



Brussels, 28.3.2018
SWD(2018) 84 final

COMMISSION STAFF WORKING DOCUMENT

IMPACT ASSESSMENT

Accompanying the document

**Proposal for a Regulation of the European Parliament and of the Council
amending Regulation (EC) No 924/2009 as regards certain charges on cross-border
payments in the Union and currency conversion charges**

{COM(2018) 163 final} - {SWD(2018) 85 final}

Contents

1.	INTRODUCTION.....	6
1.1.	Policy context and scope of the initiative	8
1.1.1.	Background.....	8
1.1.2.	Market context.....	9
2.	PROBLEM DEFINITION.....	13
2.1.	Problem description	13
2.1.1.	Expensive fees for cross-border payments - a market analysis	13
2.1.2.	Two categories of payment services users in the EU	17
2.1.3.	Restrictions to the Single Market: use cases that would benefit from reduced prices for cross-border transaction and volumes	18
2.1.4.	Views of payment services users	19
2.1.5.	Summary	20
2.2.	What are the problem drivers?	21
2.3.	How will the problem evolve?.....	23
2.4.	A two-speed market based on a two-speed infrastructure	23
2.5.	Why have Member States used or not-used the opt-ins of Regulation 924/2009?.....	24
2.6.	What is not covered under this Impact Assessment?	25
2.7.	Limits to the Impact Assessment	26
3.	WHY SHOULD THE EU ACT?.....	27
3.1.	Legal basis	27
3.2.	Subsidiarity: Necessity of EU action	27
3.3.	Subsidiarity: Added value of EU action	28
4.	OBJECTIVES: WHAT IS TO BE ACHIEVED?.....	29
4.1.	General objective.....	29
4.2.	Specific objectives.....	29
5.	WHAT ARE THE AVAILABLE POLICY OPTIONS?	31
5.1.	The Baseline scenario – Do nothing.....	31
5.2.	Option 1: Extending Regulation 924 to local currencies cross-border transactions.....	32
5.3.	Option 2 – Extending Regulation 924 to local currencies and euro cross-border transactions	32
5.4.	Option 3 – Extending Regulation 924 only to euro cross-border transactions.....	32
5.5.	Option 4 – Extending Regulation 924 to all cross-border transactions in currencies of Member States of the EU.....	33
5.6.	Option discarded at an early stage	33
6.	WHAT ARE THE IMPACTS OF THE POLICY OPTIONS?.....	35
6.1.	Overview of potential benefits and costs	36
6.1.1.	Potential benefits	36
6.1.2.	Potential indirect benefits	40
6.1.3.	Overview of costs	40
6.2.	Baseline scenario.....	42
6.3.	Option 1: Extending Regulation 924 to local currencies	43
6.3.1.	Benefits	43
6.3.2.	Costs	44

6.3.3.	Overall assessment.....	44
6.4.	Option 2 – Extending Regulation 924 to local currencies and euro cross-border payments.....	45
6.4.1.	Benefits	45
6.4.2.	Costs	46
6.4.3.	Overall assessment.....	46
6.5.	Option 3 – Extending Regulation 924 only to euro cross-border payments	47
6.5.1.	Benefits	47
6.5.2.	Costs	48
6.5.3.	Overall assessment.....	48
6.6.	Option 4 – Extending Regulation 924 to all currencies of Member States of the EU	49
6.6.1.	Benefits	49
6.6.2.	Costs	50
6.6.3.	Overall assessment.....	50
7.	HOW DO THE OPTIONS COMPARE?.....	52
8.	PREFERRED OPTION	53
8.1.	Impact on SMEs.....	53
8.2.	Impact on Currency Conversion	54
8.2.1.	The two currency conversion models.....	54
8.2.2.	Risk of costs passed on towards non-transparent factors.....	55
8.2.3.	Solution: Further transparency requirements to achieve comparability through Regulatory Technical Standards	56
8.3.	Impact on competitiveness.....	57
8.4.	Subsidiarity and Proportionality.....	57
8.5.	UK leaving the EU	57
8.6.	REFIT: Simplification and improved efficiency	58
9.	HOW WILL ACTUAL IMPACTS BE MONITORED AND EVALUATED?	59
1.	ANNEX 1: PROCEDURAL INFORMATION.....	60
1.1.	Lead DG, Decide Planning/CWP references	60
1.2.	Organisation and timing.....	60
1.3.	Exceptions to the better regulation guidelines	61
1.4.	Consultation of the Regulatory Scrutiny Board	61
1.5.	Evidence, sources and quality	61
2.	ANNEX 2: STAKEHOLDER CONSULTATION	62
3.	ANNEX 3: WHO IS AFFECTED AND HOW?	69
3.1.	Practical implications of the initiative	69
3.2.	Summary of costs and benefits	69
4.	ANNEX 4: A MARKET ANALYSIS.....	70
4.1.	Electronic transactions within the EU	70
4.2.	Cross-border electronic transactions from EU Member States.....	70
4.3.	The currency of cross-border transactions.....	73
4.4.	A two-speed market based on a two-speed infrastructure	75
4.5.	The Swedish case	79
4.6.	Further information on estimates used for calculations on potential savings	80

5.	ANNEX 5: DETAILED LEGISLATIVE FRAMEWORK.....	83
6.	ANNEX 6: EVALUATION OF REGULATION 924/2009	86

Glossary

<i>Term or acronym</i>	<i>Meaning or definition</i>
Card payment	A payment based on a payment card scheme's infrastructure and business rules to make a payment transaction by means of any card, telecommunication, digital or IT device or software if this results in a debit or a credit card transaction.
Cash withdrawal	A transaction allowing a cardholder to retrieve cash from its bank account through the use of a card.
Credit transfer	A payment service for crediting a payee's payment account with a payment transaction or a series of payment transactions from a payer's payment account by the payment service provider which holds the payer's payment account, based on an instruction given by the payer.
Direct debit	A payment service for debiting a payer's payment account, where a payment transaction is initiated by the payee on the basis of the consent given by the payer to the payee, to the payee's payment service provider or to the payer's own payment service provider.
Money remittance	A payment service where funds are received from a payer, without any payment accounts being created in the name of the payer or the payee, for the sole purpose of transferring a corresponding amount to a payee or to another payment service provider acting on behalf of the payee, and/or where such funds are received on behalf of and made available to the payee.
ACH	Automatic Clearing Houses
ATM	Automated Teller Machine
BGN	Bulgarian lev
BIC	Bank Identifier Code
CZK	Czech koruna
DKK	Danish krone
ECB	European Central Bank
EPC	European Payment Council
EU	European Union
EUR	Euro
GBP	British pound sterling
HRK	Croatian kuna
HUF	Hungarian forint
IBAN	International Bank Account Number
IFR	Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions
PLN	Polish złoty
PSD / PSD2	Directives 2007/64/EC and EU 2015/2366 on payment services in the internal market
PSP	Payment Services Provider
PSU	Payment Services Users (consumers, businesses, sending or receiving payments)
Regulation 924	Regulation 924/2009 on cross-border payments in the Community

RON	Romanian leu
SEK	Swedish krona
SEPA	Single Euro Payment Area
STP	Straight Through Processing
TIPS	Target Instant Payment Settlement
USD	United States dollar

1. INTRODUCTION

Efficient and low-cost payments are a key enabler of the Single Market: they build trust between parties and facilitate exchanges across borders within the Single Market. Cross-border transactions within the European Union (EU) are usually cheap in euro within the euro area but can remain dissuasively expensive when they are sent or received in euro outside the euro area or when they involve other currencies of Member States of the EU.

Since the introduction of the euro, the European Union has launched various initiatives to achieve a significant reduction in the costs of cross-border transactions, such as through the introduction of a set of standards for euro transactions (SEPA Credit Transfers and SEPA Direct Debits). Additionally, the Payment Services Directives increased the transparency of fees and allowed new players to enter the market. This contributed to enhanced competition in payments, including across borders, and increased the transparency of fees. This also resulted in improvements in the payments infrastructure, which became capable of handling increased payment volumes in euro at lower costs.

Regulation 2560/2001, later replaced by Regulation 924/2009 on cross-border payments (hereafter "Regulation 924"), also contributed to this development by equalising fees for cross-border and national payments in euro within the EU. As indicated in the first recital of Regulation 924, *"for the proper functioning of the internal market and in order to facilitate cross-border trade within the Community, it is essential that the charges for cross-border payments in euro are the same as for corresponding payments within a Member State."* The Regulation covers all electronic payments: credit transfers, direct debits, card payments and cash withdrawals.

All these initiatives contributed to the further integration of the Single Market and the emergence of a more integrated payments market within the euro area. They have brought the **fees for euro payments within the euro area** to very low levels, **in the vast majority of cases.**

However, cross-border euro payments originating from non-euro area countries as well as cross-border non-euro payments, whatever the country of origin or destination, have not followed the same trend when it comes to the level of fees paid by payment services users. Payments involving currencies of EU Member States other than the euro are currently not covered by Regulation 924 although it does explicitly foresee the possibility for non-euro area Member States to extend the scope of the regulation to their currencies:

- Under articles 3.1 and 14, the Regulation can be extended to local currencies other than the euro so that a cross-border transfer in a non-euro currency is priced as an equivalent domestic transfer in this non-euro currency (e.g. a 100 SEK Swedish krona transfer from Sweden to France is priced as a 100 SEK Swedish krona transfer within the country).
- Under article 3.3, and in addition to the previous option, the Regulation allows Member States to require that a cross-border transfer in euro is priced as a domestic transfer in a non-euro currency (e.g. a 100 Euro transfer from Czech Republic to France is priced as an equivalent 2500 CZK Czech koruna transfer within the country – [currency exchange rate 1€ = 25 CZK] – currency conversion costs are excluded). No Member State opted-in under this article.

Sweden is the only Member State that applied the first option, and did so already in 2002 (under the predecessor Regulation 2560/2001), extending the scope of application of

Regulation 924 to its national currency. It reduced the prices of cross-border transactions in SEK, aligning them with prices for domestic transactions. An indirect effect in Sweden was that euro cross-border transaction fees were also aligned with domestic payments¹.

The European Commission Action Plan on Consumer Financial Services², published on 23 March 2017, stressed *"that opaque and potentially excessive fees are a deterrent to cross-border transactions within the EU, particularly when they involve non-euro currencies"* and announced that it would *"propose an amendment to the Regulation on cross-border payments to reduce charges for cross-border transactions in all Member States"*. This action was supported by the feedback received during the Open Public Consultation on the Green Paper on retail financial services that was carried out between 10 December 2015 and 18 March 2016 (14 weeks). The consultation sought views on how to improve choice, transparency and competition in retail financial services for the benefit of European consumers and on how to facilitate cross-border provision of these services. The issue of cross-border payments was covered by two questions (#12 on cross-border payments and #13 on currency conversion). Question 12 was of particular relevance in the context of this Impact Assessment: *"What more can be done at EU level to tackle the problem of excessive fees charged for cross-border payments (e.g. credit transfers) involving different currencies in the EU?"*

The summary of responses states that *"on the specific subject of cross-border payments, most consumers agreed in their answers to questions on cross-border transaction fees (Question 12) [...] that transparency should be increased. They are also supportive of extending Regulation (EC) 924/2009 (equalising the prices of domestic and cross-border transactions in euro) to all currencies. But industry and some national authorities expressed confidence that the revised Payment Services Directive (2015/2366/EU) would bring the necessary transparency and suggested that no other measures should be considered at this stage"*³. In total, 265 answers were received for Question 12, 108 from private individuals, 16 from public authorities and 141 from organizations or companies.

Closely linked to the initiative to address the excessive fees of such cross-border transactions between euro area Member States and non-euro area Member States was the second action of the Action Plan on Consumer Financial Services, which aimed to address the lack of transparency in currency conversion practices. The Action Plan considered that: *"Currency conversion rates are generally not transparent for consumers when paying with a card or a mobile device in a shop, or withdrawing money from a cash machine [and these] rates fluctuate in line with foreign exchange rates, and the internal bank margin applied to currency conversion rates differs from bank to bank."*

Between 24 July and 30 October (14 weeks), a second, more specific Open Public Consultation entered into details regarding prices of cross-border transactions for payment services users, costs for payment services providers and available options. The Open Public Consultation also contained several questions on the transparency of currency conversion, and consumers' awareness in choosing a specific option of currency conversion. The results confirmed those of the first consultation and provided further useful evidence on prices paid by payment services users. This second consultation attracted 141 answers. The synopsis of answers is provided in Annex 2.

¹ Since Sweden has opted-in for its local currency, and euro payment fees were also aligned, their data will be included in the euro Member State group in the calculations (market context and option analysis).

² COM(2017)139 final

³ http://ec.europa.eu/finance/consultations/2015/retail-financial-services/docs/summary-of-responses_en.pdf

Later in 2017, in its report on the Action Plan on Consumer Financial Services⁴ adopted on 14 November, the **European Parliament supported the extension of Regulation 924/2009** recalling that fees for cross-border payments outside the euro area still remained high and called on the Commission to "*rapidly propose an amendment to Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001 in order to reduce charges for cross-border transactions in all Member States*".

1.1. Policy context and scope of the initiative

1.1.1. Background

What are cross-border transactions?

Cross-border transactions are understood within this document as **electronic payment transactions that involve two Member States of the EU**. These Member States may have the same currency (the euro) or different ones. The transaction can both be initiated in a euro area or non-euro area Member State and will be concluded in a different euro area or non-euro area Member State. **The cross-border dimension is defined by the fact that the payer's account and the payee's account are located in two different Member States**. The transaction might involve a currency conversion at one point in time and would thus be cross-currency in addition to being cross-border.

Which means of payments are covered?

Regulation 924/2009 covers cross-border electronic payment transactions. An electronic transaction under this document means any payment which is processed electronically by the payment service provider. This includes the following means of payments:

- Credit transfers which are transactions from a payer's payment account to a payee's payment account, based on an instruction given by the payer to its payment service provider (e.g. a German citizen sending a credit transfer to Malta);⁵
- Direct debits which are transactions initiated by the payee on the basis of the payer's consent (e.g. a Belgian company debiting customers in France);⁶
- Card payments which are transactions by means of any card, telecommunication, digital or IT device or software resulting in a debit or a credit card transaction based on a payment card scheme's infrastructure and business rules (e.g. a Hungarian citizen using his payment card in France);⁷ and
- Cash withdrawals – a withdrawal of banknotes by a payment service user from its payment account (e.g. an Estonian citizen withdrawing CZK notes in the Czech Republic).⁸

The legislative framework

Cross-border payments are covered by various EU laws that have all followed the same objective: creating the conditions for cheap, efficient and secure payments within the EU, as the backbone of the EU's internal market. A detailed description of relevant European legislation is provided in Annex 5. The main pieces of legislation are the following:

⁴ 2017/2066(INI)

⁵ See art. 4, no. 24 PSD 2.

⁶ See art. 2, no. 14 Regulation 924/2009.

⁷ See art. 2, no. 7 Interchange Fee Regulation.

⁸ For example making of a payment service as meant under Art. 4, point 3, Annex I sub 1 PSD 2.

- Regulations 2560/2001 and 924/2009 on cross-border payments imposed the equalisation of cross-border and domestic fees for euro payments.
- The Single Euro Payments Area (SEPA) Regulation created a common and unique way to pay in euro across the EU.
- The Payment Services Directives (PSD1 & PSD2) enhanced competition and security in payments.
- The Interchange Fee Regulation regulated excessive hidden interchange fees and put an end to competition in cards that drove up costs for consumers.

1.1.2. Market context

Electronic transactions within the EU

Cross-border transactions are offered by payment services providers defined under article 1 of the Payment Services Directive⁹, essentially banks and other payment institutions such as e-money institutions. Banks provide current accounts to their customers (consumers, enterprises) that are linked to additional services such as the issuing of a debit or credit cards and the capacity to make and receive payments, domestically or cross-border. Payment institutions also provide these services.

Based on the statistics provided by the European Central Bank¹⁰, the total number of non-cash payments that take place within the EU is about **120 billion payments a year**. Around $\frac{2}{3}$ of these payments are in the euro area, and $\frac{1}{3}$ outside the euro area. Card payments (including cash withdrawals) represent around half of the total number of payment transactions, followed by credit transfers for $\frac{1}{4}$ and direct debits for about $\frac{1}{5}$ of this total. Cheques still account for a small share of the total number of payments with 2.5%, but they are not considered as electronic payments.

The total value of payments was of **267.8 trillion EUR in 2016**, with **credit transfers accounting for more than 98% of this total**.

Cross-border electronic transactions from EU Member States

Cross-border electronic transactions account for a relatively small percentage of the number of electronic payments with about 7 billion transactions (around 6% of the total number of transactions) but represent quite large volumes with 35 trillion EUR (around 13% of the total values transacted). Details are provided in Annex 4.

Cross-border transactions account for around 2% of the number of credit transfers, 9% of the number of card payments and 3% of the cash withdrawals. However, looking at values results in a quite different picture: up to 28% of the value of credit transfers in Italy is cross-border as well as 35% of the value of card payments with Bulgarian cards or 15% of the value of cash withdrawals made with Swedish cards. In the case of credit transfers, corporate payments may explain the relatively high values transferred per transaction. The high minimum costs of transactions also deter small cross-border credit transfers so that payment services users will only tend to transfer larger values.

Overall, cross-border payments, though relatively marginal in terms of number of transactions are, in reality, hugely important within the EU economy, with relatively larger values transacted across borders, probably largely due to corporate payments. Among euro

⁹ Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market

¹⁰ <http://sdw.ecb.europa.eu/reports.do?node=1000004051>

area Member States, cross-border transactions account for about $\frac{1}{4}$ of the total values transacted.

Such a discrepancy between the number of transactions and the values transacted does not exist for card payments and cash withdrawals which are in their vast majority retail payments¹¹. Cross-border card payments account for about 9% of the number of card payments (slightly higher in non-euro area Member States) and 10% and 14% of the transaction values for euro area and non-euro area Member States respectively. Cross-border cash withdrawals make up for about 2% to 3% of both the number of transactions and the values transacted. One exception is Sweden where the use of cash (and hence cash withdrawals) has strongly decreased nationally; as a result, cross-border volumes are very significant (8.66% of transactions) compared to domestic volumes.

Electronic payments are following a sustained growth trend in all EU Member States. While the average growth in the number of domestic transactions was 16% between 2014 and 2016, cross-border payments grew by 56% over the same period. The total value of domestic transactions rose by 13% between 2014 and 2016, compared to an increase of 23% for cross-border payments.

In which currency do these cross-border transactions take place?

It is important to understand in which currencies these cross-border transactions are carried out, and in particular how important transactions in EUR are compared to other currencies of Member States of the EU or other foreign currencies (USD, CHF and others) in order to grasp the potential impact of the initiative. Thus, this proposal deals with transactions that are currently not covered by the Regulation or remain expensive in spite of being covered, as in the case of euro transactions to and from non-euro Member States (Regulation 924 requires them to be priced like domestic EUR transactions, but these remain expensive in non-euro zone countries). Only limited detailed official statistics exist on intra-EU transactions, while such data for extra-EU transactions is more easily available. However, various sources can be used to provide estimates. All details related to these estimates are included in Annex 4. Figures are extracted from ECB public databases.

As Regulation 924/2009 is limited to intra-EU transactions in currencies of Member States of the EU, our estimates of cross-border payments in the EU by area and type of transaction – in volumes (last line in table 1 below) limit the scope of this analysis to four types of transactions: cross-border non-euro transactions from euro area Member States and cross-border transactions from non-euro Member States in euro, local currency and other currencies of EU Member States. Overall, 44.09% of the cross-border payments in the EU are already covered by Regulation 924; these are the euro payments from euro area Member States. The remainder, 55.91%, also includes extra-EU transactions (about 10%), mostly in USD and CHF with the rest of the world. Within this second category, the scope that could be covered by Regulation 924 is composed of the remaining four types of transactions:

- non-euro intra-EU cross-border transactions from euro Member States which account for 23.49% of the potential scope;
- euro intra-EU cross-border transactions from non-euro Member States which account for 61.41% of the potential scope;

¹¹ Commercial cards would be an exception – their weight is marginal.

- local currency intra-EU cross-border transactions from non-euro Member States which account for 0.40% of the potential scope of transactions; and
- other EU currencies intra-EU cross-border transactions from non-euro Member States which account for 14.70% of the potential scope of transactions.

Table 1: Cross-border payments in the EU by area and type of transaction – in volumes (full table in Annex 4 – source: ECB payment statistics)

Cross-border payments in the EU by area and type of transaction							
Sent from	19 euro area Member States + Sweden 360 million citizens and 16,3 million enterprises			8 non-euro area Member States 150 million citizens and 6 million enterprises			
Type of transaction	Euro intra-EU	Other EU currency intra EU	Other currencies (USD, CHF...)	Euro intra-EU	Local currency intra-EU	Other EU currency intra EU	Other currencies (USD, CHF...)
Credit transfers (millions)	302	60	40	149	12	18	20
Card payments (millions)	2333	583	324	1555	0	389	216
Cash withdrawals (millions)	187	47	26	101	0	25	14
Total transactions (millions)	2822	690	390	1805	12	432	250
Share of the total number of transactions	44.09%	10.79%	6.10%	28.20%	0.19%	6.75%	3.90%
Share of the scope that could be covered by Reg 924	Already covered	23.49%	Out of scope	61.41%	0.40%	14.70%	Out of scope

Which concrete everyday operations are covered by the scope of cross-border transactions? Who is the most affected?

Cross-border payments within the EU represent a substantial part of total EU payments and underpin the integration of the real EU economy. These transactions cover a limited number of use cases which are the following:

- Consumer cross-border credit transfers (in euro or in local currency, sending or receiving): EU consumers buying goods or services abroad or simply transferring money to other people (family, friends) may use credit transfers in euro (SEPA credit transfers) or other currencies of Member States of the EU to send or receive payments. A student receiving a EUR 1000 monthly allowance from his family located outside the euro area to study in a euro area country would generate about EUR 100 per year of transactions fees that could strongly be reduced (to 0 or close) if cross-border and domestic fees were aligned.

In addition, credit transfers have gained in popularity over the last three years with payment services providers launching smartphone applications to pay friends and relatives or even to pay merchants in some countries. These payment solutions are based on credit transfers, often using phone numbers linked to the IBAN numbers of the payment services users: Swish (SE), Jiffy (IT), Pumpkin (FR), PayM (UK), MobilePay (DK) are among the most prominent ones. These solutions typically facilitate domestic credit transfers, but efforts are underway, notably in the Mobile

Proxy Forum¹², to make them interoperable at EU level. Lower cross-border fees would further encourage their development.

- Business cross-border credit transfers (in euro or in local currency, sending or receiving): EU businesses of any size with cross-border links have to make cross-border transfers to suppliers or receive money from clients located abroad, in their domestic currency or in a currency agreed with their business partners. Payment services users particularly commented on this point in the open public consultation: *"Our bank charges a 25 euros fee for all bank transfer in euros that we make to other EU countries. This is strongly affecting us when we implement cross-border Erasmus+ projects"* or *"After years of living in Germany I returned to my hometown in Bulgaria and started my business there. My business partners are located in other EU countries. I was shocked to learn there are excessive transaction fees. Even in private matters: depending on the bank, sometimes you have to pay 10€ to transfer 10€."*
- Card payments and cash withdrawals: EU consumers or professionals travelling across the EU or making cross-border e-commerce purchases will also most probably pay with their debit or credit cards (in euro or in the local currency of the merchant¹³) or withdraw cash (in the currency of the country where the withdrawal is made) in order to pay for goods and services in the country where they are located.

¹² <https://www.europeanpaymentscouncil.eu/news-insights/news/mobile-proxy-forum-latest-news>

¹³ Merchants also pay a fee for receiving payments (i.e. the acquiring of their card transactions) called merchant service charge (MSC). However, due to the prominence of blending, i.e. charging the same MSC for different card or transaction types by the card acquirer, in our case for domestic and intra-EU cross-border card transactions, the Commission did not consider incoming card payments in its calculation of savings.

2. PROBLEM DEFINITION

Cross-border payments are crucial for the integration of the EU economy. They play an important role in bringing together citizens and enterprises of EU Member States. Restrictions and excessive costs affecting cross-border payments are an impediment to the completion of the Single Market.

Overall, cross-border payments that are not done in euro and between euro Member States are subject to high fees that act as barriers to the further integration of the Single Market. These barriers particularly impact non-euro area Member States, creating two categories of payment services users in the EU: the vast majority who enjoy the benefits of the Single Euro Payments area and a minority living in comparatively small currency areas with high costs for all their cross-border transactions.

The problem is not restricted to those living outside the euro area, as euro area citizens and enterprises will also face expensive fees for transacting cross-border in any other currency than the euro. Non-euro area citizens living in the euro area will also suffer from excessive costs when sending or receiving payments to or from their country of origin. The problem is also not limited to the size of the payment service provider processing the transaction. Not only small banks that only process cross-border payments very occasionally, but also large banks that are most likely to engage in cross-border payments charge high fees, as will be demonstrated throughout this impact assessment by figures extracted from the top three to seven banks in non-euro area countries.

2.1. Problem description

2.1.1. Expensive fees for cross-border payments - a market analysis

Cross-border credit transfers from euro area Member States towards other EU Member States

The fees for cross-border credit transfers in the EU will depend on the currency used for the transaction. In euro area countries, cross-border credit transfers in euro are most often free or close to free and aligned with domestic prices, as required by Regulation 924.

