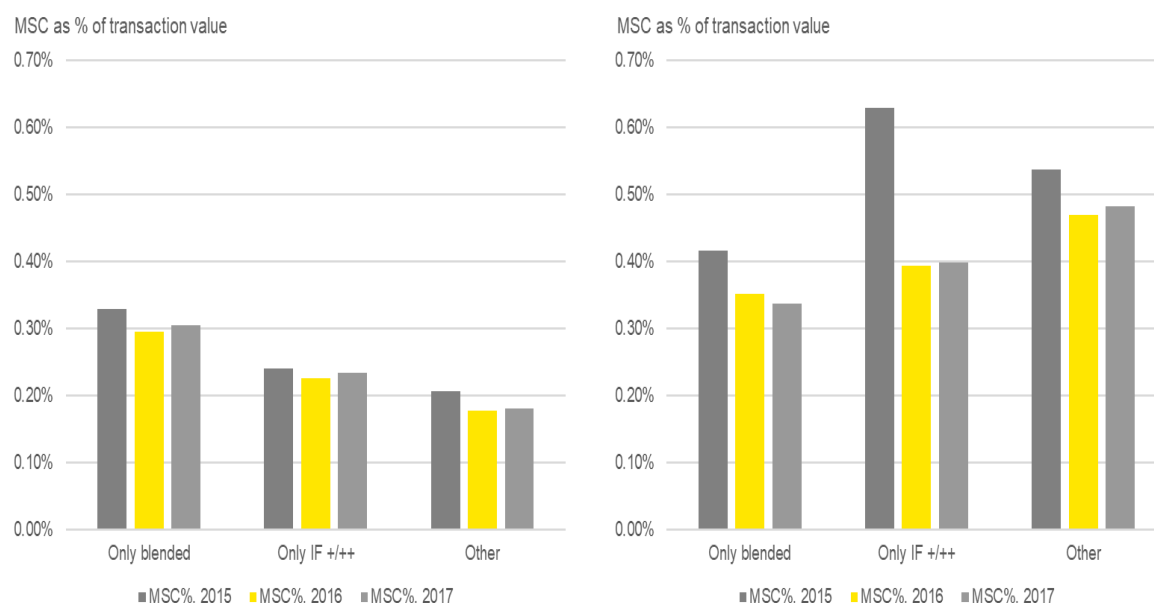


Figure 13 - Growth of commercial card transactions, 2015-2017. Source: Study on the application of the Interchange Fee Regulation, Figure 82, p. 200.



Note: Share of commercial cards over the sum of commercial and consumer (debit and credit) cards. No data available for Malta.

Figure 14 - Share of commercial cards in circulation, 2015-2017. Source: Study on the application of the Interchange Fee Regulation, Figure 81, p. 199.



Note: Merchants could choose the category “Other” to describe their pricing model if it could not be described properly by “blended”, “interchange fee +” or “interchange fee ++”. Eight respondents chose the category “Other”. The total number of respondents were 58 merchants for debit card transactions and 59 for credit card transactions.

Figure 15 - Merchant service charge per fee model and card type, 2015 and 2017. Source: Study on the application of the Interchange Fee Regulation, Figure 64, p. 152.

