

**Meeting between Federal Reserve Staff and
The European Commission Directorate-General for Competition
March 11, 2011**

Participants: Irmfried Schwimann and Rita Wezenbeek (European Commission, Directorate-General for Competition); Daniela Russo, Pierre Petit, Francisco Tur Hartman, Wiebe Ruttenberg, Stephanie Czak, and Johannes Linder (European Central Bank)

Louise Roseman (Board)

Summary: Ms. Schwimann and Ms. Wezenbeek provided an overview of actions the EU competition authority has taken with respect to payment cards over the past decade, with a focus on actions related to multilateral interchange fees (MIFs). In April 2009, MasterCard agreed to reduce its cross-border maximum weighted-average debit-card MIF level to 0.20 percent of the transaction value to ensure its compliance with the European Commission's antitrust decision of December 2007. In April 2010, Visa agreed to reduce its MIF for cross-border and domestic debit-card transactions in nine countries to 0.20 percent. These MIF levels were determined based on the merchant indifference test. Under this test, the MIF would not exceed the value of the transactional benefits that merchants derive from card acceptance compared to cash acceptance. The EC Directorate-General for Competition believes that setting MIFs at a level that complies with the EU competition rules will enhance market transparency and foster more efficient and competitive payment card markets. (Presentation attached.)

Ms. Roseman provided an overview of the Board's proposed interchange rule and the comments received on the proposed rule.



European Commission

Competition

Meeting ECB FED DG Competition
Frankfurt 11 March 2011

DG Competition – action on payment cards



Cards and Competition Enforcement

- Visa I and Visa II decisions (2001/2002), MasterCard decision (2007), Visa decision (2010)
- Consistent competition analysis
 - MIFs are a restriction of competition between acquirers by object and by effect because they have an inflationary effect on prices to merchants
 - To comply with competition rules MIFs need to be justified by efficiencies that are passed on to consumers



MasterCard Case

- MasterCard decision (2007) found that its MIFs restricted competition and there was no evidence of efficiencies passed on to consumers.
- In April 2009 MasterCard offered
 - to reduce its cross-border maximum weighted average MIF level to:
 - 0.30% per transaction for consumer credit cards
 - 0.20% per transaction for consumer debit cards.
 - measures to increase transparency and competition
 - withdrawal of October 2008 scheme fee increases
- Mrs Kroes welcomed these Undertakings



Visa Case

- Visa SO in April 2009
- April 2010 Visa offered commitments for debit transactions
 - To reduce its MIFs for cross-border and domestic transactions in nine countries to 0.20%
 - Measures to increase transparency and competition
- Commission made commitments binding for four years in December 2010
- Investigation of Visa's credit transactions continues



Merchant Indifference Test

- Merchants don't pay higher charges than the value of transactional benefits that card use generates for them ie merchants receive a benefit from card payments
- Benefits include avoidance of cash handling costs and other benefits (e.g. more rapid transfer to merchant accounts)
- MIF income can then be used to stimulate uptake of cards on the issuing side
- Directly addresses business stealing concern which is origin of high MIFs



National competition authorities

- MasterCard decision covers cross-border MIFs only (5% of all)
- Visa SO covers cross-border & 9 countries (set directly by Visa)
- Majority of MIFs are dealt with by the NCAs (domestic MIFs often set by local banks)
- Commission cases used as an example for NCAs (17 NCAs currently acting - e.g. Poland, Hungary, Italy, Germany, UK, France, Latvia ...)





MIFs - Vision for the future

- Benchmark: MasterCard and Visa commitments
- BUT every MIF has to be assessed on a case-by case basis
- Cost of cash study to refine the basis of assessment
- Work towards an effective payment cards market - more focus on other scheme rules
- Banks and card schemes must self-assess their compliance with competition rules or face consequences



Cards - New Entrants and Innovation

- Risk of some domestic schemes leaving the market due to investments needed for SEPA compliance so new card schemes would be welcome
- New payment methods are developing (eg internet payments and mobile payments)
- Barriers to new entry and innovation
 - Existing high MIFs
 - Scheme rules and transparency
 - Lack of open standards
- In addition to low MIFs, we need transparent and competitive markets, including open standards.
- Aim is that merchants and cardholders are aware of costs and benefits of payment means and are able to choose accordingly



Competitive Cards Market

- Competition enforcement (MasterCard and Visa Commitments):
 - Removal of Non-Discrimination Rules
 - Unblending
 - Honour-all-cards rule
 - Non-discrimination
 - Cross-border acquiring (registration and publication of MIFs)
 - Identification of commercial cards by merchants
- Regulation and SEPA Cards Framework
 - Removal of barriers to rebates or surcharges (up to Member State)
 - Separation of processing and scheme
 - Choice of scheme when cards are co-branded
 - Standards