Table 2: Min/max fees for making or receiving a EUR 10 credit transfer, cross-border and domestic, in euro in three EU Member States (Source: Deloitte study 2017 for EC)

Member State	France		Italy		Germany		
EUR 10 credit transfer	Min	Max	Min	Max	Min	Max	
Cross-border credit transfer	Incoming	0	0	0	First 36 free, then 2.25€	0	0.41
	Outgoing	0	0	First 36 free, then 2€	First 6 free, then 4.50€	0	0.05
Domestic credit transfer	Incoming	0	0	0	First 36 free, then 2.25€	0	0.41
	Outgoing	0	0	First 36 free, then 2€	First 6 free, then 4.50€	0	0.05

As soon as another currency than the EUR is used for such transfers, fees become very costly as illustrated below, both for sending and receiving funds.

Table 3: Min/max fees for making or receiving a cross-border EUR 10 equivalent credit transfer in another currency of Member States of the EU (Source: Deloitte study 2017 for EC)

Member State		France		Germany	
Equivalent EUR 10 credit transfer in other EU currency		Min (€)	Max (€)	Min (€)	Max (€)
Cross-border credit transfer	Incoming	0	19.05	0	5.50
	Outgoing	9	24.50	5	12.50

Cross-border credit transfers from non-euro area Member States

With the exception of euro transactions within the euro area, cross-border transaction costs are still an important impediment to the Single Market. Credit transfer fees, in particular, are a significant cost factor for enterprises and citizens in Europe. Many Europeans – especially in Member States outside the euro area – face very high fees whenever their funds are transferred outside the country or when they receive funds from another EU Member State¹⁴. These fees are especially disproportionate for transfers of low values.

The fees paid by payment services users for initiating cross-border credit transfers of values between EUR 10 and EUR 1000 are illustrated in tables 4 and 5 below. They reflect the minimum and maximum fees of the least and most expensive banks for each country. There are only minor differences between transactions in EUR and transactions in non-euro currencies.

Tables 4 and 5: min/max fees for cross-border transfers in local currency and euro. (How to read the table: for a transfer with an amount of between EUR 10 and EUR 1000, a Bulgarian citizen is likely to pay between EUR 15 and EUR 24 of transaction fees) (Source: Deloitte study 2017 for the EC)

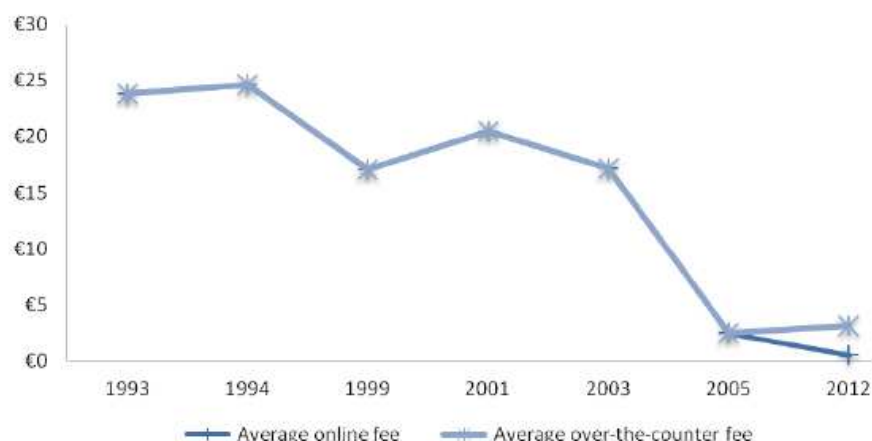
Member State	Cross-border transfer in local currency (transfers of EUR 10 to EUR 1000 equivalent)		Member State	Cross-border transfer in euro (transfers of EUR 10 to EUR 1000)	
<i>Fees in EUR</i>	Min	Max	<i>Fees in EUR</i>	Min	Max
Bulgaria	15.00	24.03	Bulgaria	15.00	24.03
Croatia	4.05	10.80	Croatia	4.05	10.80
Czech Republic	8.44	11.51	Czech Republic	7.48	9.59
Denmark	2.69	6.72	Denmark	2.69	6.72
Hungary	4.62	12.38	Hungary	4.62	12.38
Poland	4.74	9.48	Poland	1.19	1.90
Romania	9.86	19.73	Romania	9.86	14.90
Sweden	0	0	Sweden	0	0
UK	0	17.05	UK	4.55	11.37

As shown before, the same transfers in euro from and to any major bank of the euro area have, for several years already, been free or close to free (see figure 1 below).

Figure 1: The evolution of the cost of sending EUR 100 cross-border in the euro area, in EUR (Source – EC study accompanying PSD2¹⁵)

¹⁴ This is confirmed by the first results of the Open Public Consultation where 2/3 of the respondents indicated that cross-border transaction costs were either expensive (21%) or very expensive (44%).

¹⁵ See p.48, figure extracted from p.56; study published on the following website: http://ec.europa.eu/internal_market/payments/docs/framework/130724_study-impact-psd_en.pdf.



Receiving payments may also be costly for payment services users in some non-euro area Member States, albeit not to the same extent as sending payments. The fees for receiving payments are also covered by Regulation 924: the fees for receiving cross-border transactions in euro should be aligned with fees for receiving equivalent transactions domestically in euro. As presented under Table 6, receiving fees are much lower than sending fees and in all Member States but two. Taking also into account that receiving fees are only relevant for credit transfers¹⁶, in order to streamline this analysis, these costs will not be described at length and will be considered as amounting to about 10% of the fees for sending credit transfers.

Table 6: Fees in EUR for incoming cross-border credit transfers of EUR 10 or equivalent (denominated in euro, local currency or any other currency of EU Member States – Source: Deloitte study 2017 for EC).

Member State	Bulgaria		Czech Republic		Denmark		Poland		Sweden		UK	
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
EUR 10 or equivalent incoming credit transfer												
Incoming Euro	0	0	3.84	7.67	1.34	2.69	0	1.19	0	0	0	1.14
Incoming local currency	0	1.53	3.84	8.63	2.69	6.72	0	2.61	0	0	0	6.82
Incoming other EU currency	0	1.53	3.84	11.51	2.69	6.72	0	2.61	3.15	6.29	0	6.82

Regulation 924 also applies to euro payments in non-euro countries, but euro payments remain expensive within these countries and hence also across borders¹⁷, even though the payment services providers in non-euro area countries have full access to clearing and settlement infrastructures in euro and thus face the same low costs as payment service providers in euro area countries. Yet, there have been very few signs of significant fee reductions for this type of transactions outside the euro area. The Commission already analysed the effects of Regulation 924 on the market in 2012 covering also non-euro Member States¹⁸. While the two studies were not done by the same contractor and did not look at the exact same payment services providers, the figures can still be used to compare

¹⁶ As described in footnote 13, merchants also pay a fee for receiving card payments, but there is no evidence of substantial price differences between domestic and cross-border transactions, hence the Commission did not consider incoming card payments in its calculation of savings.

¹⁷ The exception to this is Sweden, where it is free.

¹⁸ http://ec.europa.eu/internal_market/payments/docs/framework/130724_study-impact-psd_en.pdf.

the average cost of a transaction in 2012 and 2017 and analyse how the market evolved without regulatory intervention. There have not been any significant reductions in fees, with the exception of maybe Hungary and Poland, although the current fees still significantly exceed the typical fees in the euro zone, even in those two countries.

Table 7: average fee for a cross-border EUR 100 equivalent transaction between 2012 and 2017 (Sources Deloitte study 2017 for the EC, London Economics and PaySys study 2013 for EC)

Average fee for a cross-border EUR 100 equivalent transfer in local currency		
Year	2012	2017
Bulgaria	18,68 €	19,98 €
Croatia	N/A	8,23 €
Czech Republic	9,50 €	8,71 €
Denmark	2,17 €	2,69 €
Hungary	15,32 €	5,93 €
Poland	2,73 €	1,54 €
Romania	12,58 €	11,19 €
Sweden	0 €	0 €
UK	15,63 €	9,26 €

Cross-border card payments and cash withdrawals from euro area Member States

Cross-border card payments and cash withdrawals from euro area Member States follow the same logic as credit transfers. In most cases they will be free of charge in euro, within or outside the borders of the country. However, as soon as the transaction becomes cross-currency, fees will apply, in particular for cash withdrawals.

Table 8: min/max fees for cross-border card payments and cash withdrawals from three euro area Member States in euro and other currency of Member States of the EU (Source: Deloitte study 2017 for EC)

Member State		France		Italy		Germany	
Transaction		Min	Max	Min	Max	Min	Max
Card payment	Non-euro cross-border	0.25	1.19	0.10	0.20	1	1.50
	Euro cross-border	0	0	0	0	0	0
	Domestic	0	0	0	0	0	0
Cash withdrawal	Non-euro cross-border	0.43	3.29			4.75	6.13
	Euro cross-border	First 4 free then 1€	First 3 free then 1€	First 12 free then 2€	First 12 free then 2.10€	0	5.99
	Domestic at ATM group	0	0	0	0	0	0
	Domestic at other ATM	First 4 free then 1€	First 3 free then 1€	First 12 free then 2€	First 12 free then 2.10€	0	5.98

Card payments and cash withdrawals from non-euro area Member States

The same observations as for credit transfers from non-euro area Member States apply to card payments and cash withdrawals, although the fee difference between euro and non-euro transactions, domestic and cross-border, is smaller, especially for card payments.

Table 9: Fees charged to consumers for paying by card and withdrawing EUR 10 (or equivalent) in another EU MS for countries of the EU which do not have the euro as a currency. (Source: Deloitte study 2017 for EC)

Member State	Bulgaria		Croatia		Czech Republic		Denmark		Poland		Romania		UK	
EUR 10 or equivalent card payment	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
Euro or other currency (cross-border)	0	0.04	0	4.10	0	0	0.01	0.15	0.28	2.37	0	0.20	0.20	1.98
Local currency (domestic)	0	0	0	0.20	0	0	0	0.02	0	0	0	0	0	0

Member State	Bulgaria		Croatia		Czech Republic		Denmark		Poland		Romania		UK		
EUR 10 or equivalent cash withdrawal	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	
Euro or other currency (cross-border)	2.14	2.66	2	3.47	3.80	4.79	4.03	NA	0.30	2.37	2.51	14.9	0.27	2.55	
Local currency (domestic)	At ATM group	0	0.15	0	0	0	0.19	0	0	0	0	0	1	0	0
	At other ATM	0.45	0.61	1.41	2.70	1.15	1.53	1.08	1.34	0	1.19	0.6	3.29	0	0

For card payments, the same transactions will usually be free within the country (with only two exceptions noted where the card payments are charged to the consumer at 2 eurocents and 20 eurocents respectively). In many non-euro area Member States, there are some banks on the market that do not charge any additional fee for cross-border transactions. Differences between domestic and cross-border fees are generally small.

For cash withdrawals, the comparison of fees should be done with fees for cash withdrawn at ATMs that do not belong to the PSP's group. Fees are usually multiplied by three as soon as a border is crossed. The range of fees varies widely as some banks will charge nothing or a very small fee (e.g. 6 eurocents) for cash withdrawals abroad, while others can charge up to 15 euros for the same transaction.

2.1.2. Two categories of payment services users in the EU

When it comes to fees for cross-border payments, Regulation 924 brought major improvements to euro area residents, but not to non-euro area residents.

On the one hand, there are 350 million European citizens in the euro area who benefit from intra-EU cross-border payments that are priced exactly at the same level as domestic payments, in the currency of their country. As an example, a *France - Finland* euro transaction is priced exactly as a *France - France* euro transaction, and in the vast majority of cases studied – credit transfer, card payment or cash withdrawal – the transaction is free¹⁹. Euro area citizens are not limited to the euro area for those payments in euro. They can also send euro to non-euro area countries at the same cost: it is the receiver who will be paying a fee for receiving a cross-border transfer.

On the other hand, 160 million Europeans outside the euro area are scattered across monetary islands separated by very high charges for cross-border payments — to which a margin on currency conversion has to be added. A *Bulgaria - Finland* credit

¹⁹ Deloitte 2017 study for EC

transfer transaction of the equivalent of 500 euros in BGN is not priced the same as an identical *Bulgaria - Bulgaria* transaction: it can cost up to 24 euro cross-border, and only one euro for the domestic transaction. In addition to this, currency conversion margins of the payment services providers will apply.

This difference between euro and non-euro Member States means that consumers or companies of the euro area can transact (send and receive) with 350 million people and 15.7 million enterprises at no or very low cost. They can also transact with 160 million additional people and 6.5 million enterprises in euro only at no or very low costs on their side (costs will be on the receiving side). The only case where they will not be able to transact at low cost with these non-euro area stakeholders is when the transaction is denominated in another currency which, as illustrated in table 1, rarely happens.

By contrast, the 160 million Europeans and 6.5 million enterprises outside the euro area **will only be able to transact within their Member State at similarly low costs** as those borne by euro area citizens or enterprises. Crossing a border will increase the price of any transaction, whether the transaction takes place in the local currency, in euro or any other currency of EU Member States. In addition, receiving a transaction from abroad will also incur a cost, sometimes even when the transaction is received in the local currency.

In a hypothetical non-euro Member State with 19 million inhabitants (the average population of non-euro Member States), citizens and businesses would be able to reach almost 20 times fewer partners with low-cost payments than if they resided in a euro area Member State²⁰. The exception is Sweden where consumers and companies can enjoy low-cost domestic and cross-border payments towards the euro area, allowing them to reach a total of 360 million citizens and 16.3 million enterprises.

2.1.3. *Restrictions to the Single Market: use cases that would benefit from reduced prices for cross-border transaction and volumes*

Offering residents and businesses in non-euro area countries the same low costs for cross-border transactions as can be observed in euro area countries would overcome a significant obstacle to the full integration into the Single Market of non-euro area residents and businesses. Use cases that would benefit from reduced prices for cross-border payments with their corresponding volumes and values (detailed in Annex 4) are presented below.

Cross-border credit transfers from consumers (in euro or in local currency): buying a good or service abroad and paying with a credit transfer is, in the vast majority of cases, not a good option for non-euro area residents as the cost of the transfer will be prohibitive. While a EUR 100 SEPA credit transfer will hardly cost anything when done by a euro area resident, the average non-euro area consumer would have to pay fees of around EUR 8 and up to EUR 20 in the most expensive countries.

Cross-border credit transfers from enterprises (in euro or in local currency): whereas larger enterprises will be able to negotiate the prices of cross-border transfers with their banks through "cash management" agreements, small- and medium-sized enterprises (SMEs) and sole traders will face significant costs when paying their cross-border suppliers and when receiving payments from abroad.

The available statistics do not differentiate between retail payments (consumer, SMEs) and corporate payments. Overall, the volume at stake for intra-EU cross-border credit transfer from consumers and enterprises (in euro or in local currency –

²⁰ 350 million / 19 million = 18.4.

euro area to euro area excluded) is of 17,390 billion euros and 239 million transactions.

Card payments and cash withdrawals will also result in additional costs when made in another EU Member State. Although the additional costs for card payments may be rather limited, the cost of withdrawing cash abroad can be significantly higher for non-euro country cardholders, putting them at a disadvantage compared to euro area card holders.

Card payments and cash withdrawals amount to 2.7 billion transactions, representing a volume of 149 billion euros a year (131 billion euros for card payments, 18 billion euros for cash withdrawals).

The previous use cases all concern citizens and enterprises from non-euro area Member States²¹. **Euro area residents and enterprises would also gain from lower cross-border transaction costs, to the extent that they transact with counterparts in non-euro area countries and in non-euro currencies.** In such cases, they face high transaction costs whenever they make or receive a payment from non-euro Member States in another currency than the euro. Lifting these restrictions could allow euro area Member State residents and enterprises to reach an additional 160 million Europeans and 6.5 million enterprises with low-cost payments. **The total number of transactions covered by this use case would then be 690 million transactions (60 million credit transfers, 583 million card payments and 47 million cash withdrawals) for a total value of 2.6 billion euros** (figures already included under first and second use cases).

2.1.4. Views of payment services users

Overall, payment services users consider that cross-border payment transactions in currencies other than the euro, or in euro from non-euro countries, are expensive or very expensive. More details are provided in Annex 2.

The opinion of payment services users on the price of cross-border payments was confirmed by the public consultation held between 30 July and 30 October. It attracted about 150 answers. Nearly 80% of individuals and 67% of companies classified cross-border transaction in local currency as expensive or very expensive (percentages of respondents who expressed an opinion). For cross-border payments in euro from non-euro Member States, nearly 70% of individuals and 56% of companies classified these transactions as expensive or very expensive.

These figures are confirmed by the results of a survey contracted by the European Commission.²² Regarding cross-border transactions, about 92% of respondents are dissatisfied with the costs of cross-border transactions. Only 8% indicated that this practice has never been the subject of complaints. Respondents further indicated that the following situations occur, either occasionally or frequently: ‘lack of transparency of the actual payment fees for cross-border transactions’ (77%), ‘expensive costs to withdraw money abroad’ (73%), ‘being obliged to pay a fee for payment transactions within the European Union’ (69%), ‘expensive costs to transfer credit abroad’ (64%) and ‘expensive costs to make card payments abroad’ (64%). Overall, according to the respondents, consumers complain more often (either occasionally or frequently) about practices in relation to their

²¹ Figures presented throughout this impact assessment always include UK cross-border transactions that represent a substantial share of non-euro area countries’ cross-border transactions (about 80%). This issue is further discussed in Chapter 8.

²² Special Eurobarometer survey carried out by the TNS Opinion & Social network in the 28 Member States of the EU between 9 and 18 April 2016. 27.969 EU citizens were interviewed face-to-face at home.

cross-border transactions as compared to domestic transactions. The survey also aimed at gathering feedback directly from consumers and representatives of PSU associations on an extension of Regulation 924/2009. Overall, 60% of respondents were in favour of this.

Citizens were questioned on their perceptions of fees charged for transactions in or to EU Member States where other currencies are used. 62% of respondents who had made one of these transactions agreed the information on fees charged is transparent. 64% respondents who had made one of these transactions considered that the fees charged for such transactions were too high.

2.1.5. Summary

Fees for cross-border transactions, sent from, or received in, non-euro Member States, or sent in a non-euro Member State currency have remained excessively high. This creates barriers to the Single Market resulting in a divided EU when it comes to cross-border payments. For currencies other than EUR, the high costs appear to be due to lower volumes and a lack of modern infrastructures, as well as weak competitive and regulatory pressure on payment services providers to adapt to the payment needs of consumers and enterprises in the Single Market (see next section).

2.2. What are the problem drivers?

The problem of high transaction fees results from various drivers, some of which are outside the scope of the current exercise. First of all, they reflect the fragmentation of the retail banking markets with competition problems, particularly in non-euro area Member States, which continue to rely on legacy infrastructures for cross-border payments. Although EU legislation has led to increased competition over the last 10 years, the effects on prices have not been the same in all Member States.

Cross-border transaction volumes are small compared to domestic payments – also likely to be the result of the high fees. Low volumes make investments in modern cross-border payments infrastructures less profitable, keeping internal costs high for payment services providers. Non-euro area Member States appear to be caught in a high-cost trap. The evidence presented in the Impact Assessment covers the top three to seven largest payment services providers in each non-euro area country. These are the banks with the highest volumes of cross-border payments and the highest number of clients making them. They are also likely to be the banks most active in transactions involving foreign currencies (in particular the euro) - some of them being subsidiaries of euro area banks. Hence, the problem is rather universal and not confined to banks and clients with low volumes of cross-border payments.

Considering the problem drivers within the scope of the current exercise, the infrastructure for cross-border payments is one of the main issues. Euro payments benefit from a single standard across the EU (SEPA standard) and a centralised infrastructure to achieve EU-wide reachability. This modern infrastructure and the SEPA standards are a direct consequence of Regulation 924/2009 and its predecessor Regulation 2560/2001, which aligned the fees that banks could charge to their clients for domestic and cross-border payments in euro. This alignment reduced the revenues of banks, which in turn invested to reduce their costs of processing cross-border transactions. This euro infrastructure has been modernised over time (Target 2, Step 2 from EBA Clearing) and developments are still ongoing, notably with the future Target Instant Payment Settlement (TIPS) system of the European Central Bank. At the same time, a major market failure exists for cross-

border payments in other currencies as BGN, GBP, HRK, CZK, DKK, HUF, PLN, RON or SEK have no central EU infrastructure and standardised format. Instead, they rely on various intermediaries, such as correspondent banks, typically one per currency for each payment service provider. Correspondent banking processes (executed mostly through the SWIFT network) are relatively slow, expensive and had basically been unchanged for decades.

A regulatory failure can also be identified: the decision taken in 2009 not to apply Regulation 924 to non-euro currencies (also to make joining the euro area more attractive) resulted in a lesser degree of modernisation of infrastructures for cross-border transactions in non-euro countries.

While the absence of regulatory pressure might not be considered as a problem driver in itself, a recent study from McKinsey points out the regulators' role in resolving this issue: *"As cross-border payments did not face the same regulatory and competitive pressure, banks have had little incentive to innovate structurally on customer offerings, back-end systems and processes. And as cross-border payments revenue margins remained healthy and price erosion moderated, no structural cost-reducing processes were introduced across the industry. As a result, operational cost per transaction for international payments continues to average well above \$20 (these costs vary widely across institutions and between cross-border corridors)." [...] The opportunity is significant. Banks can aspire to a future with new revenues from additional services and where **the operating cost of a cross-border payment drops to between \$1 and \$3, with full transparency and execution in less than 15 seconds**²³".* The importance of regulatory pressure was also highlighted in the last CapGemini World Payments Report 2017 which noted that *"regulatory initiatives were identified by bank executives as the **top** driver of structural changes (for 65% of bank executives)²⁴".*

Regulation 924 did not create the regulatory pressure that would have reduced the costs of cross-border transactions in all countries, even though it does also apply to euro transactions in non-euro countries. The voluntary opt-in foreseen in Regulation 924 was only used by Sweden. Thus, while Regulation 924 was very effective at overcoming the divide between countries in the Euro area when it comes to fees for cross-border payments, it did little to overcome the remaining deep divide between euro area countries and the rest of the EU, and among non-euro countries. The 2012 evaluation of the implementation of Regulation 924/2009 concluded that extending the Regulation to other currencies of Member States of the EU (see Annex 6) would be beneficial to payment services users but should be left to the decision of Member States. Making this option mandatory is studied under Options 1 and 2 of this impact assessment. Other ways to solve the problem described earlier are also proposed under Options 3 and 4.

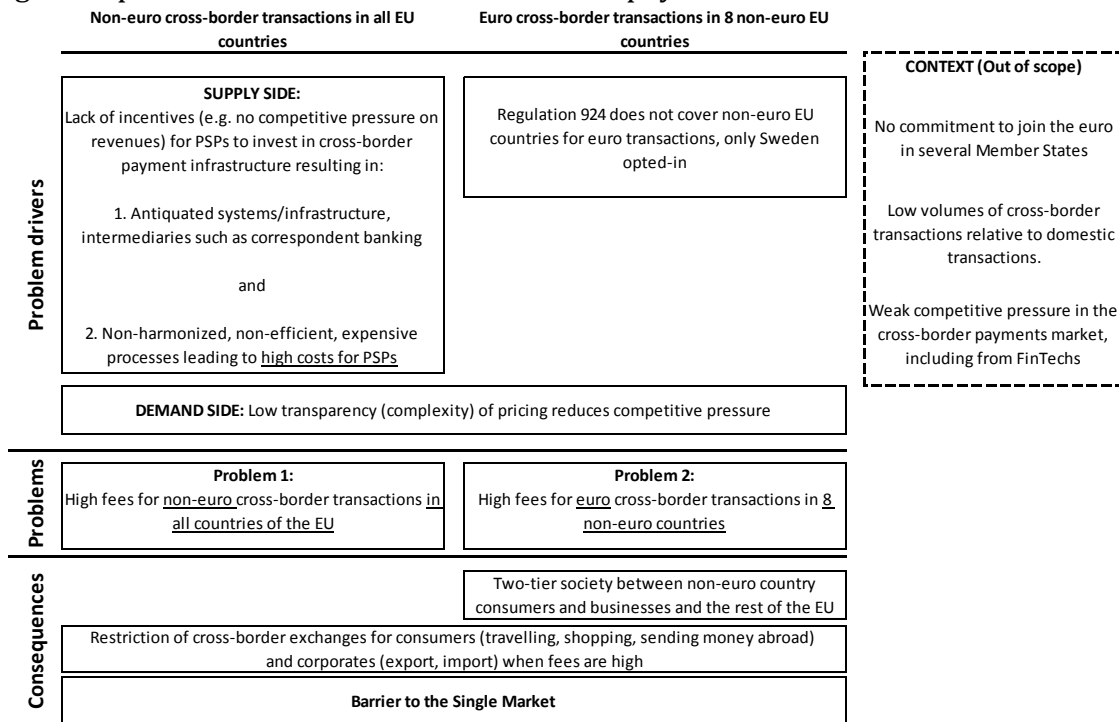
Finally, another market failure comes from pricelists for cross-border transactions which today are long and complex, differentiating incoming and outgoing, domestic and cross-border transactions, often sub-divided by currencies (local, euro, other currencies of the EU, other currencies), with categories for credit transfers, direct debits, card payments and cash withdrawals. This complexity reduces the comparability and transparency of cross-border transactions and weakens competition.