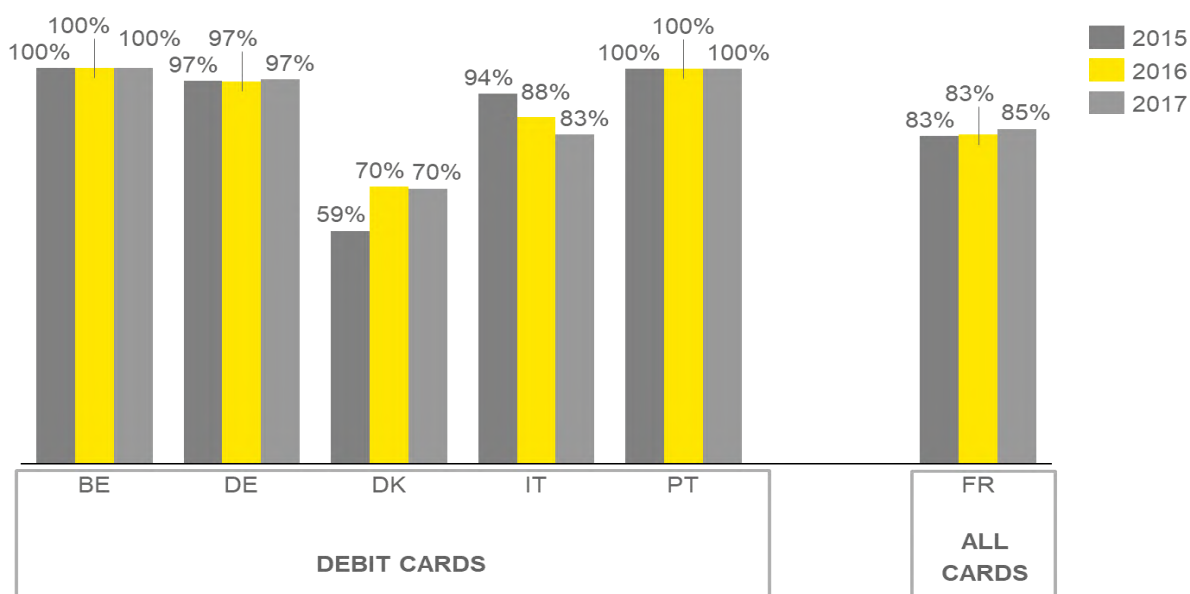




Figure 16 - Share of co-badged cards in Member States with domestic card schemes, 2015-2017. Note: Member States with a domestic card scheme. Data not available for Bulgaria, Slovenia and Spain. France includes debit and credit cards. Source: Study on the application of the Interchange Fee Regulation, Figure 77, p. 192.

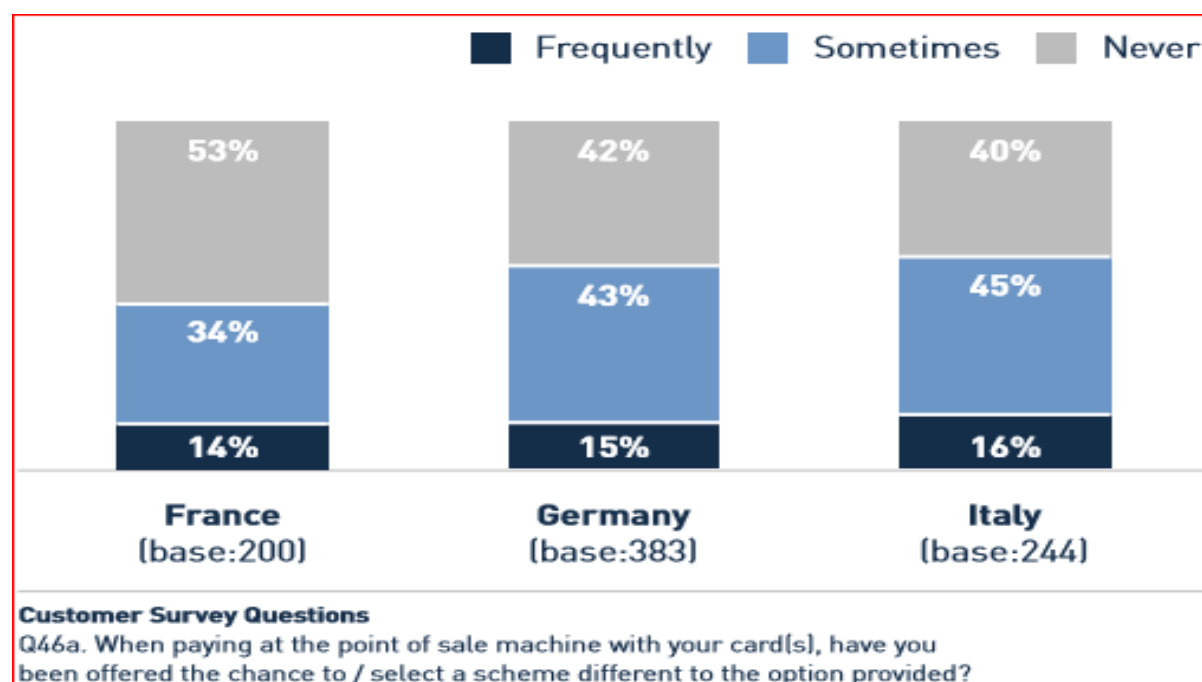


Figure 17 – Proportion of consumers that were offered to override the merchants pre-selected application. Source: 'Interchange Fee Regulation Impact Assessment Study', January 2020, prepared by Edgar, Dunn & Company for MasterCard', Figure 25, p. 39.

