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# European Commission Publishes Study on the Application of the Interchange Fee Regulations

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The European Commission (the "**Commission**") has recently published its study on the application of the Interchange Fee Regulation (Regulation 2015/751 on interchange fees for card-based payment transactions, the "**IFR**").

The interchange fee is the fee paid by an acquirer (merchant's bank) to an issuer (cardholder's bank) to compensate the issuer for the benefits that merchants receive in accepting electronic payments.  The IFR came into effect on 8 June 2015 with the intention of creating a single market for card-based payments within the European Union and, amongst other things, implemented caps on interchange fees applicable to consumer credit and debit cards.  The principal aim was to create a level playing field that allows more competition and drive innovation in payments.

Article 17 of the IFR requires the Commission to review the application of the IFR and its market effects and report to the European Parliament and the Council of the European Union later this year, and may accompany its report with draft text for revised IFR regulations.  The Commission has therefore commissioned this study to inform its view.

**Key findings**

The study, authored by Ernst & Young and Copenhagen Economics, covers the period between 2015 and 2017 and concludes that the IFR has achieved its main objectives.  It makes the following key findings:

- the **interchange fees on consumer cards have substantially decreased by 35% (over EUR 2bn)**. This has led to lower costs for retailers and is in the long term expected to lead to lower consumer prices;
- the **number and value of 'point of sale' ("POS") card transactions in all EU member states has increased**, driven by technological development and consumer preference;

- the**number of ATM withdrawals has declined** and, although the value of ATM cash withdrawals has increased slightly, the increase has been considerably less than POS card transactions;
- the **rise in digital payments has facilitated the entry of new payment methods**, many of which remain card-based and which has contributed to the growth of card payments.  It remains to be seen whether non-card-based digital payments will challenge the market position of the card schemes;
- the **scheme fees paid by issuers and acquirers have increased in a statistically significant manner, which may reduce or erode the benefits of merchant cost savings of the IFR**. However, the study finds no evidence of scheme fees being used to compensate for reductions in interchange fee receipts;
- there is **robust evidence that acquirers pass-through part of the interchange fee reduction cost-saving to merchants** through lower merchant service charges ("**MSC**"), with correlation between the size of the interchange fee savings for acquirers and the size of MSC subsequently charged to merchants;
- the value and volume of commercial card transactions is increasing, but there is **no evidence of statistically significant changes in interchange fees and MSC applied to commercial card transactions**;
- there is **no evidence that setting a maximum interchange fee amount of EUR 0.07 for consumer debit card transactions would increase the frequency of transactions** and increase the average transaction value.

**Key recommendations**

The study makes a number of key recommendations, including the following:

- the interchange fee caps should remain on consumer card transactions, but **commercial cards should remain exempted from the IFR** on the basis that there is no evidence of statistically significant increases in interchange fees or MSC applied to commercial card transactions;
- the **level, structure and transparency of scheme fees should be monitored**;
- similarly to scheme fee increases, the acquiring margin has increased and limited the pass-through of interchange fee savings from acquirers to merchants. The **study recommends the provision of transparent, simple and unblended price information for merchants** and the further investigation of the implied lack of competition;
- the Commission should **further analyse eliminating the special provisions of the IFR applicable to domestic debit and credit card transactions** (which

eight member states have adopted) in favour of a unified approach across the single market;

- the Commission should **collect more information about the effects of maximum fee amounts** prior to implementing any such maximum.

**Conclusions**

The report provides us with useful insight into the potential developments of interchange fees in the European Union, which could lead to further regulation.  Given that the IFR has achieved its main objectives (i.e., to create a level playing field for consumer credit and debit cards), the Commission could be tempted to continue the trend, whether by way of seeking further reductions in interchange fees, the introduction of maximum fee amounts or the applicability of the IFR caps to commercial cards. Given the substantial reduction in the interchange fees that the IFR has achieved, those with exposure to card payments should consider these potential scenarios in the context of their business and await the Commission's report and potential further draft legislation later this year, as the Commission's approach could continue this trend.  We will provide further information once the Commission has completed its report to the European Parliament and the Council of the European Union later this year.