



Questions & Answers clarifying key aspects of the SEPA Cards Framework

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SEPA – a Guide to the Single Euro Payments Area for Card Payments

The Single Euro Payments Area will change the way payments are handled in Europe, and help make the EU Single Market more of a reality.

Take a step back and consider how the EU has benefited the European citizen, and the most apparent observation is the ease with which the citizen can work, travel and trade. For businesses, more trade is a tangible benefit which helps deliver economic growth – which benefits everyone.

SEPA enables citizens and businesses to trade with one another more easily. As the logical successor to the single currency, it turns the euro area into one, rather than 15 (as at the time of writing) payment areas. This doesn't just make trade easier, it makes it more efficient and cheaper for the European citizen.

This document is designed to help people (citizens, businesses, payment institutions and others) understand the cards aspect of SEPA. We hope it helps. Of course, feedback is always welcome.¹

The European Payments Council (EPC) is committed to continuing to work with banks, processors, regulators, vendors, retailers, consumer groups, and other interested stakeholders to ensure that they understand what the EPC is doing as regards SEPA and have an opportunity to provide input.

1 What is SEPA?

SEPA refers to a range of initiatives that will enable euro payments to be made across Europe as easily, quickly, securely and efficiently as they are within national markets today.

The principle behind SEPA is that all payments will be treated as “domestic”. Consumers and businesses will be encouraged to use the same payment method across EU borders as they do within an individual country.

Whilst SEPA refers to a number of initiatives and enablers, including the new European Payment Services Directive, for the purpose of this Guide we will refer only to the work being supervised by the EPC, that is:

¹ Email the EPC at secretariat@europeanpaymentscouncil.eu

- **The SEPA Credit Transfer Scheme (SCT)**

This scheme creates the ability to make non-urgent credit transfers across and within SEPA countries.

- **The SEPA Direct Debit Scheme (SDD)**

This scheme creates the ability for Direct Debit Originators to collect payments from their customers in any of the SEPA countries using a single Direct Debit service.

- **The SEPA Cards Framework (SCF)**

As the starting position for cards differs from that of direct debits and credit transfers, and since the functionality for cross-border card payments already exists, the key requirement was to create conditions which would deliver wider card acceptance for consumers.

2 What is the SEPA Cards Framework?

The SEPA Cards Framework sets out what has to happen in order for SEPA to be a reality for cards.

The SEPA vision is that there is no difference between paying (or being paid) in euros² for goods or services anywhere in Europe than there is in one's own country.

Given the complexity of the cards business, the widely differing approaches adopted by the various card schemes in each country and the presence of the International Card Schemes (ICS), the EPC decided not to develop a new common card scheme rule book in the way it did for SEPA Credit Transfer and Direct Debit. Instead, a policy document called the SEPA Cards Framework (SCF) was developed which states how issuers, acquirers, card schemes and operators must adapt their current operations to comply with the SEPA vision for card payments in euro.

A majority of payment cards already have international interoperability with wide ATM and point-of-sale acceptance, for example, through Visa (and Electron/V-Pay), MasterCard (and Maestro), or through participation in new initiatives such as Euro Alliance of Payment Schemes (EAPS). However, payment cards from SEPA countries will lack this functionality if they are not branded or co-branded or integrated in a wide-acceptance card scheme initiative.

The SCF is designed to enhance levels of interoperability within SEPA, by defining common standards, improving transparency and removing other barriers to the development of SEPA.

3 Why is SEPA only euro card payments rather than all card payments in Europe?

SEPA has been defined by the EPC as the area within Europe where customers can make and receive payments in euro. This is not identical to the euro area. Many cards issued, for instance, in Sweden or the UK, can be used by cardholders to make euro transactions in, say, France or Germany. When used in this way, such cards are covered by this Framework.

² And non-euro currencies that have opted-in, ie the Swedish Krona

In practice, many of the benefits of the SCF will apply to customers and transactions outside of the euro area. Banks and schemes will not want to have different solutions for customers depending on the currency.

4 Which countries are in SEPA?

SEPA is all EU Member States (currently 27), other EEA Member States (Norway, Iceland and Liechtenstein) and Switzerland.

5 How will SEPA happen?

The Framework provides the industry with a means of achieving ‘SEPA for Cards’ through self-regulation. It provides a series of commitments to be entered into voluntarily by card issuers, acquirers or equivalent, and schemes. These commitments cover areas including interoperability, technical standards and scheme licensing arrangements.