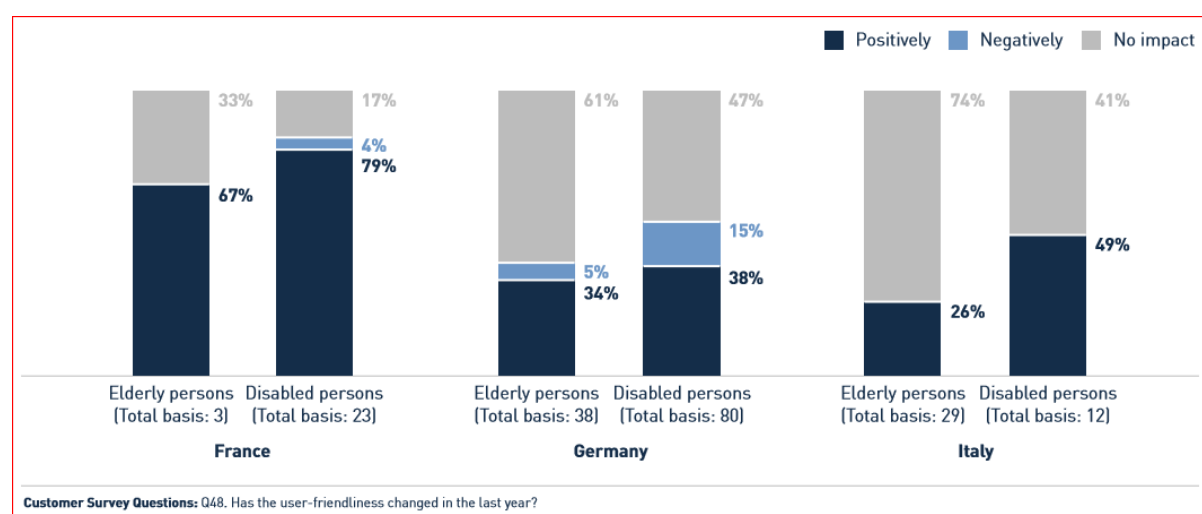


Figure 18 – User friendliness of using co-badged cards for where application selection was available (elderly and other vulnerable users) ‘Interchange Fee Regulation Impact Assessment Study’, January 2020, prepared by Edgar, Dunn & Company for MasterCard’, Figure 27, p. 40 (Note: sample is limited and based on self-declaration of vulnerability, 38 respondents for Germany).

