



SEPA Cards Framework

Version 2.0

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1. Preamble

1.1. Introduction

This SEPA¹ Cards Framework² (hereafter referred to as “the Framework”) spells out high level principles and rules³ which when implemented by banks, schemes, and other stakeholders, will enable European customers to use general purpose cards to make payments and cash withdrawals in euro throughout the SEPA area with the same ease and convenience than they do in their home country. There should be no differences whether they use their card(s) in their home country or somewhere else within SEPA. No general purpose card scheme designed exclusively for use in a single country, as well as no card scheme designed exclusively for cross-border use within SEPA, should exist any longer.

Therefore compliance with the SEPA Cards Framework (hereafter “SCF Compliance”) will be achieved when the high level principles and rules of this Framework are implemented.

The SEPA Cards Framework recognizes that a three-tier model is essential to progress the deployment of SCF compliant payment transactions and ATM withdrawals with cards:

- (i) Tier 1- The Framework itself. This addresses the high-level principles necessary to provide a strong, market driven response to the expectations expressed by the EPC, the European Central Bank and the European Commission regarding the building of SEPA. It is intended as a document to which banks and card schemes operating in SEPA must commit, in order to remove market barriers and strengthen competition for themselves and their providers of technical infrastructures and payment services within the EU card industry;
- (ii) Tier 2 – The card schemes. The interests of SEPA and the wider European cards market will be most effectively driven forward by strong competition between cards schemes. The strategies of the existing schemes towards SCF compliance and/or any proposals to create new schemes or brands lie in the competitive domain. The role of the Framework is therefore to provide a context within which card schemes and their members, as well as alliances between card schemes, have to operate to ensure interoperability and competition;
- (iii) Tier 3 - The providers of technical infrastructures and payment services. Efficient and low cost processing of transactions with cards is in the interest of all parties, and strong competition between providers is essential. The role of the Framework is therefore to set out the high-level principles that will encourage such competition as well as technical interoperability.

¹ SEPA: whilst Europe is currently being defined as the EU 25 Member States plus Iceland, Liechtenstein, Norway, and Switzerland, SEPA is the area within this space where customers can make and receive payments in euro (source: EPC 2004 – 2010 Roadmap, December 2004).

² Framework: the SEPA Cards Framework is a common set of principles and rules for the provision by banks and card schemes of a pan-European card payment instrument. This common set of principles, rules and practices is agreed at SEPA interbank level, as explained in Section 1.3.1.

³ Rules: for the purpose of this Framework rules shall mean such rights and obligations that will be accepted either by banks and card schemes as a consequence of them being spelled out in the present Framework and from time to time updated, or as a consequence of banks’ participation in one or several card schemes.

SEPA for cards is reached through a two-stage process:

- 1- Banks ensure that the payment scheme(s) of which they are participant(s) become SCF compliant as described in Chapter 3.
- 2- Banks deliver SCF compliant payment products to their customers as described in Chapter 2 and thus give access to SEPA payments with the required reach.

Customers are offered card products which consist of one or more acceptance brands (or product platforms) enabled by payment schemes. Merchants accept one or more acceptance brands offered in various combinations by acquiring banks.

This Framework is an EPC Resolution that will enable banks, card schemes and all stakeholders to move towards SEPA. It may be followed by further Resolutions, as necessary to achieve the targets of the SEPA Roadmap (see attachment 4.2.2). The supporting procedures and standards that allow full implementation of this Framework will be complemented as necessary.

1.2. Framework objectives

The Framework is aimed at building an environment in which there are neither technical nor legal or commercial barriers which stand in the way of cardholders, banks and merchants choosing and using SCF compliant payment and ATM access card products. Each of the parties should be able to make a choice based on value considerations alone whether they wish to adopt a particular card product or brand, and have this choice fully supported by technical interoperability, and not constrained by lack of pan-European acceptance.

1.2.1. Schemes' perspective

On the basis of the present situation in each country, each bank as participant in, and user of, various national and international card schemes has a choice of a number of options, or combination of options, to offer SCF compliant card products (as defined in 1.3.2 hereafter). These options include for example:

- Option 1: select one (or more) of the international schemes to replace the current national scheme(s) – once the former have become SCF compliant (see Chapter 3 hereafter);
- Option 2: act in such a way as to evolve one or several national schemes so that they become SCF compliant; amongst other implementation options, national-based schemes, once they have become SCF compliant (see Chapter 3 hereafter), may e.g. extend their operations to the entire SEPA, or may enter into alliances with other national-based yet SCF compliant schemes, in line with Paragraph 3 below of this same 1.2.1 (i.e. the Paragraph beginning with: “All options need to be supported...”). Such alliances may also involve national-based and international schemes, provided both have become SCF compliant,
- Option 3: co-brand its cards with both a national and an international scheme – provided both have become SCF compliant (see Chapter 3 hereafter).

The above ranking does not illustrate any preference, and further options are possible. The above options may evolve further between now and end 2010, the date by which all payment card products and brands falling within the scope of this Framework will have become SCF compliant. For the sake of clarity, it is stressed that individual banks or group of banks may well pursue one or several options that differ or complement the option(s) that may be selected by a national community. It is further stressed that different options may be pursued in parallel by a same bank or group of banks for different types of payment transactions with cards (for a description of the latter, see Section 1.3.2 hereafter).

All options need to be supported through solutions on the acquiring side that will enable the widest acceptance across Europe, in order to facilitate the appropriate promotion to cardholders. This will be a challenge that each SCF compliant scheme with aspirations to SEPA-wide operations will have to resolve.