The problem drivers, issues and consequences are presented below in Figure 2.

²³ McKinsey Global Payment Map 2016. Available at: <https://www.mckinsey.com/industries/financial-services/our-insights/a-mixed-year-for-the-global-payments-industry>

²⁴ Capgemini World Payment Report 2017. Available at: <https://www.worldpaymentsreport.com/download>

Figure 2: problem tree related to cross-border payments



2.3. How will the problem evolve?

It is to be expected that high cross-border payment costs will remain a barrier between non-euro Member States and the rest of the EU. The problem would disappear if non-euro countries adopted the common currency (enlargement of the Euro area), or if they decided voluntarily to comply with Regulation 924 as permitted through opt-in solutions. However, there are no indications that this would happen fast, so legislative action seems justified.

The market could also bring a solution, and there are already new FinTech players offering cross-border payment services and bringing some competition to the market in the long run: as an example, *TransferWise* and *PayPal* both offer low-cost cross-border payments through credit transfer or online card payments. However, two obstacles will remain: *TransferWise* and *PayPal* do not allow consumers to make ATM withdrawals or pay in a shop with a payment card (*PayPal* is exclusively used online). Most importantly, they are not universally used payment service providers: *TransferWise's* market share is very limited (0.0003% of all EU credit transfers) and the company is mostly known by Internet-savvy users. *PayPal's* market share is bigger (up to 25% of online payments in the UK – no information on cross-border/domestic market shares) but it is a closed-loop provider. In order to be paid through *PayPal*, a user needs to have a *PayPal* account which limits the reachability of the service. So far, there is little evidence, though, that this competition has resulted in banks lowering their charges.

This could change somewhat in the years ahead, should more consumers decide to make use of these FinTech services, but this process could take a long time as these FinTech providers are currently, and are likely to remain, niche players typically used only by consumers who are both financially and IT literate. As a consequence, the competition brought by these new players will not be sufficient to fully address the issue in the short to medium term.

In the absence of EU initiatives promoting the setting up of a cross-currency infrastructure²⁵ that would encompass all currencies of EU Member States and allow for lower internal cost, it is to be expected that payment services users will have to wait for a long time before they can benefit from lower fees. The high costs faced by the banks today will persist and may even increase as security costs and maintenance costs of ageing infrastructures go up.

2.4. A two-speed market based on a two-speed infrastructure

The capacity of payment services providers to provide efficient cross-border payment services is strongly related to the availability of clearing and settlement infrastructure in the case of credit transfers. On the one hand, euro payments benefit from standards such as SEPA Credit Transfer, SEPA Direct Debits and the very recent SEPA Instant Credit transfers with EU-wide clearing and settlement infrastructures (EBA Clearing and Target2) that allow any bank of the EU to reach any other bank of the EU for payments in euro. The costs of these infrastructures are known and are very low (e.g. less than EUR 0.01 per transaction for euro transactions, independent from volumes). Further information on infrastructures is provided in Annex 4.

Scenario 1 – Credit transfer - Payment processing in euro



On the other hand, non-euro transfers are not harmonised (no common standard for payments in SEK, BGN, PLN, HUF etc., no EU-wide clearing and settlement infrastructure in currencies other than the euro, manual processes, intermediaries such as correspondent banks). In particular, the use of correspondent banking is costly. Deloitte estimated that internal costs of these transactions are 30 to 40 times higher than those of euro transactions²⁶. It should be noted that there is currently no EU wide initiative that would bring new infrastructure on the market to reduce the internal cost of these payments for banks (the only approaching initiative is TIPS which includes a multi-currency functionality but which may not be used before 2020/2021). There is also no initiative to agree on a single standard similar to SEPA standards for non-euro credit transfers.

Scenario 2 – Credit transfer - Payment processing in other currencies than the euro



²⁵ One initiative could be mentioned, though: the ECB's future clearing and settlement mechanism for instant payments. This initiative called TIPS (Target Instant Payment Settlement) will support euro instant payments (SCT instant) and will be launched in November 2018. Its impact on non-euro cross-border transactions and non-instant euro transactions is still unknown, but it will be designed to handle multiple currencies. It has already been decided that instant SEPA credit transfers will be cleared and settled by the ECB during the first two years for 0.20 euro cents (EUR 0.002) without any other additional cost.

²⁶ Deloitte study for EC - 2017

Card payments and cash withdrawals are different insofar as they already benefit from infrastructures for all currencies provided by international card schemes to process cross-border transactions. In addition, in most non-euro area Member States, local schemes have disappeared and been replaced by international schemes (e.g. Maestro, a MasterCard brand or VPay by Visa). More details are provided in Annex 4.

2.5. Why have Member States used or not-used the opt-ins of Regulation 924/2009?

The two opt-ins of Regulation 924 both imply the equalisation of fees for cross-border transactions in local currency with domestic payments – a restriction to euro cross-border payments only (as proposed later in this document under Option 3) was not foreseen.

Sweden used the local currency opt-in and justified it as benefiting the Swedish integration in the European Union and pushing Swedish banks to develop payment functions that are competitive (namely that are more automated/efficient, thus benefiting consumers and SME businesses - see the presentation of the Swedish case in Annex 4). However, no other non-euro Member State implemented the opt-ins.

Indeed, the cost that such an opt-in would impose on payment service providers would be high, in view of the major difference in costs for domestic and cross-border payments at least when it comes to non-euro transactions. Offering cross-border local currency payments at the same price as domestic payments would most probably bring losses to payment services providers. They indeed made their opposition to the opt-in foreseen in Regulation 924 very clear in their responses to the open public consultation, and it is likely that they would seek to dissuade national governments envisaging an opt-in. National governments may also fear that payment services providers forced to align cross-border transaction prices with domestic transaction prices might raise the prices of domestic transactions to recoup the losses they would incur on costly cross-border transactions.

For this reason, this Impact Assessment will analyse other options that could provide a solution to expensive fees while avoiding the need to offer cross-border transactions at a loss. This would indeed be possible for euro transactions to and from non-euro countries.

2.6. What is not covered under this Impact Assessment?

Currency conversion costs

Currency conversion costs are excluded from the scope of Regulation 924/2009 under article 3.4 and do not constitute a part of the fee charged for a transaction – even though they come as an additional cost for the user. In addition, dynamic currency conversion costs are in particular imposed by merchants' technical or payment services providers and not payers' payments services providers which Regulation 924/2009 covers. These currency conversion charges, however, are regulated under the Payment Services Directive in order to bring transparency to the practice and to allow the payer to make an informed choice. Under its Title III - already in force and maintained in the revised Directive that applies as from January 2018 – it imposes a certain degree of transparency on payment services providers as regards the relevant conditions and information requirements. In particular, article 37 of PSD requires that payment services users be informed of:

- *"all charges payable by the payment service user to his payment service provider and, where applicable, the breakdown of the amounts of any charges"*

- *and "where applicable, the actual or reference exchange rate to be applied to the payment transaction."*

Among the possible reactions of payment services providers confronted with reduced transaction fee revenues following any legislative intervention in this domain, those aiming to compensate their losses could choose to recoup losses of revenues through currency conversion charges, which are usually not transparent to consumers even though they are covered by the Payment Services Directive (as described above). Possible counter-measures should address this issue. As described in Chapter 8 of this analysis, more detailed transparency requirements would make the existing currency conversion requirements as defined under the Payment Services Directive more effective.

Direct debits

Direct debit transactions are also not covered under this impact assessment. This type of transaction is covered by Regulation 924 but, in view of the volumes at stake²⁷ (they are not offered by all banks in the EU, especially not outside the euro area and there is currently no cross-border direct debit between non-euro area Member States and euro area Member States) they will not be analysed.

The special case of remittances

People working abroad and sending money back to their families in their home country on a regular basis may not use electronic payments to do so. Instead they typically turn to companies that operate cash-to-cash payments such as MoneyGram or Western Union. Remitters may use this type of services for lack of cheap bank alternatives or because they do not have access to bank accounts. Though not covered by Regulation 924, reliance on such cash-to-cash remittances may decline as a result of reduced prices for cross-border transactions and cheap bank alternatives. Thanks to the Payments Account Directive, which guarantees the right to a basic bank account for all EU citizens, intra-EU remittances could be shifted to the traditional banking environment. According to Eurostat figures, such remittances amount to about 12 billion euro a year.

2.7. Limits to the Impact Assessment

This Impact Assessment is based on a wide range of data gathered through previous studies conducted by the European Commission in relation to Regulation 2560/2001 and Regulation 924/2009 as well as the second Payment Services Directive, through a study conducted in 2017 to analyse the fees charged to payment services users for cross-border payments and the internal costs of banks for the same transactions, two Open Public Consultations enriched by payment services users' examples of fees, and payment services providers explanations on cost differences as well as publicly available payment statistics from the ECB and Eurostat. A major limitation is the lack of data on cross-border exchanges among non-euro area Member States. This Impact Assessment uses estimates whenever public data are not available or reliable (see details in Annex 4).

²⁷ For instance, in France in 2016 there were 6 million cross-border direct debits, while there were 71.3 million credit transfers and 562 million card payments.

3. WHY SHOULD THE EU ACT?

3.1. Legal basis

The Treaty on the Functioning of the European Union confers to the European institutions the competence to lay down appropriate provisions that have as their objective the establishment and functioning of the internal market (Article 114 TFEU).

Payments are an enabler of the Single Market which encompasses the free movement of goods, persons, services and capital. High cross-border payment costs are creating barriers to the Single Market - effective barriers to cross-border activities of households (buying goods/services in another currency zone) and enterprises (using suppliers located abroad, reaching clients in another currency zone) that restrict their access to the Single Market by imposing additional costs on their transactions - and should be addressed as an obstacle to the free movement of goods, persons, services and capital. High costs of cross-border payments also create two categories of payment services users, those in the euro-area who are able to reach, with their payments, a majority of EU citizens and businesses at very low costs, and those in non-euro countries who can only reach a small number of people and businesses with low-cost payments.

To address these two concerns, legislative action at EU level is the most effective response, and it is in line with the objectives of the Treaties.

3.2. Subsidiarity: Necessity of EU action

Member States were given the option to extend Regulation 2560/2001 and its successor Regulation 924/2009 to their national currencies already about 17 years ago. To date, only Sweden made use of this option and the consequences were clear: prices of cross-border payments in Swedish krona from Sweden are aligned with domestic payments (in fact, though not mandated by the Regulation, they are free). This option also impacted euro payments that are also free in Sweden²⁸.

As other Member States failed to follow Sweden's lead (see Chapter 2.5 on reasons why they have not used opt-ins), there are now two categories of citizens and enterprises when it comes to cross-border payments: those covered by EU legislation benefiting from low-cost cross-border transactions fees and the others. The political decision not to include non-euro currencies within the scope of the Regulation 924/2009 was seen as an incentive for these countries to join the euro area as quickly as possible. However this has only partially materialized and there is currently no movement towards the adoption of the euro in sight from non-euro area Member States.

For the proper functioning of the Single Market and in order to further integrate national markets, to facilitate exchanges across borders and to put an end to the two-tier situation, it is essential that charges for cross-border payments are brought down to the level of charges for national payments. This reduction of fees can efficiently be achieved through an extension of Regulation 924/2009 as further discussed in the next chapters.

²⁸ Though Sweden did not notify the European Commission that it would use the second opt-in (equalisation of fees for cross-border euro transactions) but only the first opt-in (equalisation of fees for cross-border SEK transactions), market players actually implemented the second (euro) opt-in.

The status quo will maintain this de facto divide, slow down economic integration and the deepening of the Single Market. By contrast, a regulatory push that would reduce the cost of cross-border payments would allow for a better integration of the Single Market.

An EU initiative would also be an important political signal and represent a tangible measure to the benefit of citizens and enterprises, similar to the roaming regulation in the telecom sector.

3.3. Subsidiarity: Added value of EU action

Member States could have taken action on their own but have not done so over the past 17 years, apart from Sweden. Cross-border payments are not everyday transactions for EU citizens and may not trigger as many complaints as other core banking services would, if priced excessively, so Member States did not have strong incentives to act on their own.

Individual actions by one or the other Member State would decrease the discrepancy between EU citizens and enterprises that benefit from low-cost cross-border payments and the EU citizens and enterprises that do not. For this reason, tackling the problem by acting at EU level is preferable to leaving it to individual Member States or the market, which does not guarantee swift progress and the full coverage of the EU. Such action at EU level would generate economies of scale (increasing the volume of cross-border transactions, leading to enhanced efficiency in the payments infrastructure); it would increase the volume of intra-EU cross-border trade, stimulate competition and further deepen the EU's economic integration.

Non-regulatory tools

Market players could also have taken action and envisaged self-regulation. However, revenues deriving from cross-border payments are significant and the status quo is the best guarantee to maintain revenues. Non-regulatory measures would not be putting enough pressure on payment services providers to offer services at prices that reflect their internal costs, particularly with regard to euro payments.

4. OBJECTIVES: WHAT IS TO BE ACHIEVED?

4.1. General objective

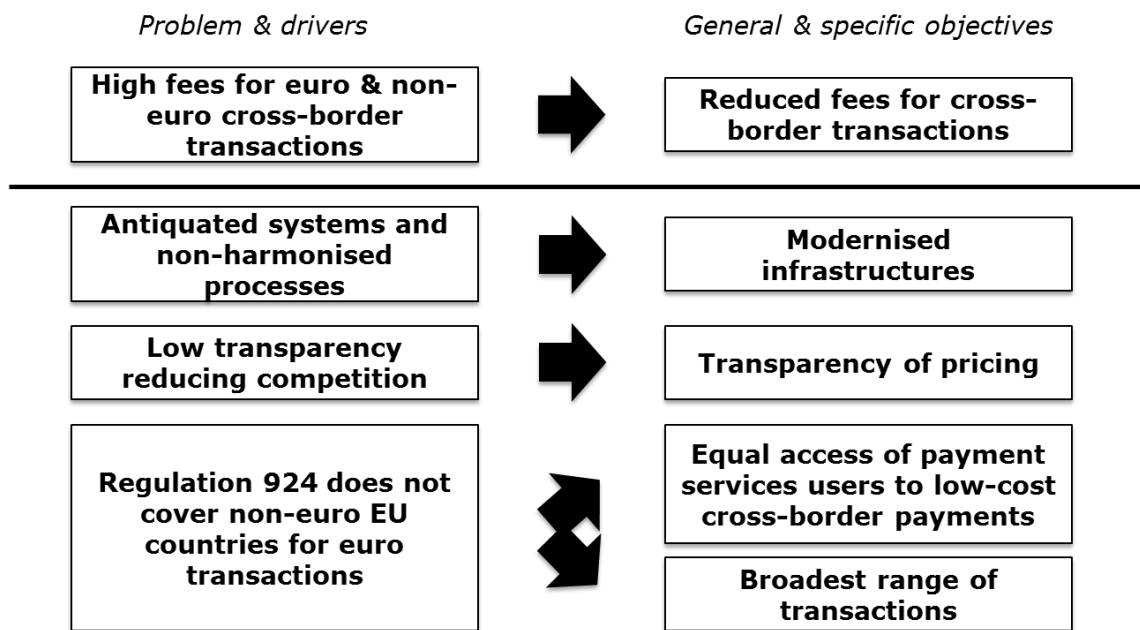
The general objective of EU action in the domain of cross-border payments is to reduce the fees for cross-border payments across the EU and thus to contribute to a better integration of all EU citizens and businesses into the EU economy. This general objective addresses the main issue of high fees for cross-border transactions from non-euro area countries and in addition, focuses on all issues of market failure (fees imposed on payment services users do not reflect the real cost), regulatory failure (the lack of effect of Regulation 924/2009 on cross-border transaction fees in non-euro area countries) and equity/discrimination concerns (cross-border fees for non-euro area payment services users not aligned with euro area users' fees).

4.2. Specific objectives

This general objective translates into various specific objectives that all correspond to one or several problem drivers. EU action to reduce the fees of cross-border payments should seek to:

- **Cover the broadest possible range of transactions and payment services users.** Covering the broadest possible range of transactions ensures that the measure is most effective in terms of reach and supports equity between non-euro area and euro area payment services users. Any reduction of fees should benefit the maximum number of people and enterprises by covering the largest share of transactions (in number and value of transactions).
- **Increase the transparency of fees in cross-border transactions.** The objective of increased transparency derives from the alignment of the fees of cross-border transactions in euro with domestic ones, which are usually fees that payment services users know very well. This will have an impact on the level of competition by making fees more transparent and comparable between providers (resolving a market failure).
- **Push all EU payment services providers towards a modernisation of cross-border payments services.** Any action on fees should ensure that lower fees will be the result of lower costs and hence increased efficiency in providing cross-border payment services, as happened in the case of euro transactions in the 2000's, rather than cross-subsidisation of such services using increased revenues from domestic payments or currency conversion services.
- **Equal access to low-cost payments for euro area and non-euro area citizens and enterprises.** Finally, reducing fees, in addition to benefiting the broadest possible range of stakeholders, should also bring more equality of opportunities among citizens and, for enterprises, a level-playing field.

Figure 3: How do general and specific objectives answer the problem and problem drivers identified in the problem tree?



5. WHAT ARE THE AVAILABLE POLICY OPTIONS?

This section will present five policy options related to the above objectives. The baseline scenario consists of the current status quo (i.e. no further action). A soft-law option (recommendation, voluntary initiatives) is not considered separately, as it is already contained in the current Regulation 924. Four additional options differ in terms of the scope of currencies/transactions covered. The following options will be analysed:

- Baseline: Do nothing;
- Option 1: Extending Regulation 924 to local currencies cross-border transactions;
- Option 2: Extending Regulation 924 to local currencies and euro cross-border transactions;
- Option 3: Extending Regulation 924 only to euro cross-border transactions;
- Option 4: Extending Regulation 924 to all cross-border transactions in currencies of Member States of the EU.

In all cases, addressees of all options will be payment services providers. Depending on the option retained, payment services providers would need to be given more or less time to adapt to the new rules.

Options 1 and 2 are presented in this order as these two options are already included as "opt-ins" in Regulation 924 under article 3.1 and 3.3. Option 3 is a variation of Option 2 that can be described as "Option 2 without Option 1". Option 4 is the most ambitious one and would eliminate all differences between transactions within a Member State and across borders, regardless of the currency used.

Why are all options related to fees for domestic transactions?

All options are based on an extension of Regulation 924 which uses fees charged by payment services providers for domestic payments as a benchmark. Depending on the option, the extension of Regulation 924 will equalise domestic transaction fees and fees for: cross-border transactions in local currency (option 1); local currency and euro (option 2); euro only (option 3); or all currencies of the EU (option 4).

This method of aligning cross-border fees with domestic transaction fees takes account of the level of development and efficiency of local payment systems and banks (infrastructure and processes). Indeed, production costs are not the same from one country to another, and in some non-euro countries even domestic transactions can cost up to one euro. Using domestic transactions fees as a benchmark allows taking into account the specificities of each country and their payment services providers. In view of this, it did not seem appropriate to consider an alternative approach consisting in setting a maximum price for cross-border transactions for all EU countries (as was done with the Interchange Fees Regulation).

5.1. The Baseline scenario – Do nothing

The baseline scenario consists in taking no further action at EU level. Fees for cross-border transactions will continue to be left to the market and regulatory interventions of individual Member States, implying no disruption of the status quo and no new costs on any of the stakeholders covered by Regulation 924. The current growth trends observed on

the market²⁹ will continue bringing even more revenues to payment services providers. However, it is unlikely that this growth would continue at the same rate. Member States would remain free to opt in and bring the benefits of reduced fees for cross-border payments to their citizens and businesses. Excessive prices would offer lucrative business opportunities for new market players who may be able to capture a part of the market by proposing competitive pricing compared to incumbents. While the situation might eventually improve under the baseline scenario, it will take a long time before significant progress towards the objectives will be achieved, as there have been very few signs of significant reductions in fees over recent years in spite of the arrival of FinTech providers offering cheaper ways of transferring funds across the EU.

5.2. Option 1: Extending Regulation 924 to local currencies cross-border transactions

Option 1 would consist in a legislative proposal equalising fees for domestic and cross-border non-euro national currency transactions, making one of the two opt-ins foreseen in Regulation 924 mandatory. The addressees would be **payment services providers** and the horizon to comply could be **two years from the date of entry into force of the instrument**. These two years would be necessary for payment services providers to adapt to a change of legislation that would impose on them to provide a rather costly service at the price of a low-cost service. These two years should grant them sufficient time to think the question through and adapt their business processes to a changed situation.

5.3. Option 2 – Extending Regulation 924 to local currencies and euro cross-border transactions

Option 2 encompasses option 1 and adds a requirement to also equalise fees for cross-border transactions in euro with domestic transaction fees. For instance, making a CZK transfer from Prague to Paris or a EUR transfer from Prague to Paris would be priced by a PSP like a CZK transfer from Prague to Prague. This option is already in Regulation 924 under article 3.3. Option 2 would in effect make this opt-in mandatory. The addressees would be **payment services providers** and the horizon to comply would be **two years for non-euro transactions and six months for euro transactions from the date of entry into force of the instrument**. The shorter period of six months for euro transactions would be justified by the fact that a common infrastructure for euro transactions is already available also to PSPs in non-euro countries, allowing a quasi-immediate alignment of fees.

5.4. Option 3 – Extending Regulation 924 only to euro cross-border transactions

Option 3 differs from Options 1 and 2 as it would require the equalisation of fees for domestic transactions in the national currency and cross-border transactions only for

²⁹ Overall non-pondered average growth, all means of payments together (credit transfer, direct debits, card payments and cash withdrawals) in 12 Member States (9 non-euro area Member States + FR, IT, GE) of 56% in number of cross-border electronic payments between 2014 and 2016 (the two years together) – Source: ECB payment statistics

euro cross-border transactions. For instance, making a EUR transfer from Prague to Paris would be priced by a PSP as a CZK transfer from Prague to Prague. This option is equivalent to making article 3.3 of Regulation 924 mandatory while article 3.1 would remain a voluntary option (i.e. equalising the costs of domestic and cross-border transactions in the national currency). The addressees would be **payment services providers** and the time horizon to comply could be **six months from the date of entry into force of the instrument.**

5.5. Option 4 – Extending Regulation 924 to all cross-border transactions in currencies of Member States of the EU.

Finally, Option 4 consists in removing all internal borders for transactions in any EU currency. It would require **PSPs to align their fees for all cross-border transactions between EU countries in whatever EU currency with domestic transactions, even for transactions in currencies that are not the ones of the sending or receiving country.** Currency conversion costs would still apply when the currency used is not available to the payer. For instance, in addition to Option 2, making a CZK or HUF transfer from Paris to Prague would be priced as a EUR transfer from Paris to Prague equal to a EUR transfer from Paris to Paris. The addressees would be **payment services providers** and the horizon to comply could be **four years for non-euro transactions and six months for euro transactions from the date of entry into force of the instrument.** A full change in market infrastructures to clear and settle efficiently and at low costs transactions across the EU³⁰ justifies the four years.

Table 10: Synthesis of each option's characteristics

Options	Baseline	Option 1	Option 2	Option 3	Option 4
Transactions issued from	N/A	Non-euro MS	Non-euro MS	Non-euro MS	All MS
Scope of transactions	N/A	Local currency cross-border transactions	Local currency and euro cross-border transactions	Euro cross-border transactions	All cross-border transactions in a currency of a EU MS
Time horizon for improvements	Long	2 years	6 months euro 2 years local currency	6 months	6 months euro 2 years local currency 4 years other currencies

5.6. Option discarded at an early stage

Capping the cost of cross-border transfers at 3% in line with the UN Global Sustainable Development Goals for remittances.

On 1 January 2016, the United Nation's 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development officially came into force³¹. The EU has played an important role in shaping the 2030 Agenda. Among the SDGs, goal #10 calls for reduced inequality within and among countries and sets notably the following target: "*By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent*".

This option was discarded at an early stage, considering that a 3% maximum would already constitute a relatively expensive fee for cross-border transactions within the EU,

³⁰ As it took four years for non-euro area MS to adopt SEPA payments (from 2012 to 2016), the same transition period is proposed for all Member States to move to new standards for all payments in the EU.

³¹ <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

except for small value transactions. In addition, fixing a smaller percentage maximum (e.g. 0.1% or 1%) that fits all EU Member States is not possible as production/internal costs vary from one country to the other. Finding a common benchmark / reference for all EU Member States on which to align prices was also not feasible as conditions differ from one country to the other.

Additional alternatives were also studied (as witnessed in the Open Public Consultation) in order to further improve the capacity of achieving the objectives. An online fee-calculator for instance could help in very specific cases when the fee is expressed as a percentage of the amount of a transaction and requires calculation. However, it would be far less efficient than the alignment of domestic and cross-border fees: the utility of such calculators can be questioned when at an ATM or in a merchant shop at the point of sale. Payment services users are often faced with time pressured environments in such cases, and access to technology or internet would be required.

6. WHAT ARE THE IMPACTS OF THE POLICY OPTIONS?

This section assesses the effectiveness and efficiency of the proposed options both at aggregate level and by relevant stakeholder groups: payment services users (consumers and enterprises), payment services providers and supervisors. It will assess the benefits of both direct and indirect nature, qualitatively and quantitatively, against the general and specific objectives outlined in chapter 4.