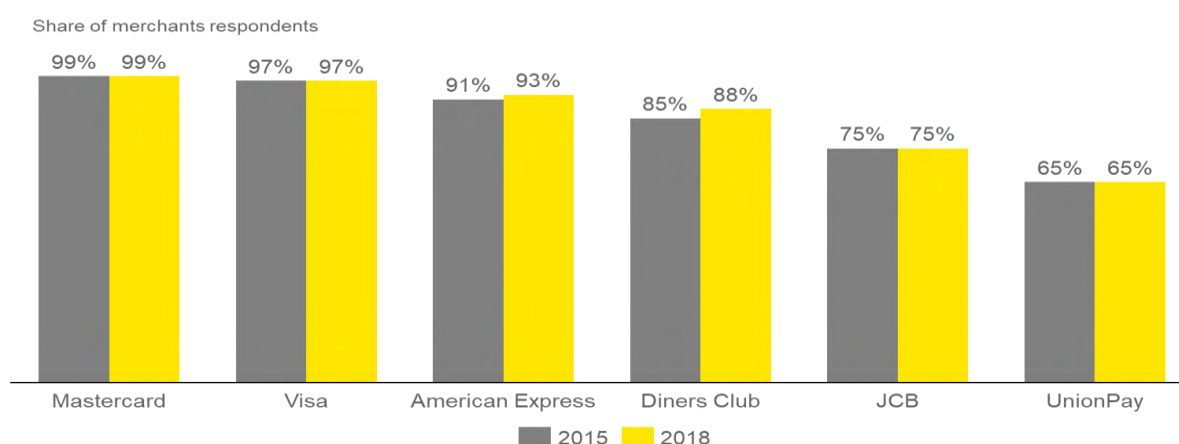
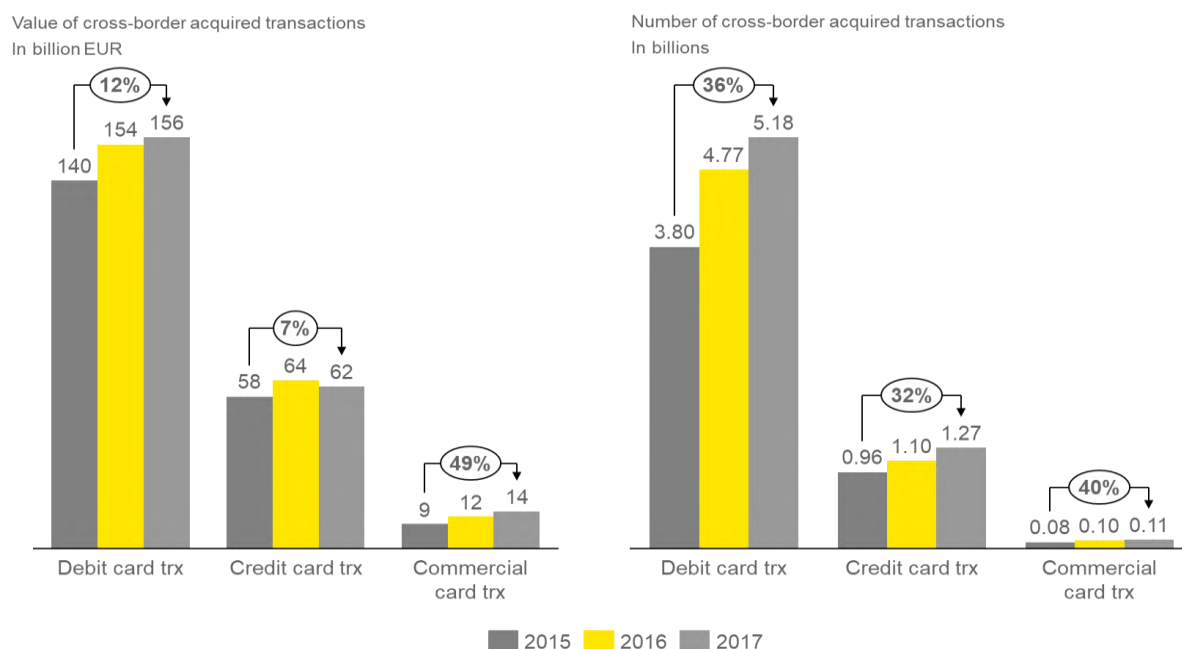


Figure 19 - Share of merchants accepting commercial cards by card scheme, 2015 and 2018. Source: Study on the application of the Interchange Fee Regulation, Figure 84, p. 203.

MEMBER STATE	DOMESTIC SCHEME	MAIN PROCESSORS AND CLEARING AND SETTLEMENT SERVICE PROVIDERS OF DOMESTIC CARDS
BELGIUM	Bancontact	EquensWorldline and SIX Payment Service
BULGARIA	Borica	BORICA AD appointed by the Bulgarian central bank
DENMARK	Dankort	Nets, acquiring and processing company
FRANCE	Carte Bancaire	STET (Interbank organization)
GERMANY	girocard	18 independent Network Service Processors (NPS) compliant with German Banking Industry Committee (GBIC)
ITALY	PagoBancomat	SIA (Interbank organization)
PORTUGAL	Multibanco	SIBS (Interbank organization)
SLOVENIA	Activa/Karanta	Bankart, Banka Intesa Sanpaolo
SPAIN	EURO 6000/ServiRed/ Sistema 4b (merged into STMP in 2018)	Redsys Servicios de Procesamiento

Note: In Malta and in France there are closed-loop mono-bank card schemes. In those cases, however, issuer and acquirer are the same bank and thus they manage the switching, clearing and settling for their transactions.