In order to deliver on the scope of this Framework, and to meet cardholders' and merchants' expectations across SEPA, each bank needs to decide which option(s) it will implement from 1. January 2008 onwards. After end 2010 no card scheme designed exclusively for use in a single country should operate anymore for POS and ATM transactions as defined in 1.3.2.

Card schemes will reflect their participants' desire and need to meet customers' and regulators' expectations. Card schemes will ensure in a timely fashion that their issuing and accepting rules and practices, and supporting standards, allow for SCF compliance, in line with banks' decisions on how to implement SEPA value propositions for cardholders and merchants. It will be the responsibility of each card scheme who wishes to comply with the SCF to ensure that it respects national and EU legislation.

EPC will monitor through national communities how both banks and card schemes achieve the above targets.

1.2.2. Cardholders' perspective

SEPA cardholders⁴ should be able to pay with a given card product (or make cash withdrawals) with the same level of ease and convenience, and the same terms and conditions, anywhere throughout SEPA. SEPA cardholders should be encouraged to consider their card(s) as the preferred instrument – compared to e.g. cash or cheques - to make payments for goods and services.

In the eyes of cardholders, SCF compliant cards should become as convenient to use throughout the entire SEPA as within their home country. Of course cardholders will continue to have access through their cards to value-added products and services made available to them by issuers in a competitive market, and some of these services may only be available to them at a limited number of outlets (e.g. their own banks' ATMs).

Technical components defining cardholders' experience in various situations are described in section 3.6.1 hereafter.

1.2.3. Merchants' perspective

Merchants must be allowed the choice of which SCF compliant card acceptance mark(s) they wish to accept and which acquirer(s) they wish to contract. This merchant choice may not be artificially constrained by legal, technical, or procedural issues, nor a lack of transparent price information – rather, the merchant should be able to take a commercial decision based on the value that card scheme acquirers can provide.

A consistent merchant experience is delivered when there are no technical or practical barriers preventing SEPA merchants from accepting all SCF compliant cards. SEPA merchants will be

⁴ SEPA cardholder: any customer to whom a SCF compliant card is issued and who is authorized to use the card.

motivated by SEPA scheme acquirers to accept all the cards of the SCF compliant schemes of which they are members. As a consequence of EC Regulation 2560/2001, within a SCF compliant scheme, a SEPA merchant will pay the same (fees) price to its acquirer for national and SEPA transactions for the same type of a scheme's payment product.

1.2.4. Banks' perspective

The banking industry vision for Cards in SEPA is expressed in the Cards Working Group Findings and Recommendations, unanimously approved by the EPC Plenary in June 2003 (see Annex). This vision still stands.

Banks in their roles as EPC members, issuers, acquirers, shareholders in card schemes and card processors, and members of standardization bodies, will use this Framework to migrate the card market, and their business, from a primarily national one into a SEPA card market and business. At the same time, they will use this Framework to ensure interoperability, openness and competition in the SEPA card market. Competition can be expected to be the most efficient driver for market development, to the benefit of all payment service users.

Banks want to provide via self-regulation a strong, market driven response to expectations expressed by the European Central Bank and European Commission as regards building the "SEPA for the citizen", or "Internal Market for Payments". EPC Members are committed to offering to their cardholders and merchants access to SCF compliant card payment services.

1.3. Scope of the Framework

1.3.1. Definition of the Framework

This Framework lays down a set of principles and rules. In line with the EPC Charter, these are mandatory for all banks that are EPC members. Commitment to these principles and rules by EPC Members and card schemes, and close monitoring by the EPC of implementation and continued compliance, will facilitate delivery of the above objectives within the options described in 1.2.

This Framework operates as a firm declaration of EPC policy. In the event of non-compliance, the EPC may take such action (without liability) under its constitution as it sees fit, but the Framework does not give rise to any actionable rights or obligations between banks, schemes or other persons.

1.3.2. Payment transactions with cards covered by the Framework

This Framework covers transactions with cards with the following features and characteristics:

(1) Types of transactions: This Framework covers payments or cash withdrawals made within SEPA with general purpose cards issued by SEPA banks. Issuers may provide other services linked to payment cards, e.g. a credit line, yet these services are outside the scope of this Framework.

Because there are different payment card products and different types of card transactions, there may also be different business models and different interchange fee structures and levels, as well as different terms and conditions for cardholders and merchants, that are however outside the scope of this Framework.

Transactions with national cards based on e-purse technologies are outside the scope of this Framework.

(2) Currency: The scope of this Framework covers currencies as follows:

- currency of the card account: outside the scope of this Framework,
- and currency of the card transaction: Euro (and any currency “opting in” in the sense of Article 9 of EC Regulation 2560/2001),
- and clearing currency between acquirer and issuer: Euro (and any currency “opting in” in the sense of Article 9 of EC Regulation 2560/2001).

(3) Guaranteed transactions: For removal of any doubt, the Framework is founded on the reality that card-present card transactions are guaranteed transactions, i.e. the payment is guaranteed to the merchant’s acquirer according to the relevant scheme’s terms and conditions. Such card payments are distinct from direct debit transactions, which are not guaranteed and are outside the scope of this Framework.

In the context of this Framework, remote transactions⁵ are covered as part of card schemes’ offerings provided a card number is used, a card account is debited, and the transaction is authorised by the cardholder.