Card payments have developed because of competition over a 40 year period into the leading way for consumers to pay. This has led to innovation including online authorisation at point of sale, electronic commerce, Chip + PIN, and now prepaid, contactless and mobile payments. The SCF is aimed at making it possible for competition between all participants (schemes, issuers, acquirers, processors and suppliers) to flourish, and it is for this reason that it is an enabler – the market will develop in ways that consumers and merchants want it to.

This does not mean, however, that the SCF guarantees that all cards will be accepted by all merchants. However, it removes many of the barriers so that acceptance and coverage meet the needs of consumers and retailers.

6 Why did the EPC not develop a new European Card Scheme?

The EPC’s objective is to facilitate the building of a single payments area in Europe within a competitive environment.

The EPC believes that competition between acquirers, issuers, processors, suppliers and schemes – coupled with a removal of potential technical and other barriers – will benefit consumers and the European economy as a whole. In an environment where there are already competing schemes, the EPC did not believe that its role was to develop a new European card scheme which would replace or compete with existing payment card schemes.

Within an environment of increased standardisation it should be easier for new schemes or initiatives to evolve in competition with existing schemes.

7 What will the SCF mean for merchants?

Merchants will benefit from wider choice and more value for money as a result of an openly competitive acquiring market.

This means that the restrictions that are currently in place in some schemes will be removed:

- Acquirers will be able to acquire transactions from any or all SCF compliant schemes (as a result, there can no longer be a national monopoly acquirer, or rules favouring domestic acquirers before acquirers from other countries)
- Merchants will be able to do business with one or several acquirers, and choose which schemes to acquire and from which acquirer.

8 What will the SCF mean for cardholders?

The SCF is designed to encourage wider card acceptance, and acceptance that meets the needs of merchants and their customers (cardholders). As a result, consumers will have more choice than before, and, if they want their cards to be accepted in more places, the market will develop to meet these needs.

The EPC believes that cardholders will benefit from wider acceptance and more innovation in payments.

9 What types of cards are covered by the SEPA Cards Framework?

The Framework covers the use of “general purpose” cards for payments and cash withdrawal within SEPA. In other words, debit, credit and ATM “cash-only” cards are included in scope, but, for example, single retailer chain or single outlet store cards and e-purse cards are not in scope. The SCF only applies to cards that provide guaranteed payment at point-of-sale (provided certain conditions are met by the merchant).

The EPC acknowledges that the cards landscape is constantly changing, and will continually keep under review whether and how to include other forms of payment such as mobile payments.

10 Do card schemes have to become accepted throughout the whole of Europe?

No. Whilst card scheme rules have to be reviewed and if necessary amended so that acceptance and issuance is not restricted by national borders, this is a competitive market. SCF-compliant schemes should be capable of being acquired or issued in any SEPA country.

For example a supermarket in Belgium, whose customers may come from both Belgium and other SEPA countries such as France or Germany, may wish to accept cards which are held by such customers, and therefore decide to seek out acquirers that accept such cards.

11 What is an SCF-compliant scheme?

An SCF-compliant scheme must operate in such a way that there are no barriers to effective competition between issuers, acquirers and processors.

For example, it must:

- Allow institutions to participate in the scheme on the basis of transparent and non-discriminatory criteria.
 - This means, for example, that membership must be open to banks regulated in any SEPA country, not just the home country of the scheme.

- This also means that a scheme cannot limit the use of its cards to only one or several countries within SEPA, in the sense that if a merchant which is located within SEPA wants to accept a card from the scheme, and acquirers are willing to offer the merchant such a service, then they must be allowed to do so.
- Offer a single pan-SEPA licence to members, enabling them to carry out issuing and/or acquiring activities throughout SEPA.
- For the purpose of licensing and pricing throughout SEPA, not to distinguish between transactions within a country and between countries.
- Be committed to fraud prevention, including migration to EMV Chip by both issuers and acquirers with PIN capability also required of acquirers.

The SCF is open to all scheme and payment institution business models and is not intended to be restricted to four-party systems. The EPC is reviewing the SCF to better clarify this issue.

12 What is an SCF compliant card?

An SCF compliant card is a general purpose EMV card issued by a card issuer within SCF compliant schemes, and is capable of handling Euro transactions. Payment to the merchant must be guaranteed in card-present transactions³.

SCF compliant scheme cards must have the potential to be effectively accepted at ATMs and/or by merchants in all 31 countries of the current SEPA. However, the SCF does not mandate a level of geographical coverage as this would be contrary to its pro-competitive values.