Table 3: Overview main processors and clearing and settlement service providers of domestic cards transactions. Source: Study on the application of the Interchange Fee Regulation, Table 64, p. 229.



Note: Figures shown relate to intra-EEA cross-border acquiring activities.

Figure 20 - Development of cross-border acquiring transactions by card category, 2015-2017. Source: Study on the application of the Interchange Fee Regulation, Figure 95, p.211.

Share of respondents

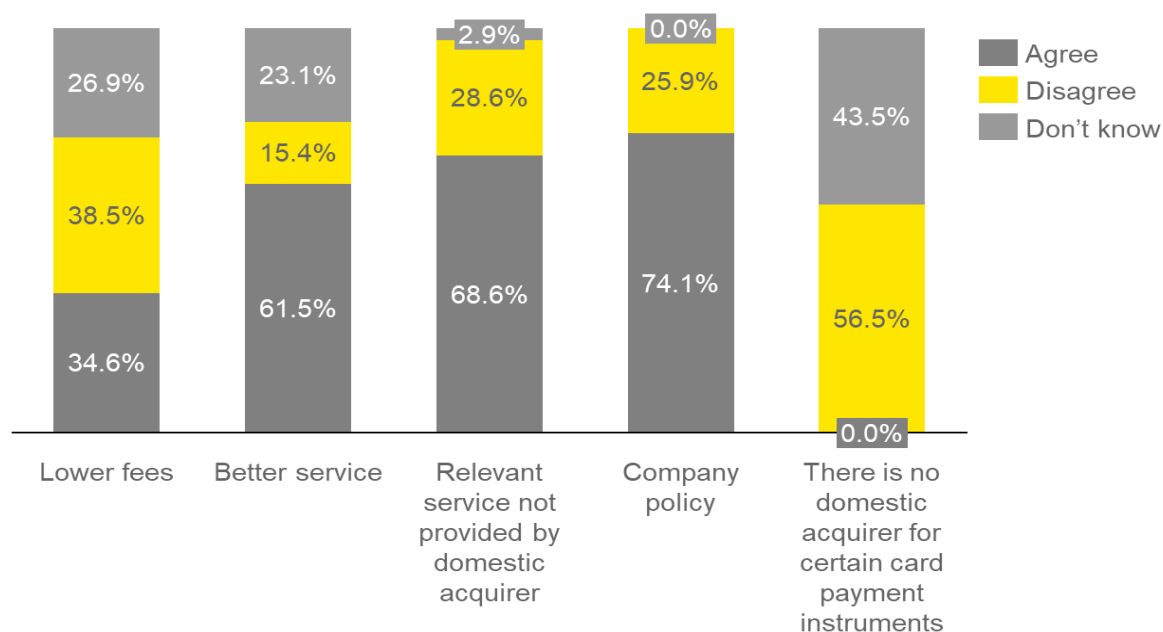
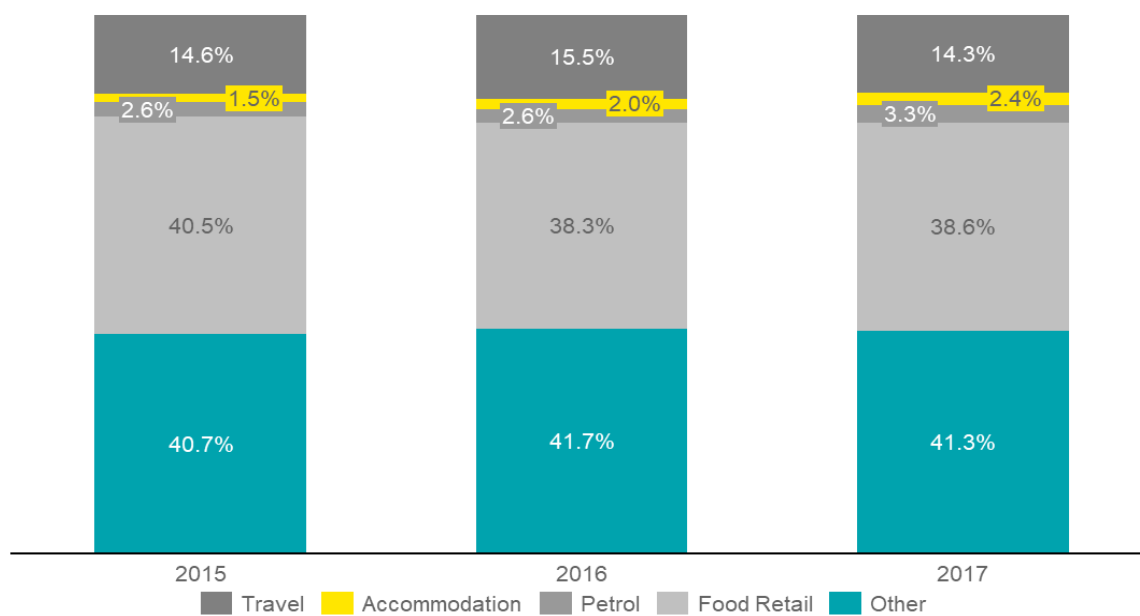