(4) Supporting technology: In line with the June 2003 Cards Working Group Findings & Recommendations, as well as the December 2003 EPC Resolution on preventing and fighting card fraud, this Framework confirms the EMV chip and, on the acquiring side, PIN, as the supporting technology going forward. The terminal keyboard infrastructure to support PIN is required to allow issuers to make choices. It is the issuer’s responsibility to decide for which card the use of PIN will be required. The market will join in the EMV rollout as individual banks and national communities make decisions in the context of the Roadmap. It is recognised that, whilst magstripe-based transactions will not be SCF compliant after 2010, they come under the scope of this Framework in the transition phase (1. January 2008 to 31. December 2010). All schemes will introduce a liability shift rule and other incentivising measures to encourage the EMV migration by 1. January 2008.

1.4. Future evolution of the Framework

This Framework is written with consideration to the legal and regulatory, technology, and general market environments existing in the 2nd Quarter of 2005. It is intended that the high-level principles and rules spelled out in this Framework remain stable at least until the end of 2010.

However this Framework may require revision if there are changes in legislation and regulation, and notably yet not limited to:

- when – and if – an EU Act (e.g. a “Directive on a New Legal Framework for Payments in the Internal Market”, or a Regulation) - is adopted within the EU Charts and powers (currently: by the European Parliament and the Council),
- when such an Act is implemented and impacts Member States legislation (i.e. transcribed into national law by Member States). Because of the potential interpretation (by Members States) space created by a Directive (even acknowledging that the draft Directive on a New Legal

⁵ Remote transactions: any transaction where either the card, the cardholder, or the merchant are not present in a same place at the time of the transaction, such as mail order, telephone order, electronic commerce.

Framework has ambitions to limit such space upfront) and translation issues inherent to any text, a revision of the present Framework cannot be excluded.

As regards technology, this Framework is generally written from an existing, underlying technology perspective, and may require revision, where EMV is explicitly mentioned, if and when the payment chip standard technology evolves.

As regards market environment, this Framework is written with consideration to today's market environment and organization. A significant change in this environment or in market organization could lead to a revision of the Framework.

1.5. Competition legislation

This Framework acknowledges the market role of cardholders and merchants, issuers and acquirers. Thus it is meant to be in compliance with both existing national and European competition law requirements. Going forward, it will become increasingly important that positions from European and national competition authorities are not in contradiction, and duly communicated well in advance to all stakeholders.

In implementing the Framework, it is the responsibility of banks and card schemes to respect national and EU competition legislation.

1.6. Framework implementation and monitoring

Implementation of the Framework is the responsibility of banks and card schemes. In order to meet the commitment made by the banking industry (December 2004 EPC Roadmap, see 4.2.2), SEPA customers must have access to a pan-European card payment instrument – a SCF compliant card - as described above from 1. January 2008 onwards.

After approval of this Framework by the EPC Plenary, the EPC Cards Working Group will formulate a Framework communication plan that will delineate how a critical mass of card payment transactions can become SCF compliant at the latest between 2008 and 2010.

In line with the purpose, objectives and role as set in the EPC Charter (see 4.2.1), and the role accepted by EPC Members with the approval of the EPC Roadmap in December 2004 (see 4.2.2), the EPC will establish mechanisms to monitor the implementation of this Framework by banks and card schemes.

2. Commitments by SEPA banks

2.1. Introduction

Passing by the EPC Plenary of the relevant Resolution(s) constitutes a firm commitment by EPC Members to give effect to this Framework. This Framework is available to all banks that come under the 2nd Banking Directive (hereafter referred to as “SEPA banks”). The Associations that are EPC Members are bound by the same Resolution(s) to take the necessary steps to actively seek and obtain the commitment of their own member banks to implement the dispositions of this Framework. The roles assigned to EPC Members and European and national communities by the December 2004 EPC Roadmap have full relevance.

By 1. January 2008 at the latest, SEPA banks will begin to distribute, issue, and acquire or otherwise process SCF compliant payment cards. After end 2010, all general purpose payment cards in circulation and issued by SEPA banks will be SCF compliant. The period between 1. January 2008 and end 2010 will be referred to as the “transition period”.

2.2. Roles and responsibilities of SEPA banks

Within the context of this Framework, in order to be considered “SCF compliant”, and allowed to avail themselves of such compliance, SEPA banks have to exert their responsibilities under the following roles so that:

2.2.1. *As EPC Member (and/or member of an Association)*

SEPA banks commit to implement the dispositions of this Framework and, where they are Association members, to actively promote this Framework to their peers in order to achieve the widest possible endorsement of its dispositions.

SEPA banks acknowledge that preventing and fighting card fraud as approved in the June 2003 EPC Cards Findings and Recommendations is an underlying objective of this Framework. As a consequence, any bank adhering to this Framework agrees to support card fraud prevention activities, in accordance with EPC Resolutions on fraud.

2.2.2. *As issuer⁶*

From 1. January 2008 onwards, banks who distribute and issue payment cards will offer SCF compliant cards. After end 2010, all general purpose payment cards in circulation and distributed and issued by SEPA banks will be SCF compliant. SEPA banks commit to make available to cardholders full information on the benefits of SCF compliant card products.

The SCF and its impact on card payments and cash withdrawal transactions does not prevent banks from developing value added services in addition to the card payment functions.

⁶ The dispositions applicable to issuing and acquiring banks also apply to third party issuers or acquirers. The latter are entities which may be partially or wholly owned by banks, and which according to the legislation of their country of registration, may or may not be required to hold a banking licence. Such entities may also operate 3-party systems.