Between 1st January 2008 and 31st December 2010, an SCF-compliant card could be:

- Option 1. A card which is co-branded with both an SCF-compliant scheme and a non-SCF compliant scheme.
- Option 2. A card branded with only SCF-compliant schemes

In both cases, schemes on a given card must be able to operate in full competition with each other.

Option 1 will fall away on 31st December 2010, following which date, in order to be SCF compliant, all general purpose cards in circulation must be from SCF-compliant schemes, co-branded or not.

Proprietary (non-general purpose) applications, such as city-wide transport stored value applications, are not in the scope of the SCF. Such applications may be added to SCF-compliant cards.

13 How will banks comply with the SCF?

The European banking industry is committed to realising the SEPA vision of a payments landscape in which euro payments work in the same way across Europe as they do within individual countries.

³ Subject to agreed conditions between the merchant and the acquirer.

One of the toughest challenges is ensuring that differences in technical standards do not present barriers to this vision being achieved. For example, if standards for submitting transactions from a merchant to an acquirer are different between national and cross-border transactions, then this is considered to be a barrier to accepting those cross-border transactions.

Banks in consultation with other stakeholders in the cards value-chain will need to define which standards should be harmonised and, if so, in what way. Once such standards are agreed within the EPC, banks will need to promote adoption within their own organisations, with schemes and with other stakeholders.

13a. ...as a card issuer?

An issuing bank complies by issuing SCF-compliant cards. Whilst they must now be able to offer SCF-compliant cards to customers, all general purpose cards⁴ in issue on 31st December 2010 must be SCF-compliant.

13b. ...as a merchant acquirer?

From 1st January 2008, acquiring banks must be able to offer merchants the ability to accept card transactions from at least one SCF-compliant scheme.

By 31st December 2010, all POS terminals must be EMV enabled.

13c. ...as an ATM owner?

A bank which is a SEPA ATM owner acquires (or otherwise processes) euro cash withdrawals carried out using general purpose cards at ATMs within SEPA. This definition includes owners of multi-currency ATMs dispensing euros outside the euro area.

The main requirements are that such ATM owners must ensure that:

- all ATMs are EMV enabled by 31st December 2010
- their ATMs offer, as a minimum, English and the national language(s) of the country in which the ATM is situated
- where the issuer wants to give the cardholder a choice between multiple cash applications on a given card, such a choice must be provided

14 For cards with multiple schemes (brands) and/or applications, who chooses the brand or application to be used? The merchant or the cardholder?

A card with multiple brands must work for the cardholder in the same way as a wallet with several cards. The cardholder chooses which brand or application he/she wants to use at the point of sale, provided of course that the merchant accepts it and their POS equipment allows it⁵. The merchant always retains the choice not to accept some brands or to surcharge⁶.

We believe that this approach encourages the development of multi-application cards, for example shared debit and credit cards. Issuers of such cards will ensure that their marketing

⁴ For this purpose, closed loop schemes do not qualify as general purpose cards.

⁵ For example, if POS equipment is limited to certain transaction types e.g. motorway tolls. In such cases the default application set by the issuer should be used.

⁶ In accordance with Art. 50.1 and 52.3 of Directive 2007/64/EC on payment services in the internal market (Payment Services Directive).

material is clear in relation to how the cardholder makes his/her choice and how the card will work if no choice is made available by the merchant (for example, if only debit cards are accepted).

15 What are the objectives of the EPC's cards standardisation programme?

The EPC cards standardisation programme will establish minimum requirements in the following "domains":

- cardholder to terminal
- card to terminal (EMV)
- terminal to acquirer
- acquirer to issuer

The EPC recognises that this is a challenging exercise, and is committed to ensuring that all stakeholders are given the opportunity to become involved in the process of developing, agreeing and implementing the new standards.

Where possible, the EPC will make use of existing standards.

16 What is the status of the standards work?

The standards work is ongoing. At this stage, the EPC is unable to advise either on which standards will change, which ones will remain, what will be new or on the implementation timelines. The EPC will, of course, keep all stakeholders informed and involved with progress.

17 When will the standards work be completed?

We expect to have completed the definition of core requirements by the end of 2008. In addition, detailed specifications for all domains will follow in 2009.

Our objective is that SEPA standards will be fully available by the end of 2010.

If you have further questions, please contact, the EPC at secretariat@europeanpaymentscouncil.eu