

SPIN 2014

**Update on the IF Regulation – Priorities for
change**

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Changes compared to EC's draft of July 2013

- **Interchange fees (Art. 3 and 6a)**
 - Caps on commercial cards (in addition to consumer cards)
 - Debit capped at 0.2% or 7 Eurocent, whichever the lowest
 - Caps for cross-border + domestic enter into force at the same time: 1 year after entry force of the Regulation
 - Central acquirer “exports” its domestic IF
 - Definition of “four-party scheme” includes co-brand partners + agents
 - Pure three-party schemes captured – if their volume exceeds a threshold to be set by the EC

Changes compared to EC's draft of July 2013

- **Anti-circumvention / “net compensation” (Art. 5)**
 - Includes now incentives given by the scheme directly to cardholders
 - Duration for calculation?

Changes compared to EC's draft of July 2013

- Co-badging (Art. 8)

- Consumer can decide if (s)he needs 2 or more brands on the card
- Merchant can continue to have priority selection (but ultimately the cardholder chooses)

Changes compared to EC's draft of July 2013

- Identification of products categories (Art. 10)
 - 1 year to make existing cards electronically identifiable (“prepaid”, “debit”, “credit”, “commercial”)
 - After 1 year, all new cards should be visually + electronically identifiable

Changes compared to EC's draft of July 2013

- Licensing (Art. 6)

- Not applicable to certain domestic debit schemes

- Separation of scheme and processing (Art. 7)

- Not applicable to three party schemes, nor – after EP's vote – to certain domestic debit schemes

Essentially left unchanged since EC's draft

- HACR
- Transparency (+ unblending) of MSC

Priorities for change

- IF caps and their basis

- Merchant Indifference Test (MIT). The Commission replaced the established issuing costs methodology (accepted in *Visa* decision of 2002) and embraced a new and untested methodology, the MIT
- The MIT is a controversial methodology because it focuses solely on the merchants' indifference and excludes consideration of consumer interests
- The Commission has not yet finalized its studies on the MIT. It published preliminary results on February 19, 2014 (i.e., after adopting its proposal)
- “One-fits-all” interchange. Absolute caps do not take into consideration that different IF among Member States exist to foster card payments

Priorities for change

- **IF caps will make consumers worse off**
 - Experience in other countries (Australia, Spain and U.S.) demonstrates that merchants will not pass on the IF reduction to consumers
 - Fees paid by consumers will increase. In Spain, IF were reduced by almost 60%. Savings of € 2.75 billion for merchants corresponded to cardholder fee increases of € 2.35 billion. Cardholder fees increased from € 22.9 to € 34.3 for credit cards and from € 11.1 to € 17.3 for debit cards
 - If revenues for card payments are reduced because merchants do no longer wish to pay for the benefits they receive, issuers will not be able to continue to provide the same level of services and invest in innovation

Conclusions

- Economic hurdles for issuers
- Benefits for large merchants, acquirers (?) and processors
- What will be the real impact on acceptance?
- What will be the benefits for consumers?
- How will the IF Regulation impact the Italian regulatory framework (e.g. MSC Decree 51/2014)

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