2.2.3. *As acquirer*⁷

SEPA banks who act as acquirers or equivalent processors commit to offer to merchants, from 1. January 2008 onwards, the option to handle payment card transactions generated by one or more SCF compliant card schemes. Banks commit to make available to merchants full information on the benefits of accepting SCF compliant cards, and actively promote to them the benefits of migrating their terminal(s) to an EMV certified terminal to enable them to accept SEPA cards⁷. Furthermore SEPA banks commit to ensure that the ATMs they deploy (directly or indirectly) accept SCF-compliant cards of all schemes of which they are participants, and that their card processors support the full compliance for ATMs and POS in line with Art. 1.3.2 above.

Banks who prior to end 2010 co-brand non SCF compliant and SCF compliant schemes on their cards must ensure in their acquiring or equivalent activity that they achieve equal acceptance for both brands in accordance with the EPC SEPA definition⁸. It has to be made sure that the rules of national, non SCF compliant schemes do not act as a barrier to the acceptance of SCF compliant products.

2.2.4. *As card scheme participant*

SEPA banks commit to exercise to the full extent their role as card scheme participants, so that card schemes comply with the dispositions contained in Chapter 3.

2.2.5. *As member of a standardization body*

To the greatest extent possible the SEPA for cards will be achieved through the use of open and free standards, available to all users within the card payment value chain. When necessary, however, SEPA banks commit to work within the relevant standardization body(ies) in which they participate (either directly, or indirectly through card schemes) to remove any technical obstacle preventing a consistent customer experience or presenting a barrier to competition.

2.3. **Governance of the Framework**

2.3.1. *Intellectual property*

EPC Members, represented directly on the European Payments Council (EPC) or indirectly through a European Credit Sector Association and/or a National Banking Association, acknowledge that EPC holds the intellectual property rights and copyright to this Framework. EPC may take further steps to formalize this holding.

⁷ The EPC acknowledges that in 2001 the Dutch merchant community entered into a contractual arrangement with the Dutch banking community, which prevents the migration of POS terminals deployed in the Netherlands to EMV to be completed by 2010.

⁸ EPC SEPA definition (Slide 9 of EPC 2004-2010 Roadmap): “SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro, within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location”. Focus of the Roadmap: “SEPA will be delivered as a priority within the eurozone. Within Europe, outside the eurozone there will be opportunities to participate in euro payment systems, and communities will be able to adopt SEPA standards and practices to contribute to the Single Market for payment services” (ibid.).

2.3.2. Framework support, maintenance and evolution decision-making process

The EPC is the body responsible for promoting this Framework. EPC Members will promote the Framework and the adoption of any standard(s) agreed by the EPC in the Boards of the international and national card schemes. The SCF will also be promoted to processors, third parties and suppliers.

The EPC Cards Working Group is the body responsible for the maintenance of this Framework. In this capacity it notably will mandate the OITS Support Group to mobilize the adequate standardization bodies involved in developing and maintaining the standards necessary to the operation of the schemes adhering to this Framework.

2.3.3. Monitoring of Framework deployment

Through the EPC Charter, EPC Members have affirmed their ambition and will to shape SEPA through self-regulation, to the greatest extent possible. As a direct consequence of this stated ambition and will, EPC Members accept responsibility for actively monitoring the deployment of this Framework by adhering card schemes. EPC will establish a mechanism to perform this responsibility in full conformity with the necessary confidentiality and competition legislation requirements. Such mechanism will i.a. define criteria to allow card schemes to self-assess their initial and continued compliance with this Framework.

This Framework will be presented by EPC to cards schemes for formal acceptance and implementation. International and national card schemes, as well as national banking communities, will each be invited in parallel to submit before end 2005 to EPC the plan and commitments describing how they will implement the dispositions of this Framework.

EPC will perform the role of monitoring SCF compliance through the mechanism to be developed, in full conformity with confidentiality and competition legislation requirements. The EPC is not liable to any EPC member, any bank, scheme, customer or other person for any fact or omission (including any “faute grave”) in carrying out its role.

3. Commitments by card schemes

3.1. Introduction

This Framework is presented to card schemes for implementation. Card schemes will acknowledge the fact that SEPA banks agree not to distribute and issue to cardholders general purpose cards from non SCF compliant schemes after end 2010. Adoption of this Framework by card schemes operating in SEPA is a decision that will be taken by the participants in these schemes, reflecting demand and behaviour of their customers, as well as their strategy and business objectives – full adoption of this Framework is however the necessary condition for a card scheme to present itself as being “SCF compliant”.

Card schemes will have to evidence their agreement with the requirements of the present Framework by formally responding to the EPC, indicating their commitment to the dispositions of this Framework, and in particular, submitting an implementation plan (see 2.3.3 above). Such a response and the submission of an implementation plan which complies with the timeframes set out in the Framework entitle card schemes to present themselves as becoming “SCF compliant”⁹.

3.2. Scheme’s rules requirements

3.2.1. Card scheme organization and activities

Any card scheme wishing to become SCF compliant will ensure and demonstrate that the legal and commercial barriers to SCF compliance are effectively removed. Card schemes will confirm to EPC their agreement with this Framework and submit their implementation roadmap. Card schemes will also provide to EPC any such information that may be required from time to time for monitoring purposes.

