



Commission welcomes European Parliament vote to cap interchange fees and improve competition for card-based payments

Brussels, 10 March 2015

The European Commission welcomes the adoption by the European Parliament of a Regulation capping interchange fees for payments using consumer debit and credit cards and improving competition for all card payments. The Commission estimates that the rules when implemented could lead to a reduction of about €6 billion annually in hidden fees for consumer cards. The "Regulation on Interchange Fees for Card-based Payment Transactions", which largely follows a [Commission proposal from July 2013](#), will also give more freedom of choice to retailers, enhance transparency for card transactions, and pave the way for innovative payment technologies to be rolled out.

When a customer pays for a purchase in a store using a credit or debit card, the bank that serves the store (the "acquiring bank") pays a fee to the bank that issued the payment card to the consumer (the "issuing bank"). A so-called "interchange fee" is then deducted from the final amount that the store merchant receives from the acquiring bank for the transaction. Today, only competition rules limit the fees set by banks and payment card schemes, which are hidden from the consumer and neither retailers nor consumers can influence. When retailers pass these costs on to consumers this can of course lead to inflated prices. In its [MasterCard judgment](#) of September 2014, the European Court of Justice made clear that such interchange fees are a violation of EU antitrust rules. The Regulation will help the card payments industry move from its current business practices to a new more competitive system, to the benefit of consumers, merchants and banks.

As a general rule, the Regulation will cap interchange fees at 0.2% of the transaction value for consumer debit cards and at 0.3% for consumer credit cards. For consumer debit cards, it also gives flexibility to Member States to define lower percentage caps and impose maximum fee amounts. Besides capping interchange fees, the Regulation also increases transparency on fees and will enhance competition for payment card schemes and banks by e.g. addressing licensing issues and other conditions that have restricted the freedom of choice of retailers.

Furthermore, the Regulation removes major obstacles to technological innovation in payment options. Technologies that allow consumers to pay with their debit or credit cards online or using their mobile phones (with apps, fingerprints, contactless "swipes", etc.), are readily available. However, uncertainty on the rules regarding interchange fees has been one of the factors holding up the use of these technologies.

Commissioner **Margrethe Vestager**, in charge of competition policy, said: *"For too long, uncompetitive and hidden bank interchange fees have increased costs of merchants and consumers. Today's vote has brought us another step closer to putting an end to this. This legislation will put a cap on interchange fees, make them more transparent and remove a hurdle to rolling out innovative payment technologies. It is good for consumers, good for business and good for innovation and growth in Europe. As cards are the most widely used means of online payment, this Regulation is also an important building block to complete the European Digital Single Market."*

Commissioner for Financial Stability, Financial Services and Capital Markets Union, **Jonathan Hill** said: *"I welcome this vote which will bring transparency and legal certainty for the credit card market. It also paves the way for more innovation and competition in the field of online and mobile payments. Crucially, merchants will see the costs of payments fall, which should in turn drive down prices for consumers."*

The legal text voted on by the Parliament can be found [here](#). It still needs to be formally approved by the Council, which is expected before the summer this year.

Background

What are interchange fees and what do they have to do with card payments?

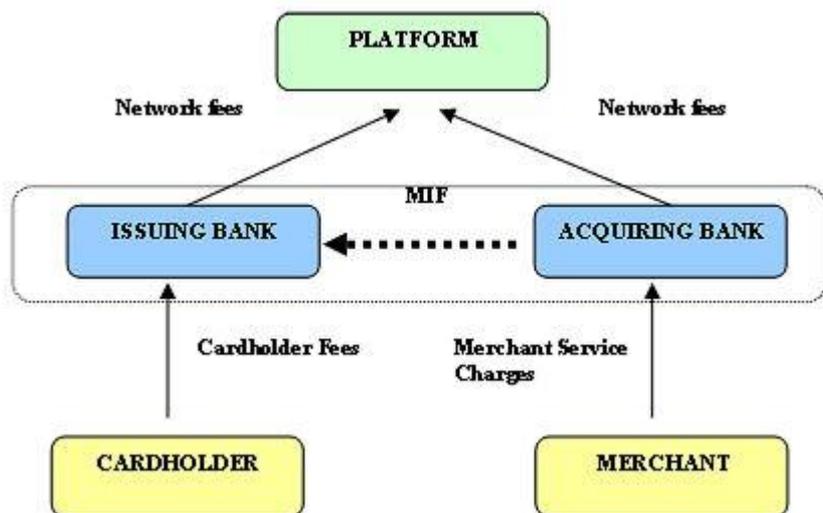
Interchange Fees are multilaterally agreed fees payable between the Payment Service Providers (PSPs) of the payer/consumer and of the payee/merchant.

In the vast majority of cases, the retailer's bank pays these fees to the consumer's bank for each transaction. The most common type of card scheme is the so-called 'four-party' scheme (for example

Groupement des Cartes Bancaires, MasterCard and Visa). Under this, a multilaterally agreed interchange fee is usually in place between the PSP of the merchant and the PSP of the cardholder.

Illustration of the operation of a four-party scheme, including the transfer of the multilateral interchange fee

The platform is a payment card scheme (*Visa, Mastercard, Groupement des Cartes Bancaires etc.*):



For each transaction the retailer pays a fee to its bank called a Merchant Service Charge (MSC) – the acquiring bank pays the merchant the sales price after deduction of the MSC. Most of this MSC is made up of the interchange fee – other elements include a card scheme fee (network fee) and a fee paid by merchant for the services of the acquiring bank. The interchange fee is then passed on by the bank of the merchant to the bank of the cardholder. In competition enforcement proceedings it has been found that interchange fees thus act as a minimum price floor and determine to a large extent (in general 70 % or more) the price charged by PSPs to merchants for card acceptance.

For further information on different card schemes see [here](#).

Procedural background

The current variety of interchange fees between EU countries, indirectly charged to retailers by issuing banks when a customer uses his card, is difficult to justify and has hindered integration and innovation of the EU payments market. In December 2014, [political agreement](#) was reached by the European Parliament and the Council, with only technical modifications to the Commission's original proposal of a Regulation on Interchange Fees for Card-based Payment Transactions.

The Commission and national competition authorities have long condemned these hidden fees under the European competition rules; the Commission set out its analysis of such fees in its [2007 decision](#) on MasterCard's multilateral interchange fees (MIFs) for cross border consumer card transactions. In [September 2014](#), the European Court of Justice confirmed that assessment. During the appeal proceedings Council and Parliament worked on legislation creating clarity on fee models and business rules and facilitating market entry by non-banks on the basis of two Commission's proposals: a proposal for a [Regulation on Interchange Fees for card based payments](#) and a [proposal to revise the Directive on Payment Services](#) ("PSD").

More information

http://ec.europa.eu/competition/sectors/financial_services/payments_en.html

http://ec.europa.eu/finance/payments/framework/index_en.htm

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Press contacts

[Ricardo CARDOSO](#) (+32 2 298 01 00)

[Yizhou REN](#) (+32 2 299 48 89)

General public inquiries:

[Europe Direct](#) by phone [00 800 67 89 10 11](tel:0080067891011) or by [email](#)