Figure 21 - Reasons for merchants choosing a non-domestic acquirer. Source: Study on the application of the Interchange Fee Regulation, Figure 98, p.223.

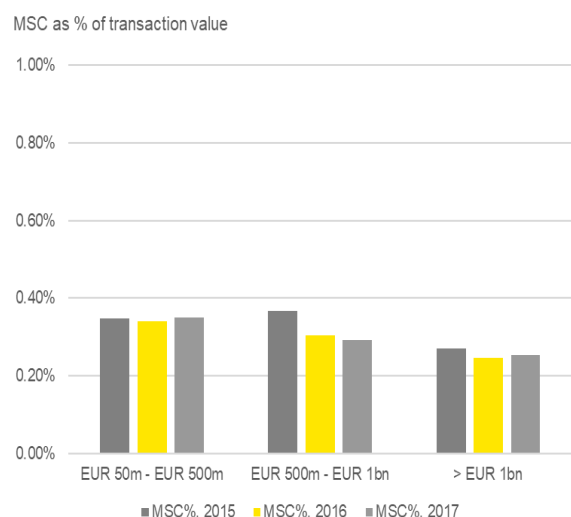
Share of cross border transaction value



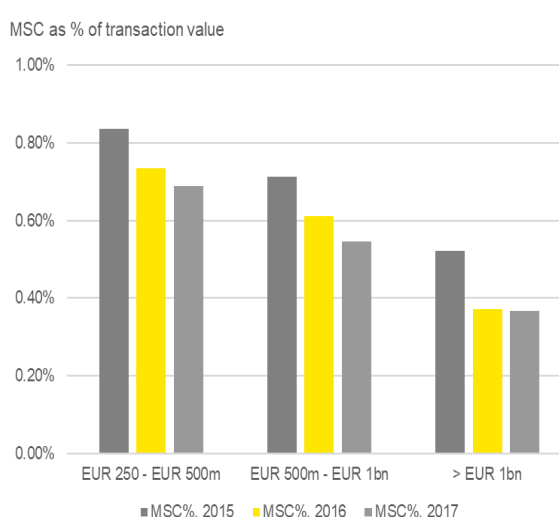
Note: Data is limited to information from two large international schemes as they are the only respondents with information of cross-border acquired transactions per sector.

Figure 22 - Distribution of cross-border acquired transactions by merchant sector, 2015-2017. Source Study on the application of the Interchange Fee Regulation, Figure 97, p. 223.

### Debit card transactions



### Credit card transactions



Note: The size category EUR 50m-EUR 500m contains 5 respondents for debit and credit card transactions and the size category EUR 500m-EUR 1bn only 1 respondent. The size category >EUR 1bn contains 52 respondents for debit and credit card transactions depending on the year. Merchant size is measured at the aggregate EU level.

Figure 23 - Merchant service charge per merchant size, 2015-2017. Source: Study on the application of the Interchange Fee Regulation, Figure 119, p. 292.