The different options will be assessed with respect to the general objectives of lifting barriers to the Single Market and putting an end to the internal discrepancy with regard to cross-border payments by comparing them with the baseline scenario and positioning them in relation to the maximum benefits and costs that can be expected from having cross-border payment fees aligned with fees for domestic payments. The benefits and costs will be rated, for each specific objective, from --- to +++, with --- representing the lowest rating against the baseline (e.g. high costs of implementation) and +++ the maximum rating (e.g. maximum scope of transactions covered).

This allows assessing the options in terms of (1) how effective they are in achieving the objectives; (2) how efficient they are in view of the costs they imply; (3) how coherent they are with broader EU policies (here mainly the Monetary Union, the Single Market and the general legal EU framework for payments); and (4) how they affect key stakeholders, namely payment services users (including citizens, SMEs and companies), payment services providers and supervisors.

The preferred policy option should ensure the best possible attainment of the stated objectives, while at the same time imposing the lowest costs and the best impacts on stakeholders while being coherent with broader EU policy objectives.

Table 11: Linking objectives with associated benefits

Problems and consequences	Objective	Direct regulatory benefits
General problem Barriers to the Single Market and two-tier society for cross-border payments	General objective Lift remaining barriers to the Single Market due to cross-border payments and provide a level-playing field across the EU	
Specific problem 1: expensive cross-border payments	Specific objective 1: reduce the fees of cross-border payments for all	<ul style="list-style-type: none"> • Number of transactions covered by a fee reduction • Number of PSUs and enterprises covered by a fee reduction • Total savings for PSUs
	Specific objective 2: increase the transparency of cross-border payments	<ul style="list-style-type: none"> • Level of transparency of fees brought by the equalisation of fees
	Specific objective 3: modernised payment systems	<ul style="list-style-type: none"> • Incentives for PSPs to move towards modernised infrastructures • Cost savings due to modernised infrastructures
Specific problem 2: major fee differences between euro area and non-euro area MS	Specific objective 4: reduce differences between euro area and non-euro area citizens & enterprises	<ul style="list-style-type: none"> • Reachability offered by low cost cross-border payments

The cost analysis will build on the expected consequences of reaching the objectives presented above and will look at the various regulatory/administrative one-off and recurring costs that could arise for stakeholders.

Table 12: Linking objectives with associated costs

Objectives	Costs
Specific objective 1: reduce the fees of cross-border payments for all	<ul style="list-style-type: none"> • Substantive compliance costs for PSPs (Revenue losses - recurrent) • Indirect costs for PSUs (Increased domestic fees – recurrent) • Enforcement costs for supervisors (one-off and recurrent)
Specific objective 2: increase the transparency of cross-border payments	<ul style="list-style-type: none"> • Administrative costs for PSPs (fee documentation - one-off) • Enforcement costs (recurrent)
Specific objective 3: modernised payment systems	<ul style="list-style-type: none"> • Indirect cost (IT costs for PSPs (one-off, recurrent))
Specific objective 4: reduce differences between euro area and non-euro area citizens & enterprises	<ul style="list-style-type: none"> • No measurable cost

6.1. Overview of potential benefits and costs

6.1.1. Potential benefits

Specific objective 1: reduce the fees of cross-border payments for all

- The maximum benefit would be achieved if all intra-EU cross-border transactions from or to euro area Member States in a currency that is not the euro are covered, as well as all cross-border transactions from or to non-euro area Member States, in euro, local currency or other currencies of Member States of the EU³². Details are provided in Annex 4.
 - For credit transfers, these figures amount to 178 million transactions worth EUR 14 749 billion initiated in non-euro area Member States, in euro or local currency and 60 million transactions worth EUR 2 642 billion initiated in euro Member States. **The grand total is 239 million transactions worth EUR 17 391 billion.**
 - For card payments, the maximum number of transactions to cover would be **2 527 million transactions worth EUR 131 billion** divided in 1944 million transactions from non-euro area Member States worth EUR 105 billion and 583 billion transactions worth EUR 26 billion from euro Member States.
 - Finally about **173 million cash withdrawals** took place in 2016 with a total value of **EUR 18 billion** of which 126 million transactions amounting to EUR 11 billion are made by non-euro area cardholders, and 47 million transactions for EUR 7 billion by euro Member State cardholders.

³² Data for Sweden is consistently added to the data for euro Member States, as Sweden already opted-in for Regulation 924.

Table 13: Volumes of cross-border payments broken down by area of origin

Cross-border payments in the EU by area and type of transaction		
Sent from	19 euro area Member States + Sweden 360 million citizens and 16,3 million enterprises	8 non-euro area Member States 150 million citizens and 6 million enterprises
Type of transaction		
Credit transfers (millions)	60	178
Card payments (millions)	583	1944
Cash withdrawals (millions)	47	126
Total transactions (millions)	690	2248
Share of the scope that could be covered by Reg 924	23.49%	76.51%

- The greatest benefits for PSUs would occur if all EU citizens and enterprises could make cross-border transactions at the same price as they make domestic transactions. **The maximum number of PSUs (consumers and enterprises) that could be covered is 510 million citizens and 22.2 million enterprises.**
- The **maximum overall savings for PSUs are estimated at EUR 1.48 billion/year.** This is a static estimate which disregards changes in behaviour, such as people switching from moving cash across borders to electronic payments or using money remittance services. Such dynamic effects would tend to increase the savings, but they are impossible to estimate due to a lack of data. The savings estimate is thus based on the following assumptions:
 - The average cost of a retail (consumers, SMEs) cross-border credit transfer varies between EUR 1.54 in Poland and EUR 20 in Bulgaria. The same national transaction would be priced from EUR 0 to EUR 2.13. Although there are fees payable also for receiving cross-border credit transfers (sometimes even when the cross-border transfer is received in local currency), this cost has been ignored in this estimate as it is marginal compared to the sending fee; also, in most countries, there are providers that do not charge at reception. It also needs to be taken into consideration that many corporates already benefit from negotiated prices and as such may not benefit from fee reductions. The savings estimate therefore excludes corporate payments, estimated to make up for 90% of all cross-border credit transfers³³. This results in a reduction of the number of transactions from 239 million transactions to 24 million transactions (retaining only about 10% of the total number of transactions for retail payments). A weighted average price for cross-border transactions in non-euro Member States was estimated at EUR 8, based on the volumes by country and the fees applied in non-euro Member States³⁴. The same transaction, domestically, is priced at an estimated EUR 1, so reducing fees to the level that applies to domestic

³³ There is no official data on the part of cross-border credit transfers that belong to corporates vs retail users. This figure is purely indicative and for calculation/information purposes based on exchanges with payment services providers. However, considering the average value of credit transfers cross-border from non-euro area Member States (> EUR 15000), it is assumed that corporates make most of the volumes.

³⁴ Average prices are known for all countries based on top 3 to 5 providers, volumes were estimated for CZ, DK, UK and PO.

transactions would lead to a EUR 7 saving per transaction. Total savings would then amount to at least EUR 167 million/year. In addition, a 10% mark-up (17 million) should be taken into account to cover receiving fees bringing the total to EUR 184 million/year.

- A similar calculation is done for all cross-border card payments and cash withdrawals. The share of corporates in such cross-border card transactions is small, so they have not been excluded from the calculation.
 - The total potential savings for card payments are estimated at EUR 1.01 billion/year with a EUR 0.40 average fee³⁵ for cross-border card payments going down to EUR 0.00 on 2.5 billion transactions.
 - The total potential savings for cash withdrawals are estimated at EUR 289 million/year with a EUR 2.30 average fee for cross-border cash withdrawals going down to EUR 0.63 on 173 million transactions.

Table 14: Summary of potential savings (EUR millions) by category of transaction (the last line indicates which options allow to capture these savings)

Potential savings* by category of transaction				
Sent from	From € MS in non-euro currency	From non-€ MS		
		In euro	In local currency	In other EU currency
Credit transfers	46	114.3	9.2	13.7
Card payments	233.2	622	N/A	155.6
Cash withdrawals	79.9	171.7	N/A	42.5
Total savings	359.1	908	9.2	211.8
% of total savings	24.13%	61%	0.61%	14.23%
Options associated	Option 4	Options 2, 3, 4	Options 1, 2, 4	Option 4

The average saving per transactions is calculated at EUR 7 per credit transfer, EUR 0.40 per card payment and EUR 1.7 per cash withdrawal. Nevertheless, it should be clear that users in some Member States will benefit more than others – those where fees per transactions are very high such as in Bulgaria will see a bigger impact than those where fees are already low such as in Poland.

Specific objective 2: increase the transparency of cross-border payments

The transparency for payments could be maximised if there were a single individual fee for all transactions independent of the currency used, the country where it is sent to or received from, independently of the means of payment used (credit transfer or card payment). Such transparency – today impossible to imagine - would be translated into a pricing documentation as below.

³⁵ Cash withdrawal and card payment average fees approximated through the minimum and maximum prices offered by payment services providers in each country

Table 15: The full transparency ideal

Bank A - Transactions within the EU	
Payment type	Fees
Any transaction in the EU	xxx EUR
FX costs if applicable	
Details on how FX costs are calculated	

By contrast, today's pricelists are rather long differentiating incoming and outgoing transactions, domestic and cross-border, sub-divided by currencies (local, euro, other currencies of the EU, other currencies), with separate categories for credit transfers, direct debits, card payments and cash withdrawals, as below.

Table 16: Typical fee information document for payment services users

3.1 PAYMENTS ¹	including local transfers		Other banks	
	Counter	Online*	Counter	Online*
Payments ²	7 lei/ operation	free (including bills payment)	9 lei/ operation	3.5 lei/ operation
Payments – standing order ³	0.30 eur/ operation (in currency equivalent)	-	0.30 eur/ operation (in currency equivalent)	-
Payments made by the Holder from his savings account in his current account opened within	free		-	
Simplis Debit (the NBR fee for direct debit instructions in the interbanking system is supported by the payee)	free	-	< 200 lei: 1.5 lei/ operation	-
			[200 - 50.000 lei]: 3 lei/ operation	
			>50.000 lei: 5 lei/ operation	
Urgent payments ²	-	-	9 lei/ operation	-
FOREIGN CURRENCY	Counter	Online*	Counter	Online*
Payments	2 eur/ operation	free	0.20% (min. 20 eur, max. 1.000 eur) + external commission	0.15% (min. 10 eur, max. 25 eur) + external commission
Payments made by the Holder from his savings account in his current account opened within	free		-	
External fee ("OUR" payments only) ⁴ - payments outside the EU/ EEA, regardless of the currency and inside UE/ EEA ⁵ in the currency of one of the EU/ EEA member states	-	-	20 eur	10 eur (via N... D Net)
Additional emergency fee	-	-	30 eur/ operation	-
Payment modifications/ cancellation	-	-	20 eur + SWIFT charges	-
Investigations up to 6 months	-	-	25 eur + SWIFT charges	-
Investigations over 6 months	-	-	50 eur + SWIFT charges	-
Urgent payments processing ⁶ (currency date: today)	-	-	30 eur/ operation	-
SWIFT charges	-	-	free	free

¹ For payments made through the SEPA channel, the same fee shall apply as for payments in foreign currency, without any SWIFT charges (the standard discount granted through the remote banking channels shall be preserved); in case of payments in lei to banks abroad (other than those featured on the list of correspondent banks) the additional ReGIS fee shall be charged
² Includes the NBR fee: for low-value interbank payments: 0.51 lei and for high-value payments: 6 lei; for debit instruments with electronic settlement, the NBR charges a fee of 0.88 lei for receipts and no fee for payments. Payments made from the escrow account into the current account, will be charged from the current account
³ Starting with 07.01.2013, the standing order service between two accounts of the same customer (current accounts/ savings accounts) is free of charge. For customers who opted for this service before 07.01.2013, the standard fee of 0.30 eur/ operation shall be charged
⁴ The external fee shall be added to the payment fee and is valid only in case... determines the payment banking channel. In case the customer determines the payment banking channel, the external fee might amount to max. 300 eur
⁵ Countries belonging to the EU/ EEA: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Germany, Estonia, Greece, Spain, Finland, France, Hungary, Ireland, Italy, Lithuania, Luxembourg, Latvia, Malta, the Netherlands, Poland, Portugal, Romania, Sweden, Slovenia, Slovakia, Great Britain, Iceland, Liechtenstein, Norway, Switzerland
⁶ For every suboperation made within documentary payment order (endorsement, issue, payment, etc.), minimum 1 SWIFT message will be send/ retained

3.2 RECEIPTS	including local transfers		Other banks	
	Counter / Online	Counter / Online	Counter / Online	Counter / Online
Receipts	free	free	4 lei/ operation	free
Receipts in escrow accounts for loans	free	free	free	free
Transfers (accounts of the same Holder)	free	free	4 lei/ operation	free
FOREIGN CURRENCY	Counter / Online	Counter / Online	Counter / Online	Counter / Online
Receipts	free	free	free	free
Transfers (accounts of the same Holder)	free	free	free	free

Specific objective 3: modernised payment systems

The lowering of fees should be achieved through the modernisation of payment systems and the ensuing efficiency gains, rather than by forcing payment services providers to cross-subsidise cross-border transactions or stop offering them altogether. The likelihood of triggering a modernisation of payments systems in the EU (infrastructures, processes, standards...) will be assessed for all options. As an example, a modern payment system would be an EU wide cross-currency clearing and settlement infrastructure with standard formats for all credit transfers and direct debits to which payment services providers are connected across the EU, directly or indirectly, at very low cost. Such a solution already exists today for euro cross-border payments. As a consequence, options only covering euro

payments are unlikely to trigger such a modernisation of the payment infrastructure that is already there. It may still push the potential very few payment services providers that would not offer euro cross-border payments today to connect to such infrastructure as the use of cross-border payments in euro increases and in order to reduce their internal costs.

The benefits that such a modernised environment would bring are difficult to quantify. The SEPA study conducted by CapGemini³⁶ for the Commission in 2007 indicated that the switch from the legacy system to the SEPA system would reduce the operational costs of banks by EUR 49 billion over 5 years in the best scenario (see figure 8 of the study 'Delta Op Costs'). Considering the very close resemblance between the switch to SEPA and the switch that would allow fee reductions for all cross-border transactions, this amount can be used as a basis. However, the volume of payments involved is not comparable with the SEPA volumes. Option 4 for instance would cover about 90 million additional credit transfers compared to Option 3; the total number of SEPA transactions is around 200 times this volume (above 15 billion transactions per year). The benefits linked to operational costs for modernised payment systems for all transactions in the EU could then be estimated at about EUR 500 million over 5 years (retaining a conservative hypothesis of about 1% of the gains brought by SEPA).

Specific objective 4: Equal access to low-cost payments for euro area and non-euro area citizens and enterprises

Ensuring that all EU citizens and enterprises can benefit from low-cost cross-border transactions is the maximum reachable benefit. This would entail that any citizen or enterprise of the EU is able to any other citizen or enterprise anywhere in the EU at low costs.

6.1.2. Potential indirect benefits

Moving towards these four specific objectives also brings indirect benefits of a general nature such as **a more integrated EU with increased economic efficiency and prosperity** thanks to lower transaction costs that should translate into an increased number of cross-border transactions compared to current trends described earlier in the 'baseline scenario'.

Also, the proposal would entail reputational benefit for the EU among European citizens as the reduction of fees for cross-border payments resembles the regulation on telecoms roaming charges, one of the most popular achievements of the EU over the recent years. These reputational benefits are hard to quantify; nevertheless they increase support for the EU and may enhance the EU's capacity to tackle other policy challenges.

6.1.3. Overview of costs

Specific objective 1: reduce the fees of cross-border payments for all

- **Substantial compliance costs for PSPs:** revenue losses for PSPs would be the exact opposite of the overall savings described before for retail payment services

³⁶ Capgemini study on SEPA. Available at: http://ec.europa.eu/internal_market/payments/docs/sepa/sepa-capgemini_study-final_report_en.pdf

users, consumers and SMEs, i.e. an estimated EUR 1.47 billion/year. Indeed, the fees charged to payment services users, if reduced, will directly impact the revenues of payment services providers. In a dynamic perspective, however, these reduced fees should encourage payment services users to make more transactions and allow payment services providers to recover part of their losses through increased activity. Banks may continue to derive significant earnings from cross-border transactions. A recent article³⁷ disclosed that half of one major bank's revenues from cross-border payments resulted from currency conversion margins while transaction fees accounted for about 28%. The option analysis will estimate which option is likely to have the biggest impact on payment services providers' revenues

- **Indirect costs for PSUs:** Banks may respond to reduced transaction fees by trying to increase domestic payments fees – the most likely scenario. However, domestic fees are well-known and any increase would not go unnoticed by consumers and SMEs, causing them to look for cheaper competitors. Payment services providers could also increase the basic fees for bank accounts or increase their margins on currency conversion. Though hard to quantify, the option analysis will estimate the likelihood of such attempts to recoup lost revenues from transaction fees.
- **Enforcement costs for supervisors** in charge of the correct implementation of the respective options will also be estimated as any option will trigger additional work to verify that fees applied by payment services providers are aligned with regulation. This may require the periodic review (research of data on bank websites) and analysis (comparing prices) of data/documentation provided by payment services providers. Depending on the particular Member State, the number of payment services providers to review could range from a dozen to hundreds. So even with an ex ante review of prices, enforcement does not appear particularly complex and costly³⁸. Reviews may not need to be conducted on an annual basis, but could be done in response to complaints from payment services users. The estimated maximum cost for annual reviews of fees appears to be marginal and would not exceed EUR 1 million for the 28 Member States together. While complaint and redress procedures, penalties and competent authorities are already in place under Regulation 924, some additional costs may result from an increased number of complaints

Specific objective 2: increase the transparency of cross-border payments

- **Enforcement costs for supervisors:** as an indirect consequence of additional transparency, supervisors will be faced with additional complaints from payment services users, justified or not, in relation to the cost of their cross-border transfers. The European Commission already deals with such complaints in the framework of the SEPA Regulation and IBAN discrimination and estimates that 0.5 FTE is the maximum cost to associate with such complaints. Based on an average junior civil servant salary of EUR 50.000, a EUR 25.000 recurrent cost is associated to this specific objective. The maximum cost incurred would be EUR 700.000 for the 28 Member States altogether which remains very limited.

³⁷ https://www.theguardian.com/money/2017/apr/08/leaked-santander-international-money-transfers-transferwise?CMP=share_btn_link

³⁸ Supervisors already carry out compliance checks as regards Regulation 924/2009 (which already foresaw complaint and redress procedures, penalties and competent authorities) in all Member States; hence the costs for supervisors would increase only marginally.

- **Administrative costs for PSPs:** Regarding payment services providers, fee documentations would have to be changed, on their websites and on any paper documentation that would be available to payment services users. It is assumed that payment services providers regularly update (annually) their price information documentation which, as a consequence, advocates not taking account this cost here. However, there will be an IT cost for the update of information on the payment services providers' websites and, most importantly, their internal IT systems (e.g. billing tools). Commission services estimate that this would imply about 1 man day for each payment services providers and about 5000 man-days in aggregate for the EU. Considering a man day cost average of EUR 300 (EU standard cost ISCO1/ISCO2 around EUR 35/hour), this cost amounts to EUR 1.5 million.

Specific objective 3: modernised payment systems

- **Indirect cost for PSPs:** the maximum cost that will be incurred by the EU payments market would result from the development and implementation of an EU wide cross-border and cross-currency infrastructure to which all payment services providers would be connected, directly or indirectly through other payment services providers, and, in parallel, the adoption of new standards for non-euro currency payments in order to allow straight-through processing (i.e. without any manual intervention). As a benchmark, the total estimated investment cost of SEPA will be used. In the Capgemini study accompanying the SEPA Regulation, investments by payment services providers needed to comply with the Regulation (common standards for the euro payments, migration of legacy systems...) was estimated at EUR 7 to 10 billion for the EU. The maximum costs would be that of a similar exercise as the SEPA migration for non-euro payments though the magnitude of the costs would be reduced as the investments in infrastructures that were done for SEPA would also be re-used for other currencies of the EU. The ex-post Europe Economics study³⁹ of 2016, estimated the investments in SEPA Credit Transfer at around GBP 2.9 billion (see table 3.24 of the study). This will be retained as a figure closer to reality here (for ease of reading EUR 3 billion). This cost would be a one-off cost as recurring costs would be equivalent to the ones already borne by payment services providers today.

Specific objective 4: equal access to low-cost payments for euro area and non-euro area citizens and enterprises - No costs are foreseen under this specific objective.

6.2. Baseline scenario

In the baseline scenario, the status quo is kept. Fees for cross-border transactions in non-euro countries remain unchanged and determined by the market and individual national regulators. Benefits and costs are not estimated under this scenario. Current growth trends are maintained. The extent to which the stated objectives and related benefits would be achieved depends on market developments that may put pressure on fees for cross-border

³⁹ See Europe Economics study, November 2016. Available at: <https://www.psr.org.uk/sites/default/files/media/PDF/ISO-20022-in-SEPA-FINAL-report.pdf>

payments and on the Member States' political will to tackle the issue, for instance through an opt-in under article 3.1 and 3.3 of Regulation 924.

The time horizon for any positive change that might occur would be very long, and payment services users are unlikely to see a strong decrease in the price of cross-border payments in the short to medium term based on recent trends as competitors such as FinTech companies will have difficulties and at least need time to offer the reachability and scope of services that can match the ones provided by incumbents.

Winners and losers

The status quo would mainly benefit incumbent payment services providers who would continue to benefit from high revenues resulting from high fees, while new players may have better opportunities for undercutting prices and establishing themselves on the market. Payment services users in non-euro countries would continue to be marginalised and prevented from taking full advantage of the Single Market.

Table 17 – Impacts on different stakeholders of the Baseline scenario

	Payment Services Users	Payment Services Providers	Supervisors	EU Society / Single Market
Impact	=	=	=	=

Stakeholder views

The baseline scenario is the favoured option for payment services providers as expressed in the answers provided to the Open Public Consultation. Payment services providers, banks in particular, expressed the view that the market would fix the issue of expensive fees through, for instance, through the rise of FinTech solutions. By contrast, this is the least favoured solution put forward by payment services users, be they individual consumers or companies, as the status quo will keep their costs high. This option is also rejected by the European Parliament.⁴⁰

6.3. Option 1: Extending Regulation 924 to local currencies

Option 1 would consist in a legislative proposal equalising fees for domestic and cross-border non-euro national currency transactions, making one of the two opt-ins foreseen in Regulation 924 mandatory.

6.3.1. Benefits

Specific objective 1: the number of transactions that will be covered by such an extension will be limited to the non-euro local currency cross-border transactions made from non-euro Member States. These are estimated to account for 0.5% of all intra-EU cross-border transactions from non-euro Member States. Card payments and cash withdrawals would not be covered as they do not take place in local currencies across borders. Non-euro area citizens would mainly benefit from this and only for a rather limited part of their cross-border transactions. Payment services users would save around EUR 10 million annually.

Rating: +

⁴⁰ 2017/2066(INI)

Specific objective 2: the transparency of cross-border payments will increase though leaving much to improve. **Rating: +**

Specific objective 3: a modernisation of payment markets is unlikely as the volumes at stake are too low. Payment services providers would more likely cross-subsidise the local currency cross-border payments with revenues from other services rather than invest in infrastructure for 0.5% of their transactions. **Rating: =**

Specific objective 4: differences between EU citizens and enterprises based on their currency and Member State will slightly decrease. However, since the local currency of the user is hardly used for cross-border transactions abroad, the differences between EU citizens and enterprises based on their currency and Member State will hardly be reduced. **Rating: +**

6.3.2. Costs

Specific objective 1: considering the volumes involved, the revenue loss for payment services providers will be limited (EUR 10 million annually), but cross-border payment services in local currency would have to be offered at loss. There could be attempts to raise domestic payments fees or currency conversion margins to recoup some of the lost revenue. **Rating: -**

Specific objective 2: supervisors or payment services providers would suffer regulatory and compliance costs. This would be limited to non-euro area Member States' supervisors. **Rating: -**

Specific objective 3: payment markets modernisation is unlikely, no cost associated. **Rating: =**

Table 18 – Option 1's score on specific objectives

	SO1	SO2	SO3	SO4
Benefits	+	+	=	+
Costs	-	-	=	NA

6.3.3. Overall assessment

Effectiveness, efficiency, coherence

Although this option would mirror what exists today for euro area countries, its effectiveness is very limited. This is due to the fact that cross-border payments from non-euro area countries to the rest of the EU will almost always take place in euro or in the currency of the "target" country (more citizens, more countries, and more enterprises to interact with), and not in the local currency of the payer⁴¹. Its efficiency is poor: even though total costs for stakeholders will not be high, costs will only be reduced for 0.5% of the transactions. The option is coherent with the Single Market, but would only bring very minor improvements. The reach of low cost cross-border payments from non-euro area Member States would still remain much lower than from euro area countries.

Winners and losers

⁴¹ The original Regulation addressed a special situation, where the currency of the "target" country is the same as the local currency of the payer.

On the basis of the above, the table below summarises the impacts of Option 1 for each category of stakeholders. Payment services users are the main beneficiaries though the benefits are very limited. Supervisors will be impacted with additional compliance work.