3.2.2. Participation, licensing, contracting, principles for pricing and business model, operational quality

a) Participation:

To qualify under the dispositions of this Framework, each card scheme must allow banks to participate on the basis of transparent and non-discriminatory criteria. In particular, these criteria may no more distinguish between banks subject to supervision in the same country as the country of registration of the said card scheme, and banks subject to supervision by supervisory bodies from other SEPA countries, and conducting their business in the other SEPA countries.

b) Licensing:

All SEPA banks must be able to offer basic card payment product and services throughout SEPA on the basis of a single license from each card scheme without the requirement to obtain individual licenses for each SEPA country. For the purpose of licensing, “on us” transactions within “banking

⁹ Note: on the basis of the commitments expected as a consequence of Chapters 2 and 3, it is not intended by the EPC, nor pursued with this Framework, to create a new “EU card scheme”.

groups”, including “cross border on us” transactions, must be treated in the same way by any scheme as “on us” national transactions. For the purpose of this Framework, “on us” includes communities of users made up of direct and indirect participants in card schemes, who under the responsibility of a designated participant use the same service(s).

At their discretion, banks must be able across SEPA to enter solely into an issuing license. At their discretion, banks must also be able across SEPA to enter solely into an acquiring license.

c) Contracting:

Any contract between a card scheme and a distributor, issuer, acquirer or equivalent must be governed by any system of law which is robust and certain and in general use and familiar throughout SEPA, such as the law of any of the EU Member State.

d) Scheme pricing principles:

Card schemes commit to provide their participants with SEPA-wide, transparent pricing structures (“scheme fees”), that will endeavour to allow for participation by the greater number of banks. In this context “transparent” shall mean that the nature of the service or activity thus remunerated is unambiguous for the scheme participant or user: prices may not be presented in a bundled¹⁰ manner when referring to services or activities of a different nature.

Whilst recognizing investments made in any scheme’s brand, scheme participation and licensing fees will be open to competition. Within SEPA there may be no differentiation between “national” services and “cross border” services.

e) Open business model:

Each card scheme must organize its business model so as to allow in a non-discriminatory manner SEPA banks to participate under sound business conditions and deliver the scheme reachability and adherence to this Framework’s principles.

f) Operational quality:

Each card scheme will make available to its participants – and upon request to overseers - a set of operational quality benchmarks, and how they are policed.

3.2.3. *Separation of card scheme governance, processing and other functions*

A SCF compliant card scheme is a scheme that allows unbundling of functions whilst applying the same pricing per card product to national euro and SEPA transactions of the same type. Separation of SEPA card schemes’ brand governance and management from the operations that have to be performed by service providers and infrastructures under these SEPA schemes is mandatory. A card scheme may offer additional services (e.g. processing services) but their usage cannot be mandated.

¹⁰ Not in a bundled manner: as processing and clearing must be separated from a scheme’s brand management and governance, scheme participants must also be charged separately for these different services and functions.

Scheme rules may not require as a condition of participation that any particular provider of processing services (e.g. network management, authorization switching, clearing, settlement) be used. Equally SCF compliant schemes may not mandate any certification to be performed only by a proprietary certification body. This, however, is not intended to pre-empt legitimate risk management requirements from card schemes.

3.2.4. *Merchant acceptance of a scheme's cards*

Card schemes must ensure that merchants (or ATM owners) are not prevented from accepting any card from another SCF compliant scheme.

3.3. Principles for interchange fees¹¹

Interchange fees have proven to be a necessary enabler for the operation and development of the card business, and for sound co-operation between banks in competition with each other. Whilst default multilateral interchange principles will generally apply, alternative interchange arrangements are not precluded provided they are consistent with European competition rules or positions.

Each scheme is the competent body responsible for its interchange fees and the justification for these fees for its different product platforms. These interchange fees compensate participating banks in the card payment scheme.

In the case where, and as long as, at local or national level, participating banks of a SEPA scheme establish multilateral interchange rules that differ from that scheme's SEPA-wide default multilateral interchange, any SEPA bank operating in that country will be eligible for that local or national multilateral interchange fee.

3.4. Commitment to fraud prevention

Card schemes acknowledge that preventing and fighting card fraud is within the scope of this Framework. As a consequence, any adhering card scheme agrees to support prevention activities, in accordance with the EPC Resolutions on fraud.

In particular all schemes will introduce a liability shift rule between magnetic stripe-based transactions and EMV-based transactions, and other incentivising measures to encourage the EMV migration.

Card schemes also commit to provide aggregated statistics on fraud to an anti-fraud database – covering both “national” and SEPA-wide transactions - to be developed under the auspices of the EPC, and to be operated by a neutral, trusted third party, authorized by SEPA privacy protection authorities.

3.5. Transaction authorization by issuer

All transactions are to be authorized by the issuer, either on-line, or off-line by the chip. Off-line-only terminals are an exception, only to be deployed in environments where it is from a SEPA

¹¹ A fee paid by a bank participating in a scheme to another participating bank, in relation to a card transaction.

rationale impossible, or not economical, to deploy online terminals. The issuer will decide whether or not cardholders are permitted to use their cards in an off-line environment or not.

3.6. Principles for interoperability

3.6.1. Cardholder experience

Card scheme rules must enable and facilitate for cardholders a consistent payment and cash withdrawal service experience throughout SEPA. Where several payment applications are contained in the same card and supported by the same terminal, cardholders will have the choice of which payment application they will use. Prevalence at POS or ATM for a particular payment application may not be mandated by a card scheme.

At a minimum, convenience for cardholders will be defined through consistent experience at point-of-sale, ATMs and unattended terminals. The basic transaction flow will be defined by each scheme. All ATMs will offer English as well as the national language(s) and any other languages regarded as appropriate by the ATM owner.