DEBIT CARDS	PER TRANSACTION PERCENTAGE FEE	MAXIMUM FEE CAP PER TRX	WEIGHTED AVERAGE FEE – TRANSITORY PERIOD
BELGIUM	0.2%	EUR 0.056	
SPAIN	Trx value <EUR 20: 0.18% Trx value >EUR 20: 0.2%	EUR 0.07	
UK	0.2%	EUR 0.056	0.2%
ITALY	Trx value <EUR 5: below 0.2% (set by the scheme) Trx value >EUR 5: 0.2%		0.2%
MALTA	0.15%		
NETHERLANDS			EUR 0.02
IRELAND			0.1%
DENMARK			0.2%
CREDIT CARDS	PER TRANSACTION PERCENTAGE FEE		
SPAIN	Trx value <EUR 20: 0.2% Trx value >EUR 20: 0.3%		
ITALY	Trx value <EUR 5: below 0.3% (set by the scheme) Trx value >EUR 5: 0.3%		

Table 4: Overview of Member States with special provisions on domestic card transactions. Source: Commission's analysis.

Share of total cards

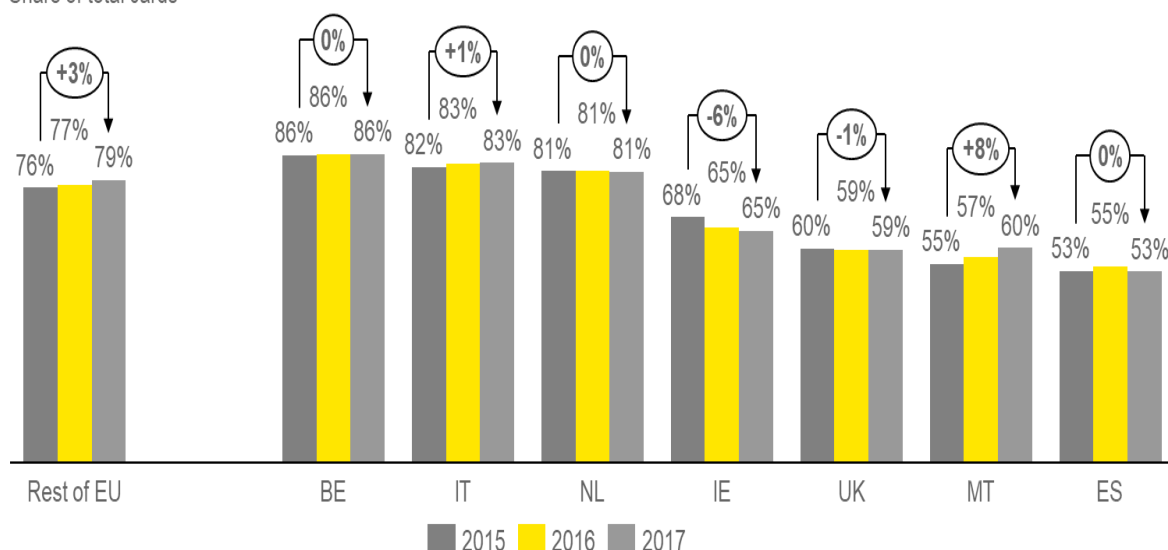


Figure 24 - Share of issued debit cards in Member States with special provisions, 2015-2017. Source: Study on the application of the Interchange Fee Regulation, Figure 89, p. 211.