Table 19 – Impacts on different stakeholders of Option 1

	Payment Services Users	Payment Services Providers	Supervisors	EU Society / Single Market
Impact	+	-	-	=

Option 1 has no environmental impact

Stakeholder views

This option was not favoured by any of the stakeholders who responded to the consultation as indicated in Annex 2. On the contrary, many payment services providers insisted on the difference between euro transactions as straight-through low-cost transactions compared to other currencies. In addition, this opt-in was not exercised by any Member State except Sweden. This option would lack ambition from the European Parliament's point of view.⁴²

6.4. Option 2 – Extending Regulation 924 to local currencies and euro cross-border payments

Option 2 encompasses option 1 and adds a requirement to also equalise fees for cross-border transactions in euro with domestic transaction fees.

6.4.1. Benefits

Direct benefits

Specific objective 1: the number of transactions that will be covered by such an extension will increase substantially, leaving outside the scope only cross-border transaction from euro area Member States that do not take place in euro and those between two non-euro area Member States in another currency than that of the initiator of a transaction. This option would cover at least 80% of all intra-EU cross-border transactions from non-euro Member States. Non-euro area citizens would mainly benefit from this option. In particular certain Member States where prices are very high would benefit more. Euro area citizens and businesses would also benefit from it to the extent that they could receive payments at a lower cost from non-euro countries, making it easier to offer goods and services. The overall savings would amount to about EUR 900 million/year. **Rating: +++**

Specific objective 2: the transparency of cross-border payments in non-euro Member States will be further increased. **Rating: +++**

Specific objective 3: this option will not have a different impact on the market from option 1 as the additional transactions covered (euro payments) are already benefitting from a modern infrastructure. It would only have a minor positive impact, providing incentives to connect to the euro payments infrastructure for those PSPs that have not yet done so. **Rating: +**

⁴² 2017/2066(INI)

Specific objective 4: EU citizens and enterprises will have similar access to low-cost cross-border transactions achieving a similar reach of EU citizens and businesses, regardless of their currency and their Member State of residence. **Rating: +++**

Indirect benefits

Various indirect benefits may stem from this option to the extent that it fosters deeper economic integration of EU. Such integration would further contribute to the establishment of a level playing field for (SME) companies and more equality between consumers of euro area and non-euro area countries. This option may promote economic growth as it stimulates cross-border activity in the forms of trade, travel or tourism, benefiting both euro area and non-euro area Member States alike. These indirect benefits would increase the legitimacy and appreciation of the EU. This option is also very similar to the roaming regulation in telecoms.

6.4.2. *Costs*

Specific objective 1: payment services providers in non-euro Member States would face a much higher loss of revenues than under option 1 (EUR 900 million/year), but would still earn profits from providing cross-border payments in euro due to the low costs of euro transactions. There could be an impact on domestic payments fees if banks try to recoup lost revenues. However, as the costs of cross-border euro transactions are already much lower than for other currencies (without a modern infrastructure for cross-border payments), this option would mainly ensure that the benefit of lower costs for euro transactions is passed on to consumers. **Rating: --**

Specific objective 2: supervisors or payment services providers would suffer regulatory and compliance costs slightly higher than the ones foreseen in option 1 considering the extended scope, but they would still be limited. Only supervisors in non-euro area Member States' would be affected. **Rating: -**

Specific objective 3: payment markets modernisation is more likely, with some payment services providers having to invest to become connected to euro clearing infrastructures if they are not already connected. **Rating: -**

Table 20 –Option 2's score related to specific objectives

	SO1	SO2	SO3	SO4
Benefits	+++	+++	+	+++
Costs	--	-	-	NA

6.4.3. *Overall assessment*

Effectiveness, efficiency, coherence

This option's effectiveness is high thanks to the broad coverage of cross-border transactions for which fees will be reduced. Its efficiency is still not optimal as the extension to local non-euro currencies means that PSPs have to cross-subsidise the transactions that are also covered by option 1. However, to the extent that PSUs will switch from local currency to euro transaction across borders, the number of costly cross-border transactions in local currencies may be lower, thus limiting the costs for PSPs. The

coherence with the Single Market ideal is very high as this option fully integrates the non-euro area with the rest of the EU.

Winners and losers

Payment services users are the main beneficiaries, but payment services providers face bigger revenue losses.

Table 21 – Impacts on different stakeholders of Option 2

	Payment Services Users	Payment Services Providers	Supervisors	EU Society / Single Market
Impact	+++	--	-	++

Option 2 has no environmental impact

Stakeholder views

This option was not favoured by payment services providers, which repeatedly claimed that cross-border local currency transactions are costly transactions. Many of them highlighted the difference between euro transactions as straight-through processed low cost transactions compared to other (local) currencies. In addition, this opt-in was not exercised by any Member State in the last 17 years, which would tend to prove it is not optimal. By contrast, payment services users would support this option, which would also find the favours of the European Parliament⁴³.

6.5. Option 3 – Extending Regulation 924 only to euro cross-border payments

Option 3 differs from Options 1 and 2 as it would require the equalisation of fees for domestic transactions in the national currency and cross-border transactions only for euro cross-border transactions. Option 1 would remain an opt-in in Regulation 924.

6.5.1. Benefits

Direct benefits

Specific objective 1: the number of transactions that will be covered by such an extension will only marginally decrease compared to option 2 leaving aside cross-border transactions that take place in local currencies (0.5% as discussed under Option 1). This option would still cover 80% of all intra-EU cross-border transactions from non-euro Member States. As for option 2, the main beneficiaries of this option would be non-euro area citizens. Euro area citizens and businesses would also benefit from it to the extent that they could receive payments at a lower cost from non-euro countries, making it easier to offer goods and services. The overall savings for payment services users would amount to about EUR 900 million/year. **Rating: +++**

Specific objective 2: the transparency of cross-border payments will be slightly lower than under option 2. **Rating: ++**

⁴³ 2017/2066(INI)

Specific objective 3: as this option is limited to euro payments for which a modern infrastructure is already available, it should only have a minor positive impact, providing incentives to connect to the euro payments infrastructure for those PSPs that have not yet done so. **Rating: +**

Specific objective 4: EU citizens and enterprises will have similar access to low-cost cross-border transactions achieving a similar reach of EU citizens and businesses, regardless of their currency and their Member State of residence. **Rating: +++**

Indirect benefits

As per option 2, impacts on the EU's reputation and economic integration would be significant. Similarly, this option may also foster growth, and provide a level-playing field for commerce.

6.5.2. *Costs*

Specific objective 1: PSPs would face large revenue losses (EUR 900 million/year), almost to the same extent as under option 2 without necessarily making losses when offering cross-border payments. There could be an impact on domestic payments fees if PSPs try to recoup some of these forgone revenues, but they will not have to offer cross-border payments at loss, so there is no need for cross-subsidization. **Rating: -**

Specific objective 2: supervisors or payment services in non-euro area Member States would face regulatory and compliance costs that are similar to those under option 1 (one currency involved). **Rating: -**

Specific objective 3: as for option 2, costs would remain limited as the infrastructure is already in place. **Rating: -**

Table 22 -Option 3's score related to specific objectives

	SO1	SO2	SO3	SO4
Benefits	+++	++	+	+++
Costs	-	-	-	NA

6.5.3. *Overall assessment*

Effectiveness, efficiency, coherence

This option brings all the benefits of Option 2 (except for the 0.5% of transactions not covered) while avoiding most of the costs of Option 1. Its effectiveness is ensured by the large number of transactions covered, similar to the one of Option 2. In addition, citizens and enterprises from non-euro area Member States have access to euro accounts which allow them to transact easily in euros from their countries (send and receive). Its efficiency reaches the maximum possible level of all options studied, as it is limited to cross-border payments in euro for which an efficient infrastructure is already in place. The coherence with EU policies is ensured, in particular regarding the Monetary Union by giving the euro a pivotal role for all EU Member States.

Winners and losers

As for option 2, payment services users benefit strongly while payment services providers face significant revenue losses. However, in contrast to option 1 and 2, they do not need to cross-subsidise inefficient cross-border transactions in their local currencies.

Table 23 – Impacts on different stakeholders of Option 3

	Payment Services Users	Payment Services Providers	Supervisors	EU Society / Single Market
Impact	+++	-	-	++

Option 3 has no environmental impact

Stakeholder views

Payment services providers emphasized the difference between euro transactions as straight-through, low-cost transactions compared to transactions in other currencies. This option would be the least problematic way of extending the scope of Regulation 924. This option would also come close to the views of the European Parliament.⁴⁴ In addition, the EP report on the Action Plan referred to the absence of a "*common European online banking payment instrument*"; this option would allow developing such an instrument for the entire EU on the basis of SEPA credit transfers for instance. Payment services users would also support this option.

6.6. Option 4 – Extending Regulation 924 to all currencies of Member States of the EU

Finally, Option 4 would require PSPs to align their fees for all cross-border transactions between EU countries in whatever EU currency with domestic transactions, including transactions in currencies that are not the ones of the sending or receiving country.

6.6.1. Benefits

Direct benefits

Specific objective 1: the number of transactions that will be covered by such an extension will reach the maximum possible that is to say 100% of **all cross-border transactions within the EU**. Maximum savings would be reached under this option, close to EUR 1.5 billion/year. **Rating: +++**

Specific objective 2: the transparency of cross-border payments will be maximized. **Rating: +++**

Specific objective 3: this option is the one that is most likely to lead to an upgrade of infrastructures for cross-border payments in non-euro currencies. It is more likely to justify the development of a multi-currency EU-wide infrastructure, thanks to the additional transactions originated from euro Member States. However, there is no certainty that this major modernisation will happen, and PSPs may instead resort to cross-subsidisation or limiting their offer of cross-border transactions. Indeed, PSPs may only recoup their investment over a very long period (see costs) **Rating: ++**

⁴⁴ 2017/2066(INI)

Specific objective 4: all EU citizens and enterprises will have the same access to low-cost cross-border transactions, regardless of their currency and their Member State of residence. **Rating: +++**

Indirect benefits

As per option 2 and 3, impacts on the EU's reputation, economic integration and economic growth would be very significant.

6.6.2. *Costs*

Specific objective 1: PSPs would face large revenue losses and additional costs for cross-border transactions in currencies other than the euro (in total, close to EUR 1.5 billion/year) that they would have to offer at loss at the same price as domestic transactions. **Rating: ---**

Specific objective 2: supervisors or payment services providers would face higher regulatory and compliance costs than under options 1, 2 and 3, as non-euro and euro Member States would be impacted. **Rating: ---**

Specific objective 3: costs of a payment systems modernisation to cater for non-euro area currencies would be significant, but it is not certain that PSPs would actually make such investments (estimated at 3 billion euros). An alternative and possible vehicle could be the TIPS solution developed by the ECB for instant payments in euro. However, it is too soon to evaluate the capacities of this infrastructure to bring an answer to the issue of non-euro transactions. In addition, this infrastructure is designed for instant payments in euro which large scale adoption should only take place as of 2020. An extension to other currencies is still difficult to evaluate. **Rating: ---**

Table 24 –Option 4's score related to specific objectives

	SO1	SO2	SO3	SO4
Benefits	+++	+++	++	+++
Costs	---	---	---	NA

6.6.3. *Overall assessment*

Effectiveness, efficiency, coherence

This option is very effective and brings the largest benefits to EU payment services users. However, these benefits may come at a high price as either major investments would have to be undertaken to cater for the additional transactions and maintain low internal costs to remain profitable (up to EUR 3 billion one-off as described earlier in this chapter). Failing that, cross-subsidization would have to happen, or PSPs might not offer the full range of cross-border transactions when price does not cover costs. The benefits brought by a renewed infrastructure and processes were earlier estimated at EUR 500 million over 5 years; this may not be efficient in view of the long period of time required to recoup these investments, estimated at 30 years (EUR 3 billion investment for roughly EUR 100 million/year efficiency gains). During such a long period, some Member States may adopt the euro, reducing further the incentives for Option 4. Coherence with EU policies is lower

than for other policy options as this option could amount to abandoning the goal of integrating all Member States into the Monetary Union.

Winners and losers

This option would benefit payment services users, but would imply significant costs for PSPs.

Table 25 – Impacts on different stakeholders of Option 4

	Payment Services Users	Payment Services Providers	Supervisors	EU Society / Single Market
Impact	+++	---	--	++

Option 4 has no environmental impact

Stakeholder views

This option was not presented in the public consultation. However, it can be anticipated that payment services providers would not support this option as they would have to invest in non-euro currency processing and infrastructure with very uncertain prospects of recouping the investment, let alone earning a return; alternatively, they would have to cross-subsidise unprofitable transactions. Payment services users could be in favour of such an option, but they may face increased domestic fees to finance infrastructure investments or cross-subsidise non-euro transactions. The European Parliament did not consider such a wide-ranging approach.⁴⁵

⁴⁵ 2017/2066(INI)

7. HOW DO THE OPTIONS COMPARE?

The analysis of options is summarised in tables 26 and 27. The scores for effectiveness are directly taken from the previous section, whereas efficiency looks at the costs associated with each option in relation to their effectiveness. Option 4 incurs the highest costs (including losses on non-euro cross-border transactions) and the largest number of transactions covered. Option 1 implies the lowest costs, but covers by far the smallest number of transactions. The best efficiency is achieved by Option 3 under which PSPs will not have to cross-subsidise transactions or invest in infrastructure while having to offer low prices for the vast majority of cross-border transactions in non-euro countries. PSPs will face significant revenue losses under all options with the exception of option 1.

As regards coherence of the options with other EU policy objectives, one may note that each of the options contributes to a better functioning of the Single Market. Those options that lower the costs of non-euro transactions may run counter to the long-term goal of bringing all Member States into Monetary Union, whereas option 3 in particular brings some key benefits of the single currency also to the residents and businesses in non-euro countries.

Table 26: comparison of options in terms of effectiveness, efficiency and coherence

Objectives	Effectiveness				Efficiency	Coherence	Comments
	Objective 1	Objective 2	Objective 3	Objective 4			
Policy options							
Baseline	=	=	=	=	=	=	
Option 1	+	+	=	+	=	+	Small share of transactions covered; need to cross-subsidise
Option 2	+++	+++	+	+++	++	++	Large number of transactions covered, but need to cross-subsidise non-euro transactions
Option 3	+++	++	+	+++	+++	+++	Large number of transactions covered; fully consistent with Monetary Union goal; no cross-subsidisation needed
Option 4	+++	+++	++	+++	+	+	Most ambitious in terms of coverage, but costly. Would only make sense if Monetary Union goal is abandoned by non-euro countries

Table 27: comparison of options in terms of impacts on different stakeholders

	Payment Services Users	Payment Services Providers	Supervisors	EU Society / Single Market
Baseline	=	=	=	=
Option 1	+	-	-	=
Option 2	+++	--	-	++
Option 3	+++	-	-	++
Option 4	+++	---	--	++

8. PREFERRED OPTION

Among the three highly effective options (2, 3 and 4), Option 3 appears as the most efficient, given that the infrastructures are already in place for euro payments so that they can be made at very low costs, as straight-through processed and automated payments. Option 2 would only bring an additional 0.5% number of transactions within the scope of Regulation 924 (compared to Option 3) with high costs for payment services providers in relation to the small number of additional transactions. Option 3's effectiveness stems from the volume of transactions covered, estimated at a minimum of 80% of the total transactions of non-euro Member States, which in turn account for about 76% of the maximum scope (euro and non-euro Member States altogether). Overall, this option would cover about 61.5% of cross-border intra-EU transactions that are today not covered by Regulation 924. Option 3 also appears to be the most consistent with EU policies, and notably the goals of bringing non-euro countries into Monetary Union. Finally, stakeholder support would certainly be strongest for either Option 2 or Option 3. However, the costs implied by including non-euro transactions in the scope would certainly result in strong resistance from payment services providers.

In addition, various indirect benefits may stem from this option to the extent that it fosters deeper economic integration of EU. Such integration would further contribute to the establishment of a level playing field for (SME) companies and more equality between consumers of euro area and non-euro area countries. This option may promote economic growth as it stimulates cross-border activity in the forms of trade, travel or tourism, benefiting both euro area and non-euro area Member States alike. These indirect benefits would increase the legitimacy and appreciation of the EU.

In light of the above, the preferred option is Option 3: extending Regulation 924 so that fees for cross-border payments in euro are equalised with the price of corresponding national transactions in the national currency of non-euro countries.

8.1. Impact on SMEs

SMEs will experience a positive impact from the introduction of the retained option. SMEs based in the euro area will benefit from potentially higher demand from consumers and enterprises in non-euro Member States where high fees for cross-border payments constitute a significant barrier. SMEs based in non-euro area Member States will be given lower-cost access to 360 million citizens (potential clients) and 16 million euro area enterprises (clients and providers). Hence, they can compete better on the EU market. Most SMEs, in particular the smallest ones, do not have the capacity to negotiate the fees they pay for cross-border payments. This is usually restricted to larger corporate customers that benefit from the cash management services of major banks, as was confirmed by the responses given to the open public consultation. An extension of the Regulation would therefore benefit SMEs much more than larger companies.

A report by Account illustrated the high costs of cross border transactions for SMEs through a case on the United Kingdom. This report found that SMEs in the UK alone collectively can pay up to £ 4 billion GBP a year for hidden fees in such transactions⁴⁶. The retained option would only address the part of these transactions made in euros, but would still make a significant contribution to allowing effective cost reduction for SMEs, particularly if they then switch to making more transactions in euro.

⁴⁶ <https://www.moneymover.com/media/uploads/files/UK-SME-International-Payments-Analysis-Full-Report.pdf>.

8.2. Impact on Currency Conversion

8.2.1. *The two currency conversion models*

When making a card payment abroad (making a cash withdrawal at ATMs and card payments at a point of sale) in a different currency than his home currency, a payment service user faces two possibilities:

- paying in his or her 'home currency' using the service of dynamic currency conversion service providers, or 'DCC'. This amount is established by the DCC provider on the basis of its foreign exchange reference rate plus a mark-up. This mark-up is said to factor in the risk of fluctuation in currency rates. In the payment transaction chain, the card issuing bank authorizes a payment in its home currency and therefore does not have to engage in the process of currency conversion. The amount that is offered to the consumer in the home currency at the POS, or at the ATM will therefore be the final amount that will be paid, regardless of the clearing at a later stage.
- paying in the local currency using the services of the card scheme and his bank (non-DCC or on-network conversion) just as for other payment transaction such as credit transfers. The currency conversion to the consumer's home currency happens at the time of clearing by his bank. In most cases, his banks (the issuing bank) makes use of a foreign exchange rate offered by the card-scheme of the cardholder⁴⁷, on top of which its own mark-up can be applied, possibly in combination with a fixed fee. The clearing and settlement therefore happens at a later time than the moment the payment was initiated (usually D+1 for such intra-EU transactions in currencies of EU Member States). Because of this, a different foreign exchange rate will apply to the payment than the one at the time when the payment was initiated (i.e. the transaction date).

Art. 59 of the Second Payments Directive ('PSD2')⁴⁸ imposes transparency requirements for transactions in a foreign currency. This article obliges the party offering currency conversion services to disclose to the payer all charges as well as the exchange rate used for converting the payment transaction.

Two issues arise though:

- Today, the only information displayed in advance to the payment services user is the charges that he will pay by using Dynamic Currency Conversion. Information on non-DCC currency conversion is not available at the time of purchase⁴⁹. The payment services user is hence unable to compare offers and make an informed choice.

⁴⁷ <https://www.visaeurope.com/making-payments/exchange-rates>

<https://www.mastercard.us/en-us/consumers/get-support/convert-currency.html>

⁴⁸ Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC, OJ L 337, 23.12.2015, p. 35–127

⁴⁹ In fact the customer contract contains the mark-up (e.g. 2.1%), a foreign exchange reference rate, that is usually fixed **after** the transaction date (e.g. D+1), and potential additional fees.

- In addition, when the consumer is faced with the option of making use of DCC or paying in the local currency, he usually has to make this decision in a time constrained environment (for example in the queue in a shop or at an ATM). This creates further difficulty for the consumer to make a beneficial and well-considered choice.

In order to create transparency on the currency conversion market, it is therefore important that the consumer is aware of, and presented clearly with the different options in order to make an informed decision.

8.2.2. Risk of costs passed on towards non-transparent factors

As mentioned various times already in this report, one of the risks posed by the extension of Regulation 924/2009 to cover all cross-border transactions in euros is that the lost revenue is recouped elsewhere in the transaction chain. It is possible that payment service providers increase the prices of other services in order to make up for such lost income. Increasing currency conversion charges would be a relatively easy option to recoup losses, as they are less transparent than fees for e.g. domestic transactions or account management, as often it is not clear for the consumer what the exact mark-up of a currency conversion is, or what other extra fees apply.

Consumers' lack of awareness on currency conversion is further demonstrated by the results of the open public consultation, where more than 2/3 of the private individuals believed that consumers are not aware of the different options of currency conversions and are unable to make an empowered decision. This makes currency conversion particularly susceptible to the recovery of lost revenues by PSPs. In order to ensure that the efforts put in amending Regulation 924/2009 are not countered by PSPs to the detriment of payment services users and to ensure that they will be able to benefit from competition through transparency and the capacity to make an informed choice, it is important to create comparable options for the consumer.

Table 28: Question 13.c of the Open Public Consultation - How aware are consumers of the different options for currency conversion that exist and their prices?

Respondent	Not aware at all (1)	Not aware (2)	Moderately aware (3)	Aware (4)	Fully aware (5)	No opinion
<i>All</i>	26.6	22.6	17.7	8.9	6.5	17.7
<i>Private Individuals</i>	35.6	33.3	8.9	8.9	6.7	6.7
<i>All Organisations</i>	23.6	16.7	22.2	8.3	6.9	22.2
- PSUs	47.1	17.6	5.9	14.7	5.9	8.8
- PSPs	7.5	12.5	35.0	5.0	7.5	32.5
<i>National Authorities</i>	0.0	14.3	28.6	14.3	0.0	42.9

Table 29: Question 13.d How empowered are consumers to make the best choices for service provider for currency conversions?

<i>Respondent</i>	<i>Not empowered at all (1)</i>	<i>Not empowered (2)</i>	<i>Moderately empowered (3)</i>	<i>Empowered (4)</i>	<i>Fully Empowered (5)</i>	<i>No opinion</i>
<i>All</i>	25.2	23.6	15.0	7.1	7.9	21.3
<i>Private Individuals</i>	46.7	26.7	11.1	6.7	0.0	8.9
<i>All Organisations</i>	14.7	22.7	14.7	8.0	13.3	26.7
<i>- PSUs</i>	27.8	30.6	0.0	16.7	5.6	19.4
<i>- PSPs</i>	7.3	12.2	26.8	2.4	19.5	31.7
<i>National Authorities</i>	0.0	14.3	42.9	0.0	0.0	42.9

8.2.3. Solution: Further transparency requirements to achieve comparability through Regulatory Technical Standards

In order to mandate full transparency that would present comparable options for the consumer it would be necessary to thoroughly investigate how this can best be achieved under the current payment infrastructure. Such an investigation would require further stakeholder consultation and assessment of technical specificities on both software and payment processes. This is especially the case due to the highly technical nature of the considerations that need to be given to mandating the appropriate transparency requirements, as well as the fast-paced technological development in respect of payment terminals, infrastructure, and software.

In order to ensure that transparency obligations provide a suitable solution to the technical framework, the amendment to Regulation 924 should provide for a mandate for the EBA to address this issue in the form of Regulatory Technical Standards ('RTS'). This would allow the EBA to engage in the technical examination of the relevant factors identified above in order to come to a technical solution. Through the RTS, the EBA would be able to impose and specify the transparency requirement for consumers to be both informed, and make empowered decisions. Such requirements could for example stipulate an estimated total local currency equivalent for non-DCC models as well to be presented in parallel to the DCC offer at the spot.⁵⁰ Additionally, such transparency requirements would be able to address the steering practices, if the EBA, after examination and consultation believes that this would be relevant to include.

Such an RTS would have to be accompanied by its own Impact Assessment to be prepared by EBA. This provides the opportunity to study current and evolving practices on currency conversion of various market players, and will enable the agency to carefully consider all relevant costs and benefits of the different requirements. This will guarantee that the final transparency requirements are precise, proportionate and suitable as a solution to enhance competition through transparency, and prevent abusive prices or practices towards consumers.

The arrangement to develop transparency requirements in an RTS ensures that the timeline on the equalisation of cross-border fees under the amendment to Regulation 924 is not

⁵⁰ In addition, one may consider the presentation of the (estimated) reference foreign currency rates and the mark-ups (margin) in percentage.

jeopardized by further stakeholder consultations. Therefore, EU citizens and companies will not be deprived any longer of the benefits of extending the Regulation as such.

8.3. Impact on competitiveness

The competitiveness of EU enterprises will be positively affected allowing EU companies to reach a wider pool of providers or clients at a lower cost. The EU economy as a whole will become more competitive thanks to a tighter economic integration resulting from the removal of payment-cost related barriers.

8.4. Subsidiarity and Proportionality

In line with the principle of subsidiarity as assessed in part 3 of this Impact Assessment, the extension of the Regulation under option 3 provides a balanced approach for which regulation at EU level seems most appropriate. It proposes an alternative to options 1 and 2 which Member States could have used on a voluntary basis but which would imply significant costs for payment services providers. The extension of Regulation 924 in accordance with option 3 will achieve a level playing field for businesses and prevent the further continuation of a two-tier Europe for payment services users, which has so far not been achieved by non-euro Member States (except for Sweden). Regulation at EU level will ensure that the level playing field is extended to the whole of Europe.