3.6.2. Merchant experience

Within a same scheme, one single terminal must be sufficient to access multiple SEPA acquirers or equivalent. Terminals should be capable of supporting multiple schemes. There may be no barrier to merchants changing acquirers or equivalent, nor for accepting cards from more than one scheme. Acquiring or equivalent in every scheme must be open to competition between acquirers or equivalent. However merchants must use the same acquirer or equivalent for transaction authorization, and clearing and settlement throughout a given card transaction..

3.6.3. Standardization activities

The European banking industry will continue to contribute to international standardization such as the standardization work undertaken in EMVCo by standardization activities of its own. EPC will evaluate whether any such relationship(s) require(s) further formalization.

Standardization activity will have to be undertaken to identify from a high level perspective the standards' domains. This standardization activity will be assessed, initiated or intensified, after approval of this Framework, in entity(ies) with the appropriate SEPA-specific governance.

The business cases for standardization will address the issues of wide acceptance and/or cost reductions and will have to take into consideration in the implementation planning the high number of affected terminals as well as investment cycles.

3.6.3.1 Necessary interoperability domains

In order for the objectives of this Framework to be achieved, SEPA-level interoperability must be ensured in the following 4 domains:

- cardholder to terminal interface,
- cards to terminal (EMV),
- terminal to acquirer interface (protocols or minimum requirements),

- acquirer to issuer interface, including network protocols (authorization and clearing).

Such interoperability will allow the different market options described in this Framework to exist. This Framework does not have as its purpose the mandating of any single option nor infrastructure.

3.6.3.2 *Certification principles*

A common process for the certification of terminals, cards, and network interfaces will be defined in line with the principle described in Chapter 2.3.2. Card schemes commit to support and implement the resulting process. Under this process, any card, terminal, and/or network interface, certified by an accredited body can be deployed and used anywhere throughout SEPA. The entity providing certification services is outside any scheme, and works across schemes.

3.6.3.3 *Terminal certification*

Card schemes commit to make available to SEPA banks and card schemes, upon request, their terminal security requirements. Card schemes will engage in mutual recognition for type approval. Any terminal certified for SEPA transactions by a certification body in one SEPA country can be deployed in any SEPA country for acceptance of SEPA cards across all SCF compliant schemes. There may be no constraining, local requirement.

Schemes may continue to perform post-certification approval. However schemes cannot withhold approval to prevent market access.

3.6.3.4 *Scheme rules*

Card schemes commit to investigate, and whenever possible deliver, areas of convergence as regards their respective rules – where there are non-competitive elements. This will achieve a common core of card scheme rules at SEPA level, further contributing to a consistent customer experience.

EPC will monitor this convergence process.

3.7. Market statistics

Under this Framework, card schemes commit to provide to the European Central Bank, within conditions defined by the latter, such statistical information that allows the latter to publish at regular intervals a comprehensive and accurate picture of the European card market – in a manner compatible with both market transparency requirements and competitive situations.

4. Attachments

4.1. EPC Resolutions addressing cards - The banking industry vision

4.1.1. EPC Resolutions addressing cards

- Resolution 0262/03 (approved on 4. June 2003), endorsing the Cards Working Group Findings and recommendations (Doc 0089/03 Version 1.0),
- Resolution 0381/03 (approved on 10. December 2003), on “preventing and fighting card fraud across Europe”.

4.1.2. The banking industry vision

This is an excerpt of the June 2003 Findings and Recommendations of the Cards Working Group, as approved by the EPC Plenary:

“Meeting customer (consumers and merchants) expectations and requirements for secure, convenient, transparent and value-priced card-based payment solutions that foster widespread acceptance and can be used in the same way across the Single Euro Payment Area (see definition further in this document), will support an increasingly efficient economy based more and more on electronic forms of payment.

EPC Members fully acknowledge that cards are a very important business for banks. They are committed to lead the realization of this vision through the deployment of profitable customer value propositions, whilst taking advantage as much as possible of present international schemes that provide global acceptance.

This single European card market is made possible and strengthened, by concerted actions on non-competitive issues, at card industry level, including the global card schemes, as well as domestic card schemes, and through the ECB/Eurosystem, EC and governments, and also card acceptors¹², regarding especially:

- Preventing and combating fraud,
- An open, competitive market for cards that promotes widespread usage,
- Coherent legislation and regulation responding to proposals from European institutions for legislation and regulation, with a preference for self regulation,
- Deeper standardization (i.e. authorization¹³ interfaces, clearing¹⁴ interfaces, smart card and accepting devices specifications), stronger cooperation, especially on chip migration (provided this is not at the expense of competition).

EPC Members should support this vision by working within the existing governance structures of card schemes.”

¹² Card acceptor: the party accepting the card and presenting transaction data to an acquirer.

¹³ Authorisation: the process by which a transaction request is approved or declined. In general, the decision to approve or decline a transaction is taken by the issuer, or by a third party on behalf of the issuer.

¹⁴ Clearing: the process of exchanging financial transaction details between an acquirer and an issuer to facilitate both the posting of transactions to cardholders’ accounts and the reconciliation of an institution’s settlement position

4.2. Excerpts from EPC Charter and EPC 2004 – 2010 Roadmap

4.2.1. EPC Charter

Excerpts of EPC Charter

Article 2: EPC Purpose and Objectives

The purpose of the EPC is to support and promote the Single Euro Payments Area (SEPA) in accordance with the vision formulated in the Preamble to this Charter. To that effect, the EPC shall, amongst others, develop the activities mentioned below.

