



## SEPA Cards Framework

### Version 2.1

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## 1. Preamble

### 1.1. Introduction

This SEPA<sup>1</sup> Cards Framework<sup>2</sup> (hereafter referred to as “the Framework”) spells out high level principles and rules<sup>3</sup> which when implemented by banks<sup>4</sup>, payment institutions<sup>5</sup>, card schemes<sup>6</sup>, and other stakeholders, will enable European customers to use general purpose cards<sup>7</sup> to make payments<sup>8</sup> and cash withdrawals in euro throughout the SEPA area with the same ease and convenience than they do in their home country. There should be no differences whether they use their card(s) in their home country or somewhere else within SEPA. No general purpose card scheme designed exclusively for use in a single country, as well as no card scheme designed exclusively for cross-border use within SEPA, should exist any longer. This implies that banks and schemes operating in non-euro SEPA countries need to be SCF compliant for handling euro transactions.

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

The SEPA Cards Framework recognizes that a three-tier model is essential to progress the deployment of SCF compliant payment transactions and ATM<sup>9</sup> withdrawals with cards:

- (i) Tier 1 - The Framework itself. This addresses the high-level principles necessary to provide a strong, market driven response to the expectations expressed by the EPC, the European Central Bank and the European Commission regarding the building of SEPA. It is intended as a document to which banks, payment institutions and card schemes operating in SEPA must commit, in order to remove market barriers and strengthen competition for themselves and their providers of technical infrastructures and payment services within the EU card industry;
- (ii) Tier 2 - The card schemes. The interests of SEPA and the wider European cards market will be most effectively driven forward by strong competition between cards schemes. The strategies of the existing schemes towards SCF compliance and/or any proposals to create new schemes or brands<sup>10</sup> lie in the competitive domain. The role of the

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<sup>1</sup> SEPA: Single Euro Payments Area (currently 32 countries). It consists of the EU Member States, the other EEA Member States (currently: 3, i.e. Iceland, Lichtenstein, Norway), and Switzerland – as well as countries and territories incorporated into SEPA when approved by the EPC Plenary as meeting the requirements set forth in Doc. EPC 064-08

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

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

<sup>4</sup> See definitions

<sup>5</sup> Payment institutions: as authorized by competent authorities of Member States, pursuant to the transposition of Directive 2007/64/EC (“the Payment Services Directive”), when performing functions and/or delivering services in scope of the present Framework.

<sup>6</sup> See definitions

<sup>7</sup> See definitions

<sup>8</sup> See definitions

<sup>9</sup> See definitions

<sup>10</sup> See definitions

Framework is therefore to provide a context within which card schemes and their members, as well as alliances between card schemes, have to operate to ensure interoperability<sup>11</sup> and competition;

- (iii) Tier 3 - The providers of technical infrastructures and payment services. Efficient and low cost processing of transactions with cards is in the interest of all parties, and strong competition between providers is essential. The role of the Framework is therefore to set out the high-level principles that will encourage such competition as well as technical interoperability.

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

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

Customers are offered card products which consist of one or more acceptance<sup>12</sup> brands (or product platforms) enabled by payment schemes. Merchants<sup>13</sup> accept one or more acceptance brands offered in various combinations by acquiring banks.

This Framework is an EPC Resolution that will enable banks, payment institutions, card schemes and all stakeholders to move towards SEPA. With this Framework banks want to provide via self-regulation a market driven response to expectations expressed by the European Central Bank and European Commission as regards building the “SEPA for the citizen”, or “Internal Market for Payments”. In this context self-regulation means that EPC Members commit to implement the principles set out in the Framework. It will be the responsibility of each bank and card scheme when implementing the SCF to ensure that it respects national and EU legislation.

This Framework as EPC Resolution may be followed by further Resolutions, as necessary to achieve the targets of the SEPA Roadmap. The supporting procedures and standards that allow full implementation of this Framework will be complemented as necessary.

## 1.2. Framework objectives

The Framework is aimed at building an environment in which there are neither technical nor legal or commercial barriers which stand in the way of cardholders<sup>14</sup>, banks, payment institutions and merchants choosing and using SCF compliant payment and ATM access card products. Each of the parties should be able to make a choice based on value considerations alone whether they wish to adopt a particular card product or brand, and have this choice fully supported by technical interoperability, and not constrained by lack of pan-European acceptance

### 1.2.1. Implementation options

On the basis of the present situation in each country, each bank or payment institution as participant in, and user of, various SCF compliant card schemes has a choice of a number of

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<sup>11</sup> See definitions

<sup>12</sup> See definitions

<sup>13</sup> See definitions

<sup>14</sup> See definitions

options, or combination of options, to offer SCF compliant card products (as defined in 1.3.2 hereafter). These options include for example:

- Option 1: select one of the SCF compliant schemes to replace its current use of a non-SCF compliant scheme (see Chapter 3 hereafter);
- Option 2: act in such a way as to evolve one or several non-SCF compliant schemes so that they become SCF compliant; amongst other implementation options, previously national-based schemes, once they have become SCF compliant (see Chapter 3 hereafter), may e.g. extend their operations more widely within SEPA, or may enter into alliances with other previously yet SCF compliant schemes;
- Option 3: brand its cards with more than one SCF compliant schemes provided that these schemes accept such co-branding (see Chapter 3 hereafter);
- Option 4: develop its card business into its own SCF compliant three-party scheme<sup>15</sup> by issuing / acquiring directly or thru licence agreements.