Share of total cards

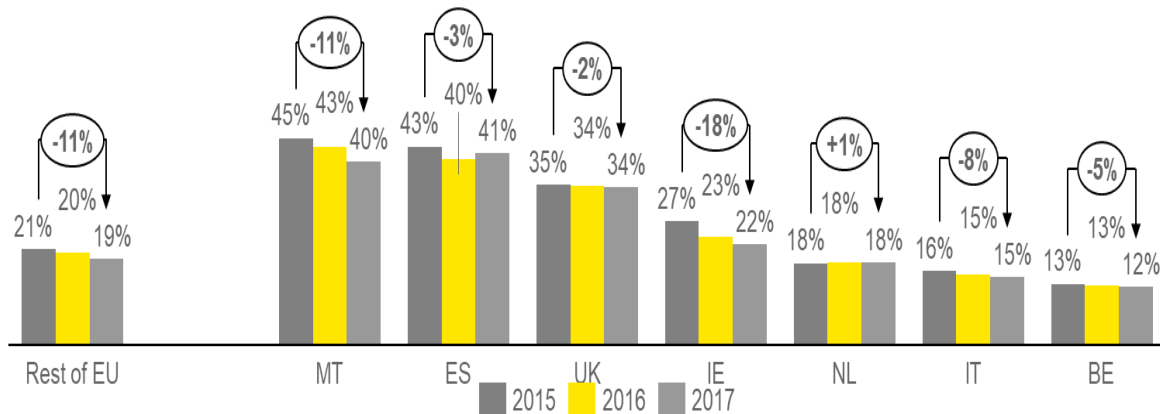


Figure 25 - Share of credit cards in Member States with special provisions, 2015-2017, Source: Study on the application of the Interchange Fee Regulation, Figure 90, p. 212.

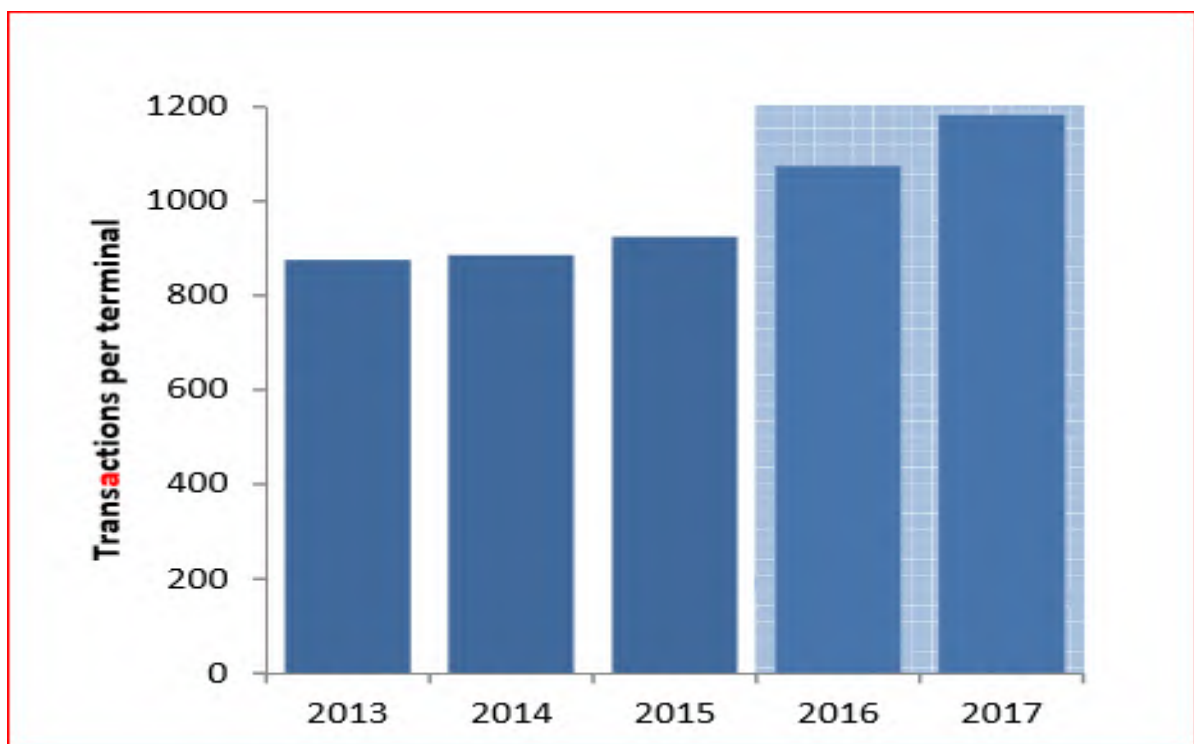


Figure 26: Merchant acceptance in Italy. Source: Ardizzi and Zangrandi (2018), "The impact of the Interchange Fee regulation on merchants: evidence from Italy", Bank of Italy occasional papers, (434), June 2018, Figure 5, p. 10.