For credit institutions within the Single Euro Payments Area (SEPA) the EPC shall:

- define common positions for core payment services,
- provide strategic guidance for standardization,
- formulate best practices,
- support and monitor the implementation of decisions taken,

So that they can:

- maintain self-regulation,
- meet regulators and stakeholders' expectations as efficiently as possible.

The scope of the EPC's focus is core payment services (retail and commercial payments) in Euro in Europe, and their settlement (see Interpretation in Annex).

The objectives and critical success factors are defined as being:

- widespread acceptance of reusable standards and best practices, which are simple, easy to understand and implement,
- reconciling the implementation of new solutions with the implications of existing legacy systems of banks, market infrastructures and customers,
- the sustained lowering of the cost base for the payments business,

All objectives should be achieved through self-regulation by decisions taken by the EPC Plenary.

Article 3: The role of the EPC

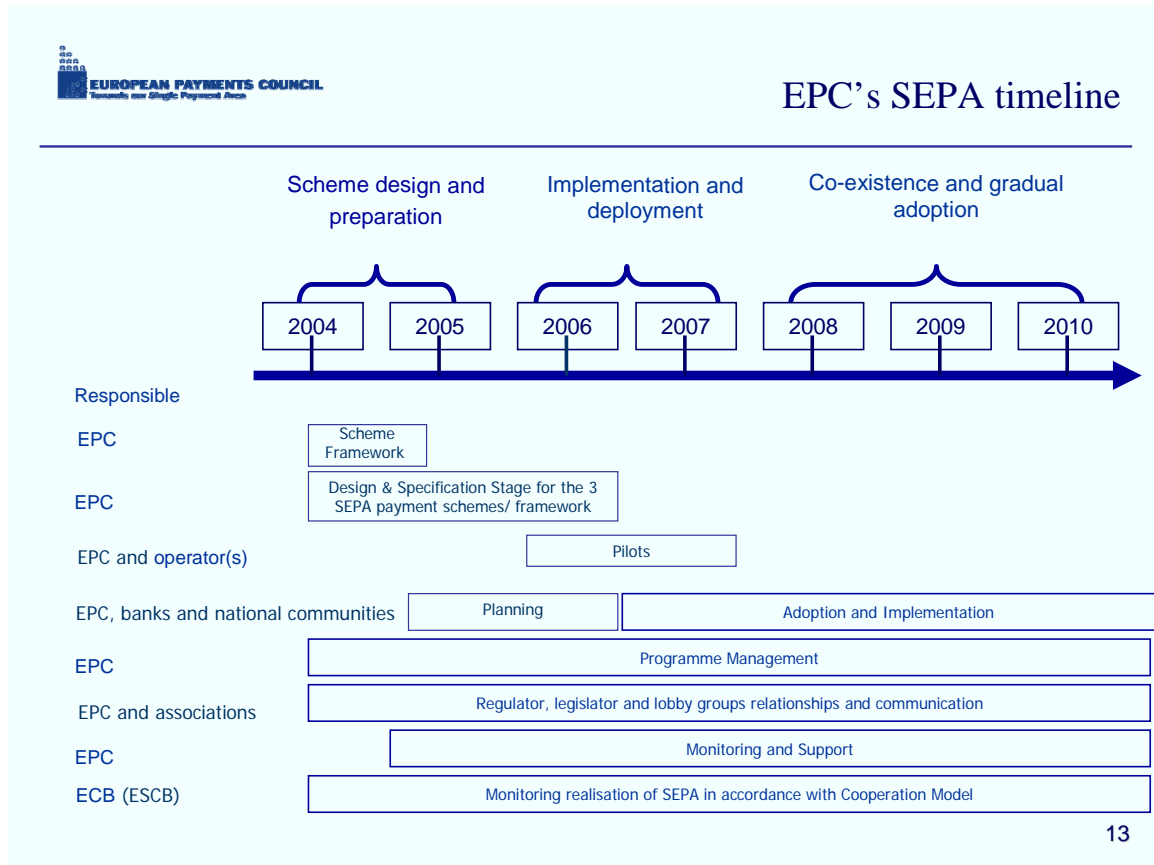
Within the above scope the EPC is established to serve as the decision-making organization for the European payments industry. It will also supervise the implementation of such decisions.

However the EPC is neither a market infrastructure, nor a payments association.

The EPC is an international not-for-profit association ("A.I.S.B.L.") governed by the provisions of Title III of the law of 27 June 1921 of the Kingdom of Belgium on not-for-profit associations, international not-for-profit associations and foundations.

4.2.2. EPC 2004 – 2010 Roadmap (approved in December 2004)

Slide 13 of the 2004 – 2010 EPC Roadmap



Slide 21 of the 2004 – 2010 EPC Roadmap:

“Banks as EPC Members and/or as members of European and national banking communities are asked to:

- Support the SEPA vision & scope (Charter articles 1, 2 and 3).
- Contribute to the EPC deliverables at EPC and at national level.
- Plan & prepare for change in 2005, including timely decision-making as to mobilisation & execution.
- Implement & monitor progress at bank and at national community level.
- Give timely guidance to their associations, payment scheme organisations and infrastructures.
- Engage constructively with customers, consumer & lobby groups, governments and other stakeholders, with appropriate communication programmes.
- Support the start-up of the national SEPA implementation organisation in 2005.”

4.2.3. *Crowne Plaza Declaration by the European Payments Council (Brussels, 17 March 2005)*

We, the EPC, are committed to building the Single Euro Payments Area (SEPA) and have already delivered SEPA Payment solutions which are in growing use by European citizens and corporates. We have approved and are delivering a Roadmap for the full realisation of SEPA.