Proportionality is also assured as the preferred option achieves most of the desired benefits while keeping the costs of implementation to a minimum, although the loss of revenues for PSPs is likely to be significant. However, the high fees for cross-border transactions in euro are not justified in view of the fact that all EU payment service providers have access to efficient euro clearing and settlement infrastructures.

8.5. UK leaving the EU

The figures presented throughout this impact assessment all include UK cross-border transactions and transactions in GBP. The UK leaving the EU would have two major consequences in the current context: (1) it would reduce the number of non-euro countries that benefit, i.e. UK citizens and enterprises would no longer benefit from the fee reductions; and (2) it would reduce the savings of citizens and enterprises in the EU as regards their cross-border transactions with the UK (most of the time in GBP). Nevertheless, it does not change the outcome of the impact assessment or the choice of Option 3 as the preferred option. Firstly, even though one major country⁵¹ would no longer benefit from the extension of the regulation to euro payments, there would still be seven non-euro Member States left which would benefit from cheaper euro payments⁵². Secondly, the UK's exit would further reduce the attractiveness of Option 4 as GBP payments are likely to be the most common cross-border non-euro payments, hence the benefit of extending the regulation to other non-euro currencies of the EU would be significantly reduced.⁵³

⁵¹ This is not changed by the fact that the UK, being the largest country as regards its population and GDP, has a dominant share within the transactions of the non-euro country group. The share of UK in credit transfers and card payments is about 80% of the total non-euro area payments value.

⁵² Unless they transact in EUR with UK counterparties, which is possible but likely to be negligible at best, considering that euro is not the local currency of either counterparty.

⁵³ There are no data available on the currency distribution of payments, but based on the GDP, UK (GBP) should represent about 60% of cross-border non-euro transactions from EU Member States.

8.6. REFIT: Simplification and improved efficiency

Regulation 924 was flagged as a REFIT initiative in the Commission Work Programme. According to the REFIT goals and methods⁵⁴, a revision of the Regulation would aim to provide a more efficient and effective regulatory framework. Regulation 924 was already subject to simplification in 2012 through amendments brought by the SEPA end-date Regulation (EU 260/2012) which suppressed the EUR 50.000 cap beyond which Regulation 924 did not apply. A number of reporting obligations were also revised.

The retained option will enhance the effectiveness of Regulation in the spirit of REFIT. The first recital of Regulation 924 stressed that *"for the proper functioning of the internal market and in order to facilitate cross-border trade within the Community, it is essential that the charges for cross-border payments in euro are the same as for corresponding payments within a Member State"*. Regulation 924 on cross-border transactions has indeed brought tangible benefits to euro area citizens, eliminating payment-related barriers within the euro area. Although Regulation 924 applies to all euro transactions in all Member States, it has not worked for EU citizens and businesses outside the euro area, in spite of their wide-spread use of the euro for cross-border transactions. The retained option (equalisation of fees for cross-border transfers in euro with corresponding fees for domestic transactions in local currency) would remedy this shortcoming of Regulation 924 and would finally allow all EU citizens and businesses to benefit from this Regulation which had always been intended to produce its positive effects in the entire EU and not just in the Euro area.

Table 28 - 1.1. Simplification and improved efficiency– Preferred Option(s)

<i>Description</i>	<i>Amount</i>	<i>Comments</i>
Direct regulatory benefits from reduced fees for cross-border payments in euro.	EUR 900 million (61.5% of the maximum possible savings) – see calculation in 6.1.2	Payment Services Users impacted (citizens/consumers, SMEs) – Recurrent
Clearer and more transparent pricing of cross-border transactions in non-euro countries	Not quantifiable	Reputational benefits for the EU; increased awareness of the benefits of the euro

⁵⁴ https://ec.europa.eu/info/law/law-making-process/evaluating-and-improving-existing-laws/refit-making-eu-law-simpler-and-less-costly/refit-platform/role-structure-and-working-methods-refit-platform_en

9. HOW WILL ACTUAL IMPACTS BE MONITORED AND EVALUATED?

The policy should be reviewed after three years to evaluate whether payment service providers have tried to recoup lost revenues by raising other prices and whether more transactions should be brought within the scope of the Regulation. To this end, the monitoring and evaluation of the amendment to the Regulation should both evaluate the effect on transaction fees and currency conversion.

Regarding the effect on transaction fees, an assessment of market prices for cross-border transactions was made for this Impact Assessment, based on the prices applied by the top three to seven payment services providers in each non-euro Member State and in three euro Member States. Fees charged for current accounts have already been studied in the past in the framework of the Payments Account Directive.

In addition, volumes should be analysed: an increase in volumes of euro transactions would be considered a success especially if transactions in other currencies would decrease. This could mean that a shift from non-efficient transactions towards efficient transactions took place (this would need to be analysed further). Such developments would also need to be compared with trends for domestic transactions.

This follow-up study should also explore initiatives taken by the market to reduce internal costs for providing cross-border transactions, if any. The impact of the ECB's Target Instant Payment Settlement (though the use of this new infrastructure is today limited to instant payments in euro) or any other developments in this field (i.e. that could come from EBA clearing or EACHA) that may take place in the meantime on non-euro currency transactions should also be looked at in order to assess whether Option 4 discussed in this paper could materialize. The indirect effects of level-playing field from cheaper cross-border transactions and the resulting growth in the underlying cross-border activity shall also be assessed through a qualitative study close to the Eurobarometer⁵⁵ one (as precisely quantifying the effects here would be difficult). Finally, it should be assessed whether prices of other basic banking services have changed and whether this could be the result of attempts by PSPs to recoup lost revenue from cross-border transactions.

Also the effects of amending the Regulation will require monitoring of currency conversion costs. Currency conversion costs are currently only partially known but will be studied by EBA under the mandate that will be attributed to them. Similarly to the Interchange Fee Regulation, a "0 study" could provide a picture of the market before the entry into force of the amendments to Regulation 924/2009. Three years after entry into force of the reviewed legislation, a similar study could be conducted to monitor how prices have evolved. The focus should be in particular on currency conversion margins, domestic transaction prices and account fees.

Monitoring efforts should also strive to offer more detailed payments statistics as publicly available data remains limited: ideally, reliable data should be available for all types of payments transactions and all countries of the EU. Payments statistics should include the currency used for transactions (such data is currently only available for extra-EU transactions), provide breakdowns based on the sending and receiving countries, and allow the identification of the provider of the currency conversion service (e.g. a bank, Fintech company or DCC provider). These improvements will be further discussed with the European Central Bank.

⁵⁵ Special Eurobarometer 446

1. ANNEX 1: PROCEDURAL INFORMATION

1.1. Lead DG, Decide Planning/CWP references

This Impact Assessment Report was prepared by Directorate D "Regulation and prudential supervision of financial institutions" of the Directorate General "Directorate-General for Financial Stability, Financial Services and Capital Markets Union" (DG FISMA).

The Decide Planning reference of the "[xx]

The initiative on cross-border payments was included in the Action Plan on Consumer Financial Services⁵⁶ under Action #1 and published on 23/03/2017.

1.2. Organisation and timing

Several services of the Commission with an interest in the assessment of the initiative have been associated in the development of this analysis. Three Inter-Service Steering Group (ISSG) meetings, consisting of representatives from various Directorates-General of the Commission, were held in 2017.

The first meeting focused on the open public consultation strategy. It took place on 29 June 2017, attended by DG COMP, DEVCO, ECFIN, EMPL, JUST and the Secretariat General (SG).

The second meeting was held on 22 November 2017. The representatives from DG ECFIN, COMP, JUST, GROW, EMPL and the Secretariat General (SG) were present and the meeting focused on the way forward with the Impact assessment.

The third meeting was held on 14 December 2017 and was attended by DG ECFIN, COMP, JUST, GROW, EMPL and SG. This was the last meeting of the ISSG before the submission to the Regulatory Scrutiny Board on 17 January 2018.

The meetings were chaired by SG.

DG FISMA has updated the Impact Assessment Report by taking into account the comments made by other DGs. In particular, the following points were considered:

- The addition of content on currency conversion costs, not covered by Regulation 924, that could be impacted as a switch of revenues from payment services providers.
- The addition of a reference to the roaming Regulation as various points of similarities were identified with the extension of Regulation 924.
- A revision of the Open Public Consultation synopsis in order to "neutralise" questions that had not received answers (expert questionnaire not answered by citizens) in order to present figures that are more easily understandable.

⁵⁶ COM/2017/0139 final

- Explanations on the reasons why non-euro Member States opted-in or not
- Practical examples of transactions that would be impacted by an extension of the Regulation and benefits for citizens and enterprises
- Impacts of the UK leaving the EU

1.3. Exceptions to the better regulation guidelines

No exception from the Better Regulation Guidelines has been identified by DG FISMA.

1.4. Consultation of the Regulatory Scrutiny Board

The Impact Assessment report was examined by the Regulatory Scrutiny Board on 20 February 2018. The Board gave a positive opinion.

1.5. Evidence, sources and quality

Sources for figures used through the Impact Assessment are all extracted from the ECB public database of payment statistics available on the ECB website under the following address: <http://sdw.ecb.europa.eu/reports.do?node=1000004051>. These were cross-checked with individual data per Member State whenever available and cross-checked with Basel Committee data. The quality of this public data was challenged in some cases and for very specific Member States – statistical anomalies are indicated where found in annexes (in particular on volumes of transactions). In those specific cases, estimates were provided in place of official data.

In addition the European Commission contracted a dedicated study with Deloitte gathering data on official fees charged by banks across the EU in all 9 non-euro Member States as well as 3 euro Member States. The same study also looked at volumes of payments as well as internal costs borne by payment services providers for euro transactions and non-euro transactions. The study is available at https://ec.europa.eu/info/files/180328-study-cross-border-transaction-fees-extension_en

Various other sources were used across the Impact Assessment (reports from McKinsey, CapGemini, previous studies done in the context of the evaluation of Regulation 924 or the publication of the revised Payment Services Directive in 2013) and are indicated whenever relevant.

2. ANNEX 2: STAKEHOLDER CONSULTATION

Introduction

This stakeholder consultation synopsis report provides a summary of the outcomes of the stakeholder consultation activities which were carried out as part of the review of a possible extension of Regulation 924/2009. The synopsis summarizes the responses of stakeholder groups that were consulted or provided feedback. Additionally, this synopsis analyses the main trends that became evident during the consultation process.

The aim of the consultation process was to collect feedback amongst different stakeholders on a possible extension of Regulation 924/2009, and allow a wide range of relevant actors to provide their view on the issue. Another important objective was to gain an insight into first hand experiences by payment service users with cross-border fees, as well as collecting technical input from payment service providers.

Over the course of the consultation period that started end of Q2 2017, different types of consultation activities took place.

- An Open Public Consultation on the transaction fees took place between 24 July 2017 and 30 October 2017 (14 weeks).
- A targeted stakeholder consultation took place by Deloitte, under the framework of the study commissioned by the European Commission to review Regulation 924/2009.
- A consultation amongst stakeholders from the industry, including representatives from different payment service providers during the meeting of the Payment Systems Market Expert Group, on 24 October 2017.
- An additional consultation amongst representatives of Member States took place under the framework of the Commission Expert Group on Banking, Payments and Insurance, on 17 November 2017
- The Financial Services User Group (FSUG) could provide input and observations in a consultation on 5 December 2017.
- Separate individual consultations at different events or meetings.

Public Consultation

An Open Public Consultation of 14 weeks was launched between 24 of July 2017 and 30 October 2017. In order to attract a wide range of respondents, two questionnaires were made available. The first questionnaire was directed at non-experts, and provided questions that were also suitable for consumers. The second questionnaire contained additional, more specific questions and was aimed at experts in the field.

The consultation was answered by about 150 respondents. Around $\frac{1}{3}$ of the respondents was made up of consumers and a little less than $\frac{2}{3}$ of the respondents was made up of companies (with a $\frac{1}{3}$ of the companies or organisations being payment services users, and $\frac{2}{3}$ payment services providers). The consultation received a very limited number of responses from public authorities (around 5%).

The consultation received responses from 23 different countries. Two responses came from countries outside of the EU: from Norway and the United States of America. A total of 41.8% of the respondents were based in non-euro Member States or third countries, and

the majority of the respondents was based in the Euro area (58,2%). Most respondents came from Spain (15,6%), the United Kingdom (13,5%), and Germany (10,6%).

Results of the Open Public Consultation showed a clear divergence of views between payment services users and payment service providers. The former considered cross-border payments as expensive and not transparent and supported an extension of the Regulation. The latter category of payment services providers predominantly held the opposite view. They regarded cross-border payments as not expensive and transparent and suggested leaving the prices of cross-border transactions to market forces. See for example the tables below on respondents' perception of transparency and pricing.

Table [29] Respondents' perception of fees for making transactions from their country to other EU Member states in currencies other than the euro

<i>Respondent</i>	<i>Not expensive at all (1)</i>	<i>Not expensive (2)</i>	<i>Moderately expensive (3)</i>	<i>Expensive (4)</i>	<i>Very expensive (5)</i>	<i>No opinion</i>
<i>All</i>	4.8	8.9	13.7	15.3	29.0	28.2
<i>Private Individuals</i>	2.2	6.7	8.9	17.8	44.4	20.0
<i>All Organisations</i>	6.9	11.1	16.7	15.3	19.4	30.6
<i>- PSUs</i>	3.1	9.4	15.6	21.9	37.5	12.5
<i>- PSPs</i>	10.3	12.8	17.9	10.3	5.1	43.6
<i>National Authorities</i>	0.0	0.0	14.3	0.0	28.6	57.1

44% of the respondents indicated that non-euro transactions within the EU are expensive to very expensive and 14% indicated they were not expensive. When looking at payment services users, 62% of individuals and 59% of companies indicated that these transactions are expensive. These figures are somewhat distorted by the large number of respondents that provided "no opinion". Restricting the analysis to payment services users that expressed an opinion on the subject, nearly 80% of individuals and 67% of companies classified these transactions as expensive or very expensive. National authorities, which are also payments services users, agreed with this view though their limited representation in the answers does not guarantee a robust analysis.

Table [30] Respondents' perception of fees for making transactions from their country to other EU Member states in currencies other than the euro

<i>Respondent</i>	<i>Not transparent at all (1)</i>	<i>Not transparent (2)</i>	<i>Moderately transparent (3)</i>	<i>Transparent (4)</i>	<i>Very transparent (5)</i>	<i>No opinion</i>
<i>All</i>	15.2	21.6	15.2	7.2	21.6	19.2
<i>Private Individuals</i>	24.4	33.3	13.3	4.4	6.7	17.8
<i>All Organisations</i>	9.6	16.4	15.1	8.2	31.5	19.2
<i>- PSUs</i>	18.8	21.9	25.0	9.4	9.4	15.6
<i>- PSPs</i>	2.5	12.5	7.5	7.5	50.0	20.0
<i>National Authorities</i>	14.3	28.6	0.0	14.3	14.3	28.6

For euro transactions, the picture is quite similar to the previous one though less people answered this question, with 16% considering that euro transactions from non-euro area

Member States are not expensive and 32% considering they are. When looking at payment services users, 48% of individuals and 38% of companies indicated that these transactions are expensive. These figures are also distorted by the even larger number of "no opinions" form of answers. Restricting the analysis to payment services users that expressed an opinion on the subject, nearly 70% of individuals and 56% of companies classified these transactions as expensive or very expensive.

Additionally, the Open Public Consultation provided a number of case studies where consumers were able to share their experiences with cross-border transactions. Some mentioned that the fees paid could run up to 60% of the transaction they made. This was particularly valid for small amounts. An example of such a transaction was a transfer of £ 20 GBP to a Romanian bank, which cost £ 12 GBP. For larger amounts the percentage of the fee in relation to the transfer often turned out lower. An example of such a transfer could be a fee of 20%, where one respondent had to pay € 20 EUR for a transaction of € 100 EUR from Bulgaria to Germany.

Payment service providers stated that factors in these costs included correspondent banking fees, currency conversion, access to payment infrastructure and inefficiencies due to volume.

The full analysis of the questionnaire is provided in a Feedback Statement on the Commission's webpage, along with all public responses to the consultation. See:

- https://ec.europa.eu/info/consultations/finance-2017-cross-border-transactions-fees_en

For a full description of the public consultation see:

- https://ec.europa.eu/info/sites/info/files/2017-cross-border-transactions-fees-consultation-document_en.pdf

The Consumer and payment services users' associations survey

These figures are further confirmed by the results of a study contracted by the European Commission with an external provider. The external provider reached out to 13 consumer associations and payment services users associations representing the interests of the wider community of payment services users.

Regarding cross-border transactions, about 92% of the consumers occasionally or frequently complain about hidden costs related to cross-border transactions. Only 8% indicated that this practice has never been the subject of complains. Respondents further indicated that the following situations occur, either occasionally or frequently: 'lack of transparency of the actual payment fees for cross-border transactions' (77%), 'expensive costs to withdraw money abroad' (73%), 'being obliged to pay a fee for payment transactions within the European Union' (69%), 'expensive costs to transfer credit abroad' (64%) and 'expensive costs to make card payments abroad' (64%).

Overall, according to the respondents, consumers are more often complaining (either occasionally or frequently) about practices in relation to their cross-border transactions as compared to domestic transactions.

The survey also aimed at gathering feedback directly from consumers and representatives of PSU associations on an extension of Regulation 924/2009. Overall, 60% of the respondents were in favour of this.

In addition, respondents were requested, according to their knowledge, to indicate the potential consequences of an extension of Regulation 924/2009. According to most respondents (64%), the main benefit expected from this extension would be that services offered for consumers could be better compared. Moreover, for 45% of the respondents, it would lead to greater consumers' confidence to explore the market as well as encourage citizens to travel/study abroad. In addition, 36% of the respondents think that an extension of the Regulation could encourage PSPs to modernize payment systems to in order to lower their internal costs.

Different opinions were submitted on the possible impact of an extension of the Regulation on the fees charged by PSPs. On the one hand, nearly half of all associations' representatives (45% of respondents) believe that this extension would frequently lead to a decrease in the fees charged by PSPs. On the other hand, 18% of representatives mentioned that this could frequently lead to increased fees charged by PSPs.

Special Eurobarometer on Financial Products and Services

These results support the conclusions of a special Eurobarometer survey carried out by the TNS Opinion & Social network in the 28 Member States of the EU between 9 and 18 April 2016. 27.969 EU citizens from different social and demographic categories were interviewed face-to-face at home and in their native language on behalf of DG FISMA⁵⁷.

Citizens were questioned on their perceptions of fees charged for transactions in or to EU Member States where other currencies are used. While 62% respondents who made one of these transactions agreed the information on fees charged for them is transparent, 64% respondents who made one of these transactions agreed the fees charged for such transactions are too high.

Deloitte Study

The Commission enlisted the services of Deloitte to evaluate the available options of the extension of Regulation 924. This study provided further insight in both the business models of payment service providers that provide cross-border transactions, as well as the experiences of consumers and other payment service users.

The report fulfilled two main tasks:

- A data collection across 12 Member States on the fees charged, internal costs and a comparison for cross-border and domestic transactions, for internal costs; and
- A cost-effectiveness analysis of different options available in extending Regulation 924/2009.

The final report of Deloitte combined a different range of methodologies, including qualitative interviews with payment service providers, surveys amongst consumer

⁵⁷ Special Eurobarometer 446

organisations, and quantitative data collection from public available resources such as the fee information documents from banks, or ECB data on payments.

The final report is available at: https://ec.europa.eu/info/files/180328-study-cross-border-transaction-fees-extension_en

Market experts

The Payment Systems Market Expert Group of the Commission was also consulted on 24 October 2017.⁵⁸ Here after is an extract of the minutes of this meeting.

The Commission (DG FISMA) presented the state of play of actions 1 and 2 of the Consumer Financial Services action plan. An open public consultation will soon close on these issues and a contracted study on cost of cross-border payments and related internal costs for banks is close to being finalised. The Commission services are currently looking into options and impacts of these options which range from "doing nothing" to suppressing the concept of "cross-border" for all transactions within the EU. The results of the public consultation, the study as well as targeted consultations will help finalise the work. On DCC, a mystery shopping study should be launched around mid-November under DG JUST's management and finalized by mid-2018.

Deloitte then presented the first results of the study conducted for the Commission on the extension of Regulation 924/2009 on cross-border transfers. While the differences between euro area countries and non-euro area countries for cross-border card payments and cash withdrawals are small, there are major differences for cross-border credit transfers which do not appear to be coherent with the costs of payment services providers, in particular in the case of euro transfers. Deloitte also presented the case of Sweden which has equalised the price of cross-border and domestic Swedish krona transfers.

Members of the PSMEG mainly questioned Deloitte on the data used and the number of respondents. One member asked whether this initiative was aligned with the Council commitment on the UN Sustainable Developments Goal to reduce the price of remittances to 3%. Remittances have been looked at in the framework of this work, although they are not covered by the Regulation which only covers electronic payments. The Commission explained that the 3% reference was used as a benchmark when looking at the maximum price of transfers within the EU. Indeed, remittances between EU and non-EU countries are costly manual cash-to-cash transactions for which the EU committed to reach a maximum cost of 3% by 2030. In comparison, transfers within the EU are electronic transactions that usually do not involve manual intervention. Their costs should certainly not exceed this maximum of 3%.

Member States

Member States were consulted in the framework of the Commission Expert Group on Banking, Payments and Insurance of 17 November 2017.⁵⁹ Here after is an extract from the minutes of this meeting.

⁵⁸ <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=2287>

⁵⁹ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-reforms-and-their-progress/regulatory-process-financial-services/expert-groups-comitology-and-other-committees/expert-group-banking-payments-and-insurance_en

DG FISMA provided an update on the progress made under Action 1 of the Financial Services Action Retail Plan. It presented a note that outlined the possible options to extend the scope of Regulation 924/2009 which concerns the extension of Regulation 924/2009 and addresses the fees of cross-border payments. The Commission presented the different possible options under consideration that aim at reducing such fees. Additionally, it provided an overview of the preliminary results of the open public consultation.

Two non-euro Member States commented on the proposal indicating that they were in favour of a not-too-strict proposal as they feared that any intervention reducing the cost of cross-border payments could have, as counter effect, the increase of domestic payments prices. Other observations involved the entrance of new service providers onto the market, the unique structure of certain national markets, or the importance of cheap domestic transactions. It was also noted that non-euro payment service providers might not be able to achieve an economy of scale effect, because they would have to deal with multiple currencies, in contrast to the Euro area members. The ECB stated in response that similar concerns and arguments were raised prior to the adoption of Regulation 2560, the predecessor of Regulation 924, but that the adoption of these regulations led to a reduction of inefficiencies in the market and such concerns never materialized.

The Commission responded that it will study all these possible impacts in an impact assessment, and that the shifting of costs by banks is a risk that will be taken into account.

It further inquired into the possibility of accessing euro account in non-euro Member States. All non-euro countries indicated it is easy and (usually) free to get access to a euro account in their jurisdictions.

Member States were further invited to submit their views in writing but did not submit any comment.

In addition, further requests were made towards Member States outside the Euro area in order to better understand the reasons why they had or had not opted-in.

Market users and Consumers

On 5 December 2017, representatives of different market users and consumers organisations were consulted through the forum of the Financial Services User Group (FSUG).⁶⁰

The Commission provided an update on the Action Plan on Consumer Financial Services. A presentation was provided on the state of play of Action 1, the extension of Regulation 924. The different options under consideration of this impact assessment were briefly touched upon.

Members were able to provide their views on the proposal, and ask questions to the representatives of the Commission. The comments of members revolved around the differences between the possible policy options, and the concern that any lack of conclusive regulation might lead to shifts in charges for consumers.

Some members explicitly repeated the need to address cross-border transactions. Other questions concerned the timeframe envisioned by the Commission, the possibilities of

⁶⁰ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-reforms-and-their-progress/regulatory-process-financial-services/expert-groups-comitology-and-other-committees/financial-services-user-group-fsug_en

introducing the different policy options in different phases, the emergence of cheap alternatives, and innovation of the paying infrastructure.

Representatives voiced their support for the proposal, but general support was voiced to opt for the more ambitious policy options.

Individual meetings with stakeholders

Various meetings took place with stakeholders in order for Commission services to better understand the processes in place on the market for cross-border transactions in particular with infrastructure providers such as EBA clearing or the European Central Bank.

3. ANNEX 3: WHO IS AFFECTED AND HOW?

3.1. Practical implications of the initiative

Under the retained option (option 3), payment services providers will equalise fees of cross-border payments in euro and domestic payments in the currency of the Member States. The practical implications are limited to a change in the fee tables used by payment services providers when invoicing/charging their clients.