We will deliver the two new Pan-Euro Payment Schemes for electronic credit transfers and for direct debits. We will also design a cards Framework to define a single market for cards. The scheme rulebooks and the cards Framework definition will be delivered by end 2005, and the services will be operational by January 2008.

We know from feedback from our community in the Eurozone that by the beginning of 2008 the vast majority of banks will offer these new Pan-Euro services to their customers.

We are also convinced that a critical mass of transactions will naturally migrate to these payment instruments by 2010 such that SEPA will be irreversible through the operation of market forces and network effects.

SEPA will be delivered by the banking industry in close conjunction with all stakeholder communities (consumers, SMEs, merchants, corporates and government bodies) and supportive public authorities. The community of European banks is strongly committed to this ambitious programme of action, based on self-regulation and a full recognition of the role of market forces and competition.

We have created the necessary conditions for success through commitment and consensus on the part of the EPC and all its banking communities.

4.3. Definitions

Acceptance: the process of accepting a particular brand of card by a merchant or an unmanned terminal.

Account number: card account numbers are attributed and maintained either by credit institutions, or by card schemes.

Acquirer: the institution (or agent) that maintains merchant relationships – or operates ATMs or acquires ATM transactions, acquires data (itself or through its agent) relevant to a card transaction from a merchant or card acceptor, submits that data into a payment system, and takes the financial liability for all risks related to that card transaction.

Automated Teller Machine (ATM): an unattended electronic device that allows a cardholder to make cash withdrawals.

Authorization: the process by which a transaction request is approved or declined. In general, the decision to approve or decline a transaction is taken by the issuer, or by a third party on behalf of the issuer.

Bank: a credit institution for the purposes of the 2nd Banking Directive, which may participate in card schemes in a number of ways, such as distributor, issuer, acquirer, or equivalent.

Banking group: for the purpose of this Framework a “banking group” is either a group of credit institutions, where there is a shareholding relationship between the credit institutions in the group, or a group of credit institutions that elect, as a community, to make use of one or several services provided by a card scheme.

Brand: the identity of a particular payment product that has been licensed for use in a given territory.

Cardholder: the person to whom a payment card is issued and who is authorized to use the card. The cardholder is directly or indirectly associated with the account number. His/her name is printed or embossed on the card.

Card scheme: generic term for the entity that offers card-based payment products and services. Institutions participate in payment schemes by entering into (one or more) licence agreements. A scheme may translate into or be a “4-party” or “3-party” model.

Chip: an integrated circuit (or “chip”) embedded within a card and which is able to process transactions. Chip cards contain memory and optional logic capabilities and, apart from offering payment functions, are able to provide additional card functions (such as electronic purse facilities) and improved security (by means of secure card authentication).

Clearing: the process of exchanging financial transaction details between an acquirer and an issuer to facilitate both the posting of transactions to cardholders’ accounts and the reconciliation of an institution’s settlement position.

EMV: acronym for the standard administered by the consortium (EMVCo) of currently 3 companies (JCB, MasterCard, Visa) jointly sponsoring the global standards for electronic financial transactions. Refers to the technical specifications produced by the consortium and adopted by all 3 companies, designed to ensure the global interoperability of the chip cards, chip terminals, financial messages and related services.

Face-to-face transactions: any transaction where the card, the cardholder and the merchant are present in a same place at the time of the transaction.

Interoperability: for the purpose of the present Framework interoperability shall mean any technical capability that will allow a card to be accepted on any terminal, and/or a processor to authorize and/or process any transaction regardless of the card or terminal that generated it, and/or any card-based transaction to be cleared and settled independently from the scheme under the rules of which it has been accepted.

Issuer: an institution that issues payment cards to cardholders and manages the cardholder's card account, authorizing transactions (itself, or through its agent) and guaranteeing payment to the acquirer for valid transactions (i.e. transactions that conform to the rules of the relevant scheme).

Magnetic stripe: the magnetically encoded stripe on a card that contains information related to the cardholder's account. The information contained on the stripe may be read by a terminal and sent to the issuer in an authorization request.

Merchant: a retailer or any other person, firm or corporation that enters into an agreement with an acquirer to accept payment cards, when properly presented, as payment for goods and services.

Off-line transactions: refers to a transaction processed and approved at a point of interaction terminal without contacting the issuer (or its agent).

On-line transaction: a transaction that is approved or declined at a terminal following a real-time dialogue between the acquirer and issuer (or its agent). This requires that the terminal is connected on-line to the acquirer, to send the request and to receive the response.

"On us": is defined as to be where a bank or banking group services the acquiring and issuing parties at the same time through its specific in-house or outsourced processing centre, or processing partners.

Payment card: a card that can be used by a cardholder to initiate a cash withdrawal at an ATM or a payment transaction at a POS.

PIN (Personal Identification Number): a secret code, known only by the cardholder, which is used as cardholder verification method.

Point of Sale (POS): the location at which a purchase transaction is originated by the cardholder (typically the premises of a merchant). However, given the alternative means by which cardholders may now originate transactions (for example by mail/telephone order, or by using a home-based terminal and e-commerce facilities where the cardholder or merchant are not present) the term point of interaction (POI) is also used. This also includes card activated terminals, also called unattended terminals.

Remote transactions: any transaction where either the card, the cardholder, or the merchant are not present in a same place at the time of the instruction of the payment for the transaction by the cardholder. For example: mail order, telephone order, electronic commerce.

Risk management: the process of executing tests and checks, either by the chip, the terminal or by the issuer, in order to control the financial risk associated with a transaction.