3.2. Summary of costs and benefits

<i>I. Overview of Benefits (total for all provisions) – Option 3</i>		
<i>Description</i>	<i>Amount</i>	<i>Comments</i>
Direct benefits		
Reduced fees for cross-border payments in euro.	EUR 900 million (61.5% of the maximum benefits) coming from the reduced fees for cross-border payments in euro from non-euro area Member States	Recurrent benefit for payments services users – (consumers, SMEs). Corporates not covered as benefitting from negotiated fees already.
Increased transparency	Not quantifiable. May impact the perception of payment services users about fees charged for transactions cross-border. May impact the number of transactions done as lack of transparency cited as an obstacle to cross-border payments	Same beneficiaries. Recurrent
Equality between euro area and non-euro area payment services users for cross-border payments in euro	Not quantifiable. Better integration of non-euro Member States into the Union and with euro area Member States.	Impact on EU society – recurrent. Level playing field for EU SMEs. Equality between EU citizens
Indirect benefits		
Low fees for cross-border payments	EU's image – Not quantifiable but similar, though on a smaller scale, to the Roaming Regulation	

<i>II. Overview of costs – Preferred option</i>							
		Payment Services Users		Payment Services Providers		Supervisors	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Reduced fees for cross-border payments	Direct costs	N/A	N/A	N/A	Substantive compliance costs: EUR 900 million	Enforcement costs for supervisors: EUR 560.000 for all 28 MS. First 3 years.	
	Indirect costs	N/A	For PSUs if revenue losses are rebalanced	N/A	N/A	N/A	N/A
Increased transparency	Direct costs	N/A	N/A	Administrative cost: EUR 1.5 million for adaptation of fee documentation.	N/A	N/A	Enforcement cost from increased complaints handling: EUR 700.000 for all 28 MS. Phasing out on 3 years
	Indirect costs	N/A	N/A	N/A	N/A	N/A	N/A

4. ANNEX 4: A MARKET ANALYSIS

4.1. Electronic transactions within the EU

Based on the statistics provided by the European Central Bank, the total number of non-cash payments that take place within the EU is about 120 billion payments a year. Around 2/3 of these payments are in the euro area, and 1/3 outside the euro area. Card payments (including cash withdrawals) represent around half of the total number of payment transactions, followed by credit transfers for 1/4 and direct debits for about 1/5 of this total. Cheques still account for a small share of the total number of payments with 2.5%, but they are not considered as electronic payments.

Table 1: non-cash payments in the EU in 2016 (Source: ECB data)

Non-cash payments and cash withdrawals in the EU (2016 data)						
Payment means	19 euro area Member States + Sweden		8 non-euro area Member States		TOTAL EU	
	Number (million)	Value (EUR billion)	Number (million)	Value (EUR billion)	Number (million)	Value (EUR billion)
Credit transfers	20.500	136.000	10.100	126.500	30.600	262.500
Direct debits	20.000	7.000	5.000	1.600	24.900	8.600
Card payments	36.200	1.600	23.400	1.300	59.600	2.900
E-money, other	3.800	1.200	200	2.000	4.000	3.200
Cheques	2.500	2.800	500	800	3.000	3.600
Total non-cash payments	83.000	148.600	39.200	132.200	122.100	280.800
Cash withdrawals	7.900	1.100	4.400	400	12.300	1.500

Source:ECB

4.2. Cross-border electronic transactions from EU Member States

Cross-border electronic transactions account for a relatively small percentage of the number of electronic payments with about 7 billion transactions (around 6% of the total number of transactions) but represent a larger share in value terms with 35 trillion EUR (around 13% of the total values transacted).

Depending on the type of payment considered, their share in the total number of payments or the total value of payments will vary largely. Cross-border transactions account for around 2% of the number of credit transfers, 9% of the number of card payments and 3% of the cash withdrawals. However, looking at values provides a quite different picture: up to 28% of the value of credit transfers in Italy is cross-border, 35% of the value of card payments with Bulgarian cards, or 15% of the value of cash withdrawals made with a Swedish card. In the case of credit transfers, corporate payments and change operations may explain the relatively high values transferred per transaction. It is likely that high minimum costs of transactions also deter small-value cross-border credit transfers so that payment services users will only tend to transfer larger values.

In very few cases cross-border payments are rather marginal in the activity of payment services users of a given country for a specific type of payment instrument: for instance, cross-border cash withdrawals made by payment services users holding an Italian card only account for 0.21% of the total value of cash withdrawals.

Table 2: cross-border weight in electronic payments (in number of transactions and values transacted) – Credit transfers (Source ECB)

Credit transfers sent from EU Member States						
Weight of cross-border payments	Number of transactions			Values transacted		
	2014	2015	2016	2014	2015	2016
Euro area Member States						
France	2,55%	1,81%	1,90%	19,88%	22,73%	22,58%
Germany	2,23%	2,19%	2,25%	20,38%	20,64%	21,81%
Italy	0,71%	1,14%	1,34%	28,50%	27,78%	28,25%
Non-euro area Member States						
Bulgaria	0,73%	0,73%	1,07%	12,05%	13,72%	12,96%
Czech Republic⁶¹	NA	NA	4,10%	NA	NA	2,62%
Denmark	NA	NA	NA	NA	NA	NA
UK	NA	NA	NA	NA	NA	NA
Croatia	0,52%	0,96%	1,04%	10,34%	12,27%	11,87%
Hungary	0,60%	0,62%	0,64%	8,77%	9,32%	7,62%
Poland⁶²	NA	6,84%	4,18%	NA	2,79%	2,44%
Romania	1,57%	1,94%	1,52%	6,34%	5,96%	5,75%
Sweden	NA	NA	NA	NA	NA	NA

As can be seen from the table above on credit transfers, the weight of cross-border payments though relatively marginal when looking at the number of transactions is, in reality, of a high importance within the EU economy, with relatively larger values transacted on a cross-border dimension, probably largely due to corporate payments. This is even truer among euro area Member States where they account for about a quarter of the total values transacted.

Turning to card payments and cash withdrawals, the picture is very different as the discrepancy between the number of transactions and the values transacted that exists for credit transfers does not appear in card payments and cash withdrawals. The reason is that card transactions are in their vast majority similarly sized retail payments⁶³. Cross-border card payments account for about 9% of the number of card payments (slightly higher in non-euro area Member States) and, regarding the values transacted, 10% for euro area Member States and 14% for non-euro area Member States. Cross-border cash withdrawals make up for about to 2% to 3% of both the number of transactions and the values transacted. One exception is Sweden where the use of cash (and hence cash withdrawals) has strongly decreased domestically; and as a result, cross-border volumes are very significant compared to domestic volumes.

⁶¹ Suspected statistical anomaly as figures provided by Czech Republic for volumes and values are not coherent with other Member States.

⁶² Suspected statistical anomaly as figures provided by Poland for volumes and values are not coherent with other Member States.

⁶³ Commercial cards would be an exception, however in Europe only 4% of cards issued are commercial cards, responsible for around 8% of the total transactions value. Furthermore, commercial card payments are rather similar to consumer card payments most often being used by corporate employees for their business travel expenses. Gallit: Inclusion of commercial cards in the EU draft legislation capping the interchange fees level (<https://www.finyear.com/attachment/541346/>)

Table 3: cross-border weight in electronic payments (in number of transactions and values transacted) – Card payments (Source ECB)

Card payments						
Weight of cross-border payments	Number of transactions			Values transacted		
	2014	2015	2016	2014	2015	2016
Euro area Member States						
France	4,77%	5,19%	5,11%	6,24%	6,88%	7,08%
Germany	12,01%	16,10%	16,67%	15,85%	18,13%	18,43%
Italy	1,77%	2,78%	2,89%	2,66%	3,49%	3,10%
Non-euro area Member States						
Bulgaria	20,40%	21,46%	22,95%	31,30%	32,74%	34,78%
Czech Republic	NA	NA	7,43%	NA	NA	12,79%
Denmark	NA	8,81%	9,39%	NA	11,67%	12,52%
UK	9,98%	11,40%	11,16%	7,05%	7,52%	7,56%
Croatia	6,20%	6,47%	7,10%	15,56%	14,72%	12,79%
Hungary	6,12%	6,53%	7,23%	11,97%	11,78%	11,83%
Poland	NA	2,78%	3,05%	NA	7,99%	8,05%
Romania	11,30%	11,28%	12,11%	20,45%	20,48%	20,42%
Sweden	2,14%	5,91%	6,05%	4,01%	8,37%	7,94%

Table 4: cross-border weight in electronic payments (in number of transactions and values transacted) – Cash withdrawals (Source ECB)

Cash withdrawals						
Weight of cross-border payments	Number of transactions			Values transacted		
	2014	2015	2016	2014	2015	2016
Euro area Member States						
France	2,26%	2,55%	2,49%	3,30%	3,81%	3,91%
Germany	1,75%	2,21%	2,33%	1,97%	2,47%	2,48%
Italy	7,94%	8,63%	9,61%	0,34%	0,21%	0,21%
Non-euro area Member States						
Bulgaria	1,62%	1,57%	1,81%	3,26%	3,19%	3,93%
Czech Republic	NA	NA	1,57%	NA	NA	2,00%
Denmark	NA	NA	NA	NA	NA	NA
UK	NA	NA	NA	NA	NA	NA
Croatia	NA	NA	NA	NA	NA	NA
Hungary	1,20%	1,19%	1,30%	1,34%	1,16%	1,10%
Poland	1,20%	1,27%	1,38%	1,59%	1,59%	1,77%
Romania	1,21%	1,63%	1,68%	2,25%	2,32%	2,17%
Sweden	1,95%	7,53%	8,66%	NA	10,45%	15,16%

Since the number and value of cross-border payments are not available for several Member States, the figures for the respective country groups were estimated based on the

ECB's aggregate⁶⁴ cross-border number and value of transactions data per payment instrument for the EU, while the country group breakdown (for the number and value of transactions separately) followed the country groups' share of all electronic transactions (domestic and cross-border). The results of these estimates for the relevant payment instruments are presented in Table 5 below.

Table 5: cross-border payments and cash withdrawals in the EU (2016 data) (Source ECB and Commission estimates)

Cross-border payments and cash withdrawals in the EU (2016 data)						
Payment means	19 euro area Member States + Sweden		8 non-euro area Member States		TOTAL EU	
	Number (million)	Value (EUR billion)	Number (million)	Value (EUR billion)	Number (million)	Value (EUR billion)
Credit transfers	402	17.615	198	16.385	600	34.000
Card payments	3.280	143	2.120	117	5.400	260
Cash withdrawals	257	37	143	13	400	50

Source: ECB, Commission estimates

4.3. The currency of cross-border transactions

A major point of interest in relation to an extension of Regulation 924 is to understand how these cross-border transactions can be further split as per currency, i.e. what part of these transactions takes place in EUR, in other EU Member State currencies, or in other non-EU foreign currencies (USD, CHF and others) in order to take stock of transactions that today do not benefit from the Regulation.

There is unfortunately no public data available on the currency split of intra-EU transactions (while data exists for extra-EU transactions). However, various sources allow Commission services to provide estimates as presented below.

The currency shares per each type of payment instrument are based on the following assumptions:

- For extra-EU transactions: Eurostat data indicates that extra-EU trade represents 36% of EU's global trade⁶⁵. By contrast, in the study conducted by Deloitte for the European Commission, a major EU bank estimated that only 5% (see below) of its cross-border transaction were taking place in non-EU currencies. Part of the extra-EU trade however is carried out in EU currencies (e.g. when an EU company invoices the importer in an EU currency).⁶⁶ Overall and for the sake of simplicity

⁶⁴ The value indicated for cross-border credit transfers is based on ECB data on all transactions (domestic plus cross-border) in which the UK accounts for nearly 40% of the total value processed for credit transfers across the EU. However, one could challenge the cross-border application of this data as it may be largely due to domestic credit transfers and the particularities of the UK domestic market rather than cross-border credit transfers. Instead, a more conservative estimate could be used based on GDP or number of businesses (as they likely account for a large majority of credit transfers), in which case 70% of the value would come from 19 eurozone MS + Sweden, 30% from the 8 non-euro MS, closer to numbers and values provided for card payments and cash withdrawals.

⁶⁵ http://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods

⁶⁶ If the EU exporter is paid in an EU currency, the final transfer takes place within the EU, hence remains under the scope of the regulation.

and transparency, the share of extra-EU currency transactions is estimated at 10% for all payment instruments.

- The remaining 90% consist of intra-EU transactions and can be further broken down as follows:
 - As regards intra-EU card transactions and cash withdrawals, a reasonable estimate can be deduced from tourism statistics that mostly determine the use of cards across borders. Eurostat⁶⁷ indicates that about 80% of nights spent by non-residents within the EU were spent in the euro area, 20% outside the euro area. Applied to the remaining 90% scope, the estimates used for cross-border intra EU transactions for card payments and cash withdrawals will be split in 72% in euro and 18% in other EU currencies for both country groups.
 - Finally, as regards credit transfers, various sources can be used:
 - In the study contracted by the Commission on cross-border transactions, *responding banks all confirmed that the volume of payments in currencies of EU MS other than the euro, were minor in comparison to domestic payments and payments in euro. One bank interviewed, operating in a EUR country, stated that, in 2016, cross-border transactions represent around 3% of their total transactions. Within these 3% of cross-border transactions, around 82% were performed in EUR, 13% in non-EUR EU currencies and 5% in non-EU currencies.*"
 - In addition, intra-EU trade with euro area Member States represents 79.5% of the total intra-EU trade⁶⁸. This trade will materialise through cross-border credit transfers in euro.
 - Also, citizens and enterprises from non-euro area Member States have access to euro accounts which allow them to transact easily in euros from their countries (send and receive). On the contrary, citizens and enterprises from euro area Member States are not used to having accounts in other currencies. This facilitates an increased share of euro credit transfers in non-euro Member States.
 - Finally, these data are confirmed by data on billing currencies used for extra-EU exports by Member State for manufactured goods. This is the currency in which EU enterprises ask to be paid and receive credit transfers from outside the EU⁶⁹. In 2016, for non-euro area Member States (UK excluded), the share of EUR billing on average was 48%.
 - On the basis of these four pieces of information, the retained hypothesis for credit transfer will consider that the 90% intra-EU transactions are split between 75% in euro and 15% non-euro EU currencies. Within non-euro EU currencies, considering that non-

⁶⁷ http://ec.europa.eu/eurostat/statistics-explained/index.php/Tourism_statistics

⁶⁸ http://ec.europa.eu/eurostat/statistics-explained/index.php/Intra-EU_trade_in_goods_-_recent_trends

⁶⁹ Again, if the EU exporter is paid in an EU currency, the final transfer takes place within the EU, hence remains under the scope of the regulation.

euro area businesses are only billing in their local currency in 50% of the cases as illustrated before, the divide between local and other currencies of the EU will be 6% vs 9%.

On the basis of the above information, the Commission estimated the keys for the currency split for each payment instrument for the two country groups separately. These respective repartition keys are indicated in the "Share" lines in table 6 below. In the following, the total number and value of cross-border transactions (as per Table 5 above) for each payment instrument and for each country group has been divided among different currencies following these repartition keys. Considering transactions already covered (intra-EU euro transactions in 19 euro area Member States plus Sweden), or that are outside of the scope of the regulation (extra-EU transactions), the table also lays out the relative importance of different currency transactions in different country groups (in line "Share of scope that could be covered by Reg 924"), that could be identified with the different options available.

Table 6 – Cross-border payments and cash withdrawals in the EU per currency

Cross-border payments and cash withdrawals in the EU per currency (2016 data)								
Currency split		19 euro area Member States + Sweden			8 non-euro area Member States			
		euro intra-EU	non-euro intra-EU	extra-EU (USD, CHF...)	euro intra-EU	local currency intra-EU	other EU currencies intra-EU	extra-EU (USD, CHF...)
Credit transfer	Number (millions)	302	60	40	149	12	18	20
	Value (EUR billion)	13209	2642	1761	12291	983	1475	1639
	Share	75%	15%	10%	75%	6,0%	9,0%	10%
Card payments	Number (millions)	2333	583	324	1555	0	389	216
	Value (EUR billion)	103	26	14	84	0	21	12
	Share	72%	18%	10%	72%	0	18%	10%
Cash withdrawal	Number (millions)	187	47	26	101	0	25	14
	Value (EUR billion)	27	7	4	9	0	2	1
	Share	72%	18%	10%	72%	0	18%	10%
Total number of transactions		2822	690	390	1805	12	432	250
Total value of transactions		13339	2674	1779	12385	983	1498	1652
Share of total number of cross-border transactions	In number of transactions	44,09%	10,79%	6,10%	28,20%	0,19%	6,75%	3,90%
	In value of transactions	38,88%	7,79%	5,19%	36,10%	2,87%	4,37%	4,81%
Share of scope that could be covered by Reg 924	In number of transactions	Already covered	23,49%	Out of scope	61,41%	0,40%	14,70%	Out of scope

4.4. A two-speed market based on a two-speed infrastructure

The capacity of payment services providers to provide efficient cross-border payment services is strongly related to the availability of clearing and settlement infrastructure in the case of credit transfers. On the one hand, euro payments benefit from standards such as SEPA Credit Transfer, SEPA Direct Debits and the very recent SEPA Instant Credit transfers with EU-wide clearing and settlement infrastructures (EBA Clearing and Target 2) that allow any bank of the EU to reach any other bank of the EU for payments in euro. On the other hand, non-euro transfers are not harmonised (no common standard for SEK, BGN, PLN, HUF, etc payments..., no EU wide clearing and settlement infrastructure in currencies that are not the euro, manual processes, intermediaries such as correspondent banking...)

Card payments and cash withdrawals on the other hand already have the same infrastructures for all currencies as they make use of the infrastructure and standards of the international card schemes to process the transactions across borders.

Credit transfers (and direct debits)

To understand the costs a traditional bank PSP faces when a customer transfers money to a beneficiary, it is important to understand how many and which intermediaries are involved in such transaction. Depending whether the payment is processed in euro or in other currencies of EU MS, three different scenarios are identified and presented below.

Scenario 1 - Payment processing in euro



As a cornerstone of the SEPA project, a common European platform, called TARGET 2 (Trans-European Automated Real-time Gross settlement Express Transfer system), for euro payments in Europe was introduced in 2008. TARGET2 is the real-time gross settlement (RTGS) system owned and operated by the Eurosystem, facilitating the implementation of the Eurosystem's monetary policy and supporting the functioning of the euro area's money and capital markets. As such, TARGET2 is used for the settlement of central bank operations, interbank transfers and other large-value or urgent euro payments. It further functions as the intermediary for euro payments between the bank of the sender and the bank of the beneficiary as illustrated in the above figure.

In addition, payment services providers also have access to STEP2 from EBA Clearing, a private solution developed by the major European banks. STEP2 is a Pan-European Automated Clearing House processing mass payments in euro. The platform is one of the key clearing and settlement mechanisms in the Single Euro Payments Area, both in terms of processing volumes and participating institutions.

As a cornerstone of the SEPA processing infrastructure, STEP2 today provides full reach for SEPA Credit Transfers and Direct Debits to over 4,800 payment service providers across all SEPA countries. Based on discussions with the company, it was confirmed that price for a cross-border transaction in euro is the same for all payment services providers, whether they are established in the euro area or outside and independent from the volumes processed in order to be as inclusive as possible. This price is about EUR 0.002 per transaction.

Scenario 2 – Payment processing in other currencies of EU MSs: transfer to a client with a bank account at the corresponding bank of the initiator's bank

The situation is different for intra-EU payments in currencies of EU member states other than the euro. There is no common European platform such as TARGET 2 for such non-EUR payments. Therefore, in order to transfer money in another currency, the bank of the initiator needs a partner bank called 'a correspondent bank'. This bank provides services on behalf of its partner bank (i.e. in this case, the bank of the initiator) and can facilitate credit transfers completed in the correspondent bank's local currency (i.e. a foreign currency for the bank of the initiator). The correspondent bank has the capabilities to process local transactions by having access to local clearing systems. The bank of the initiator does not have such access to the local clearing system as either, they do not have a physical presence in the country and/or they do not judge it worth paying for having access to the clearing system as the low volumes of transactions do not justify such investment.

The following graph illustrates the parties involved when a customer is transferring money to a client that has a bank account at a corresponding bank of the bank of the initiator. In this case, the payment can be directly transferred from the corresponding bank to the beneficiary.



Scenario 3 – Payment processing in other currencies of EU MS: transfer to a client with a bank account that is different from the corresponding bank of the initiator’s bank

The last graph shows the parties involved when a customer is transferring money to a client that does not have a bank account at the corresponding bank. In this case, the corresponding bank receives the money amount from the bank of the initiator and can transfer it to the bank of the beneficiary through the clearing system.

At the same time, it should be noted that a large number of banks in non-euro area Member States – including the ones that were studied as part of the contracted study – are branches or part of a group pertaining to a bank of the euro area that can guarantee access to clearing and settlement infrastructures and/or process these payments on behalf of their branches.



These differences between euro transactions and non-euro transactions were further confirmed by replies for the banking community to the Open Public Consultation or the Inception Impact Assessment. Association of banks particularly stressed the *differences from the processing flow perspective between a EUR payment and a EU currency payment opposing the degree of automation (EUR(SEPA) payments – processed in batches, EU / non-EU currencies – processed individually), the clearing mechanisms (EUR (SEPA) payments – through clearing house , EU / non-EU currencies – processed through correspondent banks) and operational costs.*

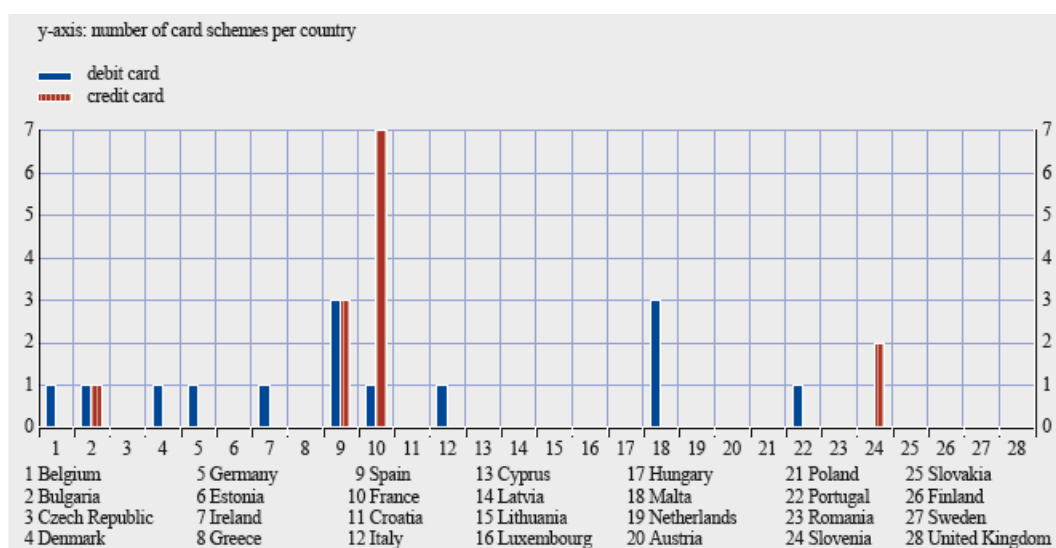
Card payments and cash withdrawals

Card payments and cash withdrawals do not follow the same rules as the ones for credit transfers. In the study contracted by the Commission on this issue, Deloitte explains that *"the system of debit/credit cards does not justify the introduction of additional fees for cross border usage. The system is integrated and based on multilateral exchange. The justification of a cost differential between a domestic and cross border transaction resides in the cost of settlement of position between the banks. Those costs are minimal and won't justify a cost differential. It is also worth to mention that the margin of the financial institution is composed of the margin on the exchange of the currency. In fact in most countries, there is no concept of cross-border or domestic transactions on cards, only few PSPs, especially banks are applying a fee for the usage of the cards in another currency."*

While it is possible that the international card schemes of Visa and MasterCard apply slightly different scheme fees for domestic and cross-border (intra-EEA) transactions⁷⁰, and that the processing fees for domestic and cross-border transactions are also different, the scale of these differences remain negligible compared to the scale of the fees charged to the cardholders and merchants. The absence of such differential between domestic and cross-border card payments is indeed reflected in the fees charged to consumers as presented in Table 9 where most banks price cross-border card payments at the same level as domestic payments.

As indicated in the ECB report on card payments in Europe of 2014⁷¹, "over time, most cards issued under local card schemes became co-branded – that is to say, equipped with both a domestic and an international scheme – to allow for their usage abroad as well, whereas domestic payments were still made within the local scheme. In the 1990s, former eastern European countries often decided to adopt international card schemes immediately, instead of introducing domestic schemes – not least due to the strong relevance of international banks in those countries. In those Member States with domestic schemes, particularly in smaller countries, a distinct trend can be observed: the local legacy schemes are gradually being replaced by card schemes with an EU-wide or even global reach." As of today, outside the euro area the only widely used local card scheme operates in Denmark.

Figure 1: number of local card schemes per country (ECB – 2013)



Regarding cash withdrawals, the same Deloitte study explains that "the ATM costs linked with the cross border transactions are composed of two different aspects: (1) the cost of carry of cash advance while the other bank covers the amount withdrawn by its customers; and (2) the transmission of the information, its aggregation and the request for settlement. Although those have a high level of automation, the information costs exists. Therefore there is an objective cost of withdrawing cash outside of the area of issuance. The first

⁷⁰ E.g. MasterCard applies a 0.045% acquirer scheme fee for non-euro intra-EEA card transactions (<https://www.six-payment-services.com/dam/download/scheme-fees/Scheme-Fees-UK.pdf>), and there are reports of Visa introducing additional premium fees for intra-regional transactions (<https://cmspi.com/na/blogs/merchants-set-to-suffer-as-visa-announces-increases-to-european-scheme-fees/>)

⁷¹ Card payments in Europe – A renewed focus on SEPA for cards - April 2014 - ECB

costs do not apply to EUR withdrawals within the EUR zone, there the fee that should be applied should be the same as any other domestic bank. There should not be any significant difference."

These two costs exist for both domestic cash withdrawals through an ATM that does not belong to the PSP (or its group) and cross-border cash withdrawals. However, the price of cross-border cash withdrawal is usually three times the one of a domestic cash withdrawal outside the PSPs network, without a solid rationale.

4.5. The Swedish case

As described earlier, when the Regulation 2560/2001 (i.e.: former version of Regulation 924/2009) on cross-border payments was adopted in December 2001, the possibility was given to non-EUR countries of the EU to extend the Regulation to their own currency. The European Commission received notification on June 28th 2002 that Sweden desired to extend the Regulation's application to its currency, the Swedish Krona. Sweden is the only country that decided to extend the Regulation.

The legal framework for the payment and settlement systems infrastructure in Sweden includes the Act on Fees on some Cross-Border Payments ('Lag om avgifter för vissagränsöverskridande betalningar, 2002:598 ') which extends to payments made in Swedish kronor (SEK) the provisions on charges for cross-border payments in the Regulation (EC) 924/2009 on cross-border payments in the Community.

In this context, a desk research was performed in September 2017 in order to gather insights about the rationale behind the Swedish government's decision to extend the Regulation to its currency and the impacts identified. The purpose of this research was to support the analysis performed on the potential consequences of the extension of the Regulation. The research consisted in gathering the views of payment experts in Deloitte Sweden, the Riksbank (Swedish national bank), the Swedish Financial Supervisory Authority (SFSA) and the Swedish Ministry of Finance.

Based on these discussions, it was noted that no formal studies have been performed by these institutions to assess the real impact of the extension of the Regulation.

However, the SFSA and the Swedish Ministry of Finance provided information based on their experience and personal reflections. This information has not been confirmed by formal studies. The SFSA and the Swedish Ministry of Finance indicated two main reasons behind the decision by the Swedish government to extend the Regulation to the SEK:

- a. Firstly, the Swedish government strongly believed this extension would benefit the Swedish integration in the European Union.
- b. Secondly, this adoption would put pressure on the Swedish banks to develop payment functions that are competitive, namely that are more automated/efficient, thus benefiting consumers and SME businesses.

The data collection exercise that accompanied this Impact Assessment showed that the five Swedish banks (major banks which represent the bulk of the Swedish market) in the sample studied do not charge fees for electronic transfers in SEK and in euro.

Confronting the specific objectives put forward in this Impact Assessment with what was achieved by Sweden through the opt-in of Regulation 924, it is considered that:

1. Scope of transactions and PSUs: the reduction of fees covers most transactions that may come out of Sweden (EUR and SEK). Sweden may also transact cross-border in other European currencies but we estimate that the volume and number of transactions will be marginal, around 13% of all cross-border transactions.

2. Transparency of fees: fees are fully transparent for consumers as they are aligned with domestic fees. In the case of Sweden, transparency is further increased by the gratuity of transactions.

3. Modernised payments market: the objective of the Swedish government at the time of adoption was to put pressure on the Swedish banks to develop payment functions that are competitive, namely that are more automated/efficient, thus benefiting consumers and SME businesses. While our study has not dug deep into the Swedish infrastructure to link recent developments on the Swedish market with the opting-in of Sweden, the country is recognised across the EU as among the most innovative payment markets and gave rise to companies (including Fintechs) such as Swish, Trustly, SEQR and Tink that have been and are changing the way payments are done in the EU.

4. Difference euro/non-euro area: the fact that Sweden is a non-euro area Member State does not put Swedish citizens and enterprises on an un-level playing field with their euro area counterparts. On the contrary, one could even argue that they are slightly favoured because they can reach the euro area and one non-euro area Member State (Sweden itself) at low cost while the reach of euro area Member States citizens and enterprises is limited to the euro area.

4.6. Further information on estimates used for calculations on potential savings

Credit transfers average prices are calculated based on the following figures extracted from the top 3 to 7 payment services providers of non-euro countries (source Deloitte study for EC). Averages are then weighted across countries based on volumes provided by ECB statistics.

Bulgaria		
Banks	Fee for cross-border, euro, outgoing 10€ In euros	Average
UniCredit Bulbank	18,92 €	19,98 €
DSK Bank	24,03 €	
First Investment Bank	15,00 €	
€bank Bulgaria (Postbank)	21,99 €	

Croatia		
Banks	Fee for cross-border, euro, outgoing 10€	Average
	In euros	
Zagrebacka banka (UniCredit Group)	5,40 €	
Privredna banka Zagreb (PBZ) (Intesa Sanpaolo Group)	10,80 €	8,23 €
Erste Bank Croatia	6,75 €	
Raiffeisen Bank	10,12 €	
Hrvatska poštanska banka	8,10 €	

Czech Republic		
Banks	Fee for cross-border, euro, outgoing 10€	Average
	In euros	
Česká spořitelna	8,44 €	
Komerční banka	7,48 €	8,71 €
ČSOB	9,59 €	
UniCredit Bank CZ	9,59 €	
Raiffeisenbank CZ	8,44 €	

Denmark		
Banks	Fee for cross-border, euro, outgoing 10€	Average
	In euros	
Danske Bank	2,69 €	2,69 €
Nordea Bank Danmark A/S	2,69 €	
Sydbank	2,69 €	

Hungary		
Banks	Fee for cross-border, euro, outgoing 10€	Average
	In euros	
OTP		
Unicredit	8,48 €	5,93 €
K&H	4,99 €	
Raiffeisen	4,62 €	
MKB	5,62 €	

Poland		
Banks	Fee for cross-border, euro, outgoing 10€	Average
	In euros	
PKO BP	1,90 €	
BRE Bank (mBank)	1,19 €	1,54 €
ING BSK	1,19 €	
BZ WBK	1,90 €	

Romania			
Banks	Fee for cross-border, euro, outgoing 10€		Average
	In euros		
Unicredit Bank		10,00 €	
Raiffeisen Bank		10,00 €	11,19 €
Banca Transilvania		14,90 €	
BCR		9,86 €	

UK			
Banks	Fee for cross-border, euro, outgoing 10€		Average
	In euros		
Barclays		5,68 €	
HSBC		4,55 €	
Lloydsbank		10,80 €	9,26 €
Royal Bank of Scotland		11,37 €	
NationWide		10,23 €	
TescoBank		11,37 €	
Halifax		10,80 €	

For card payments and cash withdrawals, such detailed information is not available. However, minimum and maximum prices offered on the market by the same 3 to 7 top payments services providers per country were used to approximate the average price, later weighted with volumes across countries.

5. ANNEX 5: DETAILED LEGISLATIVE FRAMEWORK

Cross-border payments are covered by various EU laws in particular Regulation 924/2009 on cross-border payments that repealed Regulation 2560/2001, the Payment Services Directives (PSD1 and PSD2), the SEPA Regulation and the Interchange Fee Regulation (IF). Overall, all these Regulations and Directives have followed the same objectives: creating the conditions for cheap, efficient and secure payments within the EU, as the backbone of EU's economy.

Regulations 2560/2001 and 924/2009 on cross-border payments: imposing the equalisation of cross-border and domestic fees for euro payments.

After the introduction of the euro and the disappearance of exchange rates between Member States of the euro area, inefficiencies and high costs of cross-border payments became more and more apparent. In 2001, the Commission realised that previous initiatives to facilitate the integration of fragmented European financial markets would not necessarily lead to a reduction of costs and an improvement of the service standards in the area of cross-border payments. Consequently, this created obstacles to the proper functioning of the Internal Market. For both consumers and businesses, this was seen as unacceptable, for an area which operated with one common currency. Therefore, the Commission made a proposal for a Regulation on cross-border payments in euro adopted in December 2001, one month before physical euro coins and banknotes entered into circulation in January 2002. Enforced in July 2002, Regulation 2560/2001 was implemented with the objective of creating an integrated payment market in the EU against the backdrop of the introduction of the common currency.

The Regulation was based on Internal Market principles with the objective to ensure that there was no discrimination between similar national and cross-border payments in euro. Its objectives were overall to:

- Reduce the charges levied for cross-border payments to the level of domestic payments by equalising fees charged by PSPs for euro electronic payments within Member States with fees charged for cross-border electronic payments between Member States.
- Encourage the financial services industry to make the necessary changes in existing cross-border payment infrastructures, as part of the integration of European financial markets. The objectives were to lower costs and improve speed and quality of cross-border payments in euro by eliminating barriers to automated processing of payments (Straight-Through Processing or STP). This was further facilitated by the execution of cross-border payments through the use of the International Bank Account Number (IBAN) and Bank Identifier Code (BIC).

The enforcement of Regulation 2560/2001 obliged PSPs to charge the same fees for national and cross-border payments in euro, and encouraged the banking industry to create EU-wide infrastructures in order to cut the costs for cross-border payments. As a consequence, the European Payment Council (EPC) was established by the banking community and a pan-European Clearing House (referred to as 'STEP 2') was created and started operating in April 2003.

Regulation 2560/2001 was one of the first initiatives of the European Union to create a single European payment area. It was the trigger to a profound modernisation of payment systems and processes for euro payments which led to the adoption of the SEPA standards

enforced by the SEPA Regulation. The evaluation of Regulations 2560/2001 and 924/2009 is annexed (Annex 4) to the impact assessment.

The Single Euro Payments Area (SEPA) Regulation: a common and unique way to pay in euro across the EU.

The SEPA Regulation (EU) No 260/2012 is another project towards a common European payments market to harmonize payments and reach the objectives of Regulation 2560/2001 on cross-border payments in euro (i.e. equalisation of the price of electronic cross-border payments in the form of credit transfers, ATM cash withdrawals and card payments).

The SEPA project was launched by the European banking and payment industry represented by the EPC. The EPC has designed the SEPA schemes for credit transfers and direct debits. From a legal viewpoint, the Regulation sets the rules and a deadline in February 2014 (later postponed to August 2014) for euro area countries to make credit transfers and direct debits in euro under the same conditions. Non-euro area Member States were given two additional years to adapt their payment infrastructure. The legal foundation for SEPA is laid out in the Payment Services Directive 2007/64/EC.

SEPA harmonises the way retail electronic euro payments are made across Europe by using common procedures and standards. It allows European consumers, businesses and public administrations to make and receive credit transfers and direct debits under the same basic conditions.

By 1 February 2014, all domestic Automatic Clearing Houses (ACH) and direct debit instructions within the Euro area had to comply with the SEPA standard. Moreover, similar euro transactions in all other EU Member States and countries of the EEA had to be migrated to the SEPA framework. SEPA makes all cross-border electronic payments in euro as easy as domestic payments. An end goal is to suppress the current differentiation between national and cross-border payments.

The most important fact for cross-border payments is that these payments can be carried out within SEPA under the same conditions as domestic payments. Within SEPA, euro payments can be initiated not only through a resident payment services provider (PSP) but also through PSPs resident in another country without any additional fees, and corporations can execute both their domestic and cross-border euro payments via a single institution.

The Payment Services Directives (PSD1 & PSD2): bringing in competition and security

The first Payment Services Directive 2007/64/EC was adopted in 2007, became law in 2009 and will be replaced in January 2018 by PSD2. It provides the legal foundation for an EU single market for payments, and to establish safer and more innovative payment services across the EU. Entering into force in 2009, the aim of the Directive was to make cross-border payments as easy, efficient and secure as 'national' payments within a Member State. In particular, the initial objectives of the payment Directive were to establish a single market supported by a predefined regulatory framework for payments, enhance the payment processing to enable easier and safer cross-border payments, provide SEPA with the legal requirements necessary for its implementation, increase customer data security with more detailed and transparent information and allow new players to enter the market.

Since 2007, this Directive has brought substantial benefits to the European economy, easing access for new market entrants and payment institutions, and offering more competition and choice to consumers. It offered economies of scale and helped SEPA in practice. It led to more transparency and information for consumers, especially on the execution time and fees; and has reduced execution times, strengthened refund rights, and clarified the liability of consumers and payment institutions. Another tangible benefit is that payments are now easily made throughout the whole EU and are furthermore much faster, as payments are credited to the payment receiver's account within the next business day.

In July 2013, the Commission proposed to modernise the PSD taking into account new types of payment services, such as payment initiation services. These service providers have brought innovation and competition, providing more, and often cheaper, alternatives for internet payments; but were previously unregulated. Bringing them within the scope of the PSD aimed at further boosting transparency, innovation and security in the single market and establishing a level playing field between different payment service providers. In addition, certain PSD rules were transposed or applied by Member States in different ways (e.g. the exemptions of a number of payment-related activities).

The Second Payment Services Directive will be of application as of January 2018 and updates and complements the EU rules put in place by the original PSD. Its main objectives are to contribute to a more integrated and efficient European payments market; improve the level playing field for payment service providers (including new players); make payments safer and more secure; protect consumers; and encourage lower prices for payments.

The Interchange Fee Regulation – putting an end to reverse competition in cards

At the same time as PSD2, the Commission adopted the Interchange Fee Regulation 2015/751 (IFR) for card-based payment transactions, which entered into force on 8 June 2015 and has been fully applicable since 9 June 2016. The Regulation covers the most widely used debit, credit and prepaid cards issued by payment card schemes and focuses on the redistribution of costs of and revenues from such card transactions.

A key objective of the IFR is to regulate excessive hidden interchange fees and introduce a harmonized approach at EU level. Interchange Fees on consumer credit cards and consumer debit cards have been capped to a maximum of 0.3% and 0.2% of the value of the transaction respectively. These caps are based on an estimate of the fee at which a merchant would be indifferent between being paid by card or in cash. The introduction of maximum fees halted the ongoing reverse competition for higher interchange fees between MasterCard and Visa, which had led banks to switch to the card scheme offering the highest interchange fee policy as that would boost their revenues.

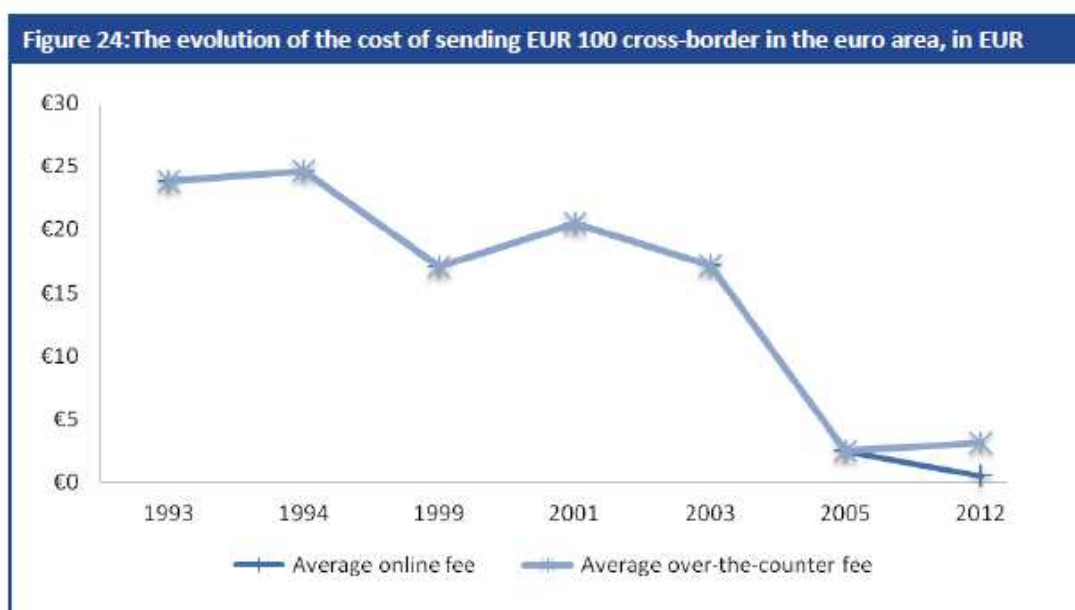
6. ANNEX 6: EVALUATION OF REGULATION 924/2009

The evaluation of the impact of Regulation 924/2009 was undertaken in 2013 and accompanied the publication of the PSD2 proposal. As a consequence, a renewed evaluation of the Regulation was not conducted in this exercise as observations made in 2013 are still valid.

The study concludes on various points of interest:

a. Evolution of prices for cross-border payments

In 2006, the European Commission published a working paper on the impact of Regulation EC 2560/2001 on bank charges for national payments. The aim of this study was to determine if Regulation 2560/2001 has led to a reduction in banking prices. The average prices of sending EUR 100 cross-border in the euro area found by this study, together with our findings from 2012, are depicted in Figure 24 below. The sharp drop between fees found in 2003 and 2005 is attributed by the authors of the working paper to the introduction of Regulation 2560/2001.



The previous studies did not differentiate between different methods of transferring funds, such as over the counter or online, no doubt also because online payments were of smaller importance at the time. We include for 2012 separately the cost of transferring EUR 100 cross-border online and over the counter. This reveals the interesting trend that online transactions prices have further fallen compared to the 2005 value, while over-the-counter transactions have become more expensive.

This can be explained firstly by the increased popularity of online banking and secondly by the fact that some banks actively discourage over-the-counter payments in favour of online payments as these are cheaper for the institution. This was almost universally the case in the Netherlands, for example, where credit institutions charged significant fees for over-the-counter transfers and nothing for online transfers.

The prices for online transfers have almost universally dropped, with the exception of Belgium where we note a small increase from EUR 0.15 to EUR 0.50. There are a number of instances also where the over-the-counter fee has fallen: Germany, Greece and Spain. In all other countries the over-the-counter fee is higher than the 2005 fee with the Netherlands standing out in particular with an increase from zero to EUR 6.

[Addition to the 2013 report: The study contracted by the EC with Deloitte in 2017 confirms the further decrease of prices for the 3 euro Member States in scope. Prices collected for online transfers in France, Germany and Italy were all equal to 0.]

b. Evolution of Debit card charges

The same Commission working paper also analysed the evolution of prices for ATM cash withdrawals. The study noted a slight increase in charges between 2001 and 2005 and concluded that this increase was likely due to the introduction of Regulation 2560 which required withdrawal charges for domestic and cross-border transactions to be identical.

Looking at the price information we gathered in 2012, we note that this trend did not continue, but that, on average, prices in the euro area have remained constant (slight drop from EUR 1.45 to EUR 1.42 as shown in Table 13 below). At the individual country level, some prices have increased and some have fallen. Finland stands out in particular where prices have been raised from zero to an average of EUR 1.84. In Luxembourg on the contrary, average prices fell from EUR 3.00 to EUR 1.41.

[Addition to the 2013 report: The study contracted by the EC with Deloitte in 2017 confirms the further decrease of prices for the 3 euro Member States in scope. Prices collected for debit card charges (card payments and cash withdrawals) in France, Germany and Italy all show that fees are, in most cases, equal to 0.]

c. Conclusion on prices

The comparison of the 2005 and 2012 fee data shows that in general fees for domestic and cross-border credit transfers have decreased if one considers online transfers. For over-the-counter transfers, the picture is mixed with fees actually higher in 2012 than in 2005 in some countries. In the case of withdrawals at ATMs using a debit card, fees did not change much from 2005 to 2012 although there are differences across Member States.

As no fee data exist for 2009, the year when the PSD was implemented at national level, it is impossible to determine whether the observed changes between 2005 and 2012 occurred before or after the implementation of the PSD.

The qualitative information gathered through the surveys of stakeholders undertaken for the current project suggests that the impact of the PSD on fees and charges for payment services appears to be small, ranging from nil for many stakeholders to a small decrease. New charges were also mentioned by consumer associations.

It is important to note that charges and fees had already fallen considerably by 2005-06 for domestic payments and cross-border payments in euro in the euro area countries. Annex 5 provides the results of a detailed analysis of fees and charges for a range of cross-border transactions and the trend in fees and charges over time.

d. Conclusion on ad valorem fees

At the present time, the pattern of usage of ad valorem fees and charges across the EU-27 is mixed. While in principle a fixed fee structure may be more appropriate because the cost of effecting a payment is largely fixed, it is not obvious that a move to a flat fee structure would

necessary be advantageous for payment service users which mainly make payments of relatively small value. For example, if, following the introduction of a flat fee, payment institutions aim to keep unchanged the revenues generated by an ad valorem fee, it would significantly increase the cost of payment services for users making small payments and benefit those effecting large payments.

In practice, however, the costs to the consumers of ad valorem charges are large for a variety of payment transactions other than small credit transfers.

However, rather than aiming to regulate the nature and level of fees, the best approach may be to ensure robust competition in the provision of payment services by making it easier for consumers to switch payment service provider (see discussion in section 5.3) and let such competition drive down the overall level of fees and charges.

e. The application of the Regulation in Sweden (corresponds to Option 1)

Mirroring the equality of charges in euro area countries for domestic and cross-border payments in euros, Member States outside the euro area can impose through national legislation equality of charges for domestic payments in national currency and cross-border payments in national currencies and euros.

Non-euro area Member States wishing to apply such a policy have to notify the European Commission according to Article 14 of Regulation 924. At the present time, among the Member States outside the euro area only Sweden applies such an equality of charges for domestic payments and cross-border payments in Swedish krona, and this since 2002, following the adoption of Regulation 2560/2001, the predecessor of Regulation 924.

On 26 May 2011, Romania notified the Commission that it was applying the equal charges rule to cross-border payments in national currency (the lei) and that as of 1 January 2012, cross-border payments in lei and in euro should be charged the same as national payments in lei. However, the competent authority, the national banking association, and individual credit institutions have all reported that, at the present time, the equal charges rule was not applied as of July 2012 because the national implementing regulation had not yet been passed. [Addition to the 2013 report: In January 2018, the case has not evolved]

At issue is whether the extension of the equal charge rule to all Member States outside the euro area would benefit users.

In order to address this question, a number of Swedish stakeholders (consumer association, competent authority, national banking association, and individual banks) were consulted on the Swedish experience. More generally, the survey of competent authorities asked for views on this question.

The equality of charges will yield a direct benefit for users who undertake cross-border payments, especially consumers and SMEs who are not in a position to negotiate payment fees and charges with their payment service provider. The impact on payment users not undertaking cross-border payments depends on the reaction of the payment service providers. If they increase domestic charges (or reduce them by less than would have otherwise been the case), the users undertaking only domestic payment transactions will be worse off while those undertaking a mix of domestic and cross-border payments will be better- or worse-off, depending on the relative importance of the two types of payments in their overall volume of payments.

In this regard, it is useful to note the observation from the Swedish Consumers' Association which says that the impact is positive. Fees have fallen following the entry into force of the rule on equal charges. However, there exists no analysis or study on consumers' satisfaction with such an equality of charges. The Swedish Financial Supervisory Authority confirmed that there has been no attempt to collect views from the general public on the measures taken. But the authority noted that the observed reduction in fees is positive evidence even though earlier surveys on fees showed that providers may not change their fees immediately but only over time.

The data on fees and charges presented in Annex 5 shows that indeed the fees for domestic payments in Swedish krona and cross-border payments in euro are equal.

According to the Swedish Bankers Association, banks in Sweden had in practice already applied the equality of charges principle for domestic and cross-border payments in Swedish krona even though there was no legal requirement to do so before the entry into force of the notification of the Swedish government to the European Commission.

The Swedish Bankers Association also notes that the Swedish banks feel that they had a bad experience from this rule. Customers get very confused because they are not aware of the fact that transactions in Swedish krona are treated differently according to the Regulation in any other countries but Sweden. The more developed the SEPA regime for euro payments becomes, the more discrepancies there are with the offering of SEK payments under Regulation 924/2009. Customers do not understand that the prerequisites for Swedish krona and euro offerings under the Regulation are totally different. For example, a Swedish customer making a payment in Swedish krona to another EU country expects the lower domestic price to apply (like in the case of cross-border payments in euro) at both ends, i.e. sending and receiving. However, this is not the case as the lower price applies only in Sweden. From the banks' perspective, in the long run, the Regulation also implies that payments in Swedish krona have to be subsidised as the infrastructure efficiencies built in the EEA for SEPA payments in euro are not in place for other currencies.

Moreover, the national reporting and reporting for tax purposes for cross-border transactions within EEA means that, ceteris paribus, the cross-border payments in Swedish krona are not comparable to domestic transactions which do not have such requirements.

According to the Swedish competent authority, the reduction in fees in general only applied to SHARE payments, not BEN or OUR payments, as the national payment system only uses the SHARE method.

Overall, a normal charge on cross-border payment fell from between 50 to 80 SEK before the implementation of Regulation 924 to currently a typical level of approximately 10 SEK.

f. Extending the Regulation to other Member States

The application of the equality of charges rule to domestic payments in national currencies of countries outside the euro area and cross-border payments in euros would most likely benefit payment service users from non-euro area countries. A reduction in the cost of cross-border transactions will undoubtedly stimulate and strengthen the internal market. At issue, however, is whether payment service users who undertake only or mainly domestic payments would face higher fees which would offset the banks' income loss arising from the reduction in cross-border charges.

That said, the costs and benefits to consumers of extending the provisions of Regulation 924 to a Member State's national currency (as has been the case for Sweden since 2002) is difficult to quantify as there are few indicators other than convergence of charges to judge the Swedish experience. Based on these considerations, the current regime of letting the Member State decide if and when to implement such an equal charges rule appears to remain appropriate as national economic and social considerations can be fully taken into account in this process.