The above ranking does not illustrate any preference, and further options are possible, now and in the future.

The above options may evolve further by end 2010, the date by which all payment card<sup>16</sup> products and brands falling within the scope of this Framework will have become SCF compliant – and thereafter.

It is stressed that individual banks or payment institutions or group of banks or payment institutions may well pursue one or several options. It is further stressed that different options may be pursued in parallel by a same bank or payment institution or group of banks or payment institutions for different types of payment transactions with cards (for a description of the latter, see Section 1.3.2 hereafter).

For the sake of clarity (also see Ch. 3 hereafter) it is further stressed that members of SCF-compliant schemes should be entitled to issue and/or acquire in any SEPA country or geographical area. This means, in practice, that the market will drive which schemes are present in which countries.

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

Card schemes will reflect their participants' desire and need to meet customers' and regulators' expectations. Card schemes will ensure in a timely fashion that their issuing and accepting rules and practices, and supporting standards, allow for SCF compliance, in line with banks' and payment institutions' decisions on how to implement SEPA value propositions for cardholders and merchants.

EPC will monitor through various means including national communities how banks, payment institutions and card schemes achieve the above targets.

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<sup>15</sup> See definitions

<sup>16</sup> See definitions

### 1.2.2. Cardholders' perspective

Wherever in SEPA they pay or make ATM cash withdrawals with a given card product, SEPA cardholders<sup>17</sup> should expect the same level of ease and convenience, and the same terms and conditions. SEPA cardholders should be encouraged to consider their card(s) as the preferred instrument – compared to e.g. cash or cheques - to make payments for goods and services.

In the eyes of cardholders, SCF compliant cards should become as convenient to use throughout the entire SEPA as at their location of issuance. In addition to the payment and cash withdrawal functions cardholders will continue to have access through their cards to payments-related and other value-added products and services made available to them by issuers<sup>18</sup> in a competitive market, and some of these services may only be available to them at a limited number of outlets (e.g. their own banks' ATMs).

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

### 1.2.3. Merchants' perspective

Merchants must be allowed the choice of which SCF compliant card acceptance mark(s) they wish to accept and which acquirer(s)<sup>19</sup> they wish to contract. This merchant choice may not be artificially constrained by legal, technical, or procedural issues, nor a lack of transparent price information – rather, the merchant should be able to take a commercial decision based on the value that acquiring banks or payment institutions can provide.

A consistent merchant experience is delivered when there are no technical or practical barriers preventing SEPA merchants from accepting all SCF compliant cards. SEPA merchants will be motivated by SEPA scheme acquirers to accept all the cards of the SCF compliant schemes of which they are members. As a consequence of EC Regulation 924/2009, within a SCF compliant scheme, a SEPA merchant will – for a same set of services and in the same merchant location - pay the same charges to its acquirer for national and SEPA transactions for the same type of a scheme's payment product.

### 1.2.4. Banks' and payment institutions' perspective

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

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

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<sup>17</sup> See definitions

<sup>18</sup> See definitions

<sup>19</sup> See definitions

EPC Members are committed to offering to their cardholders and merchants access to SCF compliant card payment services.

### 1.3. Scope of the Framework

#### 1.3.1. Definition of the Framework

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

#### 1.3.2. Payment transactions with cards covered by the Framework

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

(1) Types of transactions: This Framework covers payments with cards and ATM cash withdrawals made within SEPA with general purpose cards<sup>20</sup> issued by SEPA banks or payment institutions. Issuers may provide other services linked to payment cards, e.g. a credit line, yet these services are outside the scope of this Framework.

Because there are different payment card products and different types of card transactions, there may also be different business models and different interchange<sup>21</sup> fee structures and levels, as well as different terms and conditions for cardholders and merchants, that are however outside the scope of this Framework.

(2) Transactions based on non general purpose applications<sup>22</sup> are outside the scope of this Framework. However such applications may co-reside on SCF-compliant cards.

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

- currency of the card transaction: Euro (and any currency “opting in” in the sense of Article 14 of the revised EC Regulation 924/2009),
- and clearing<sup>23</sup> currency between acquirer and issuer: Euro (and any currency “opting in” in the sense of Article 14 of the revised EC Regulation 924/2009).
- and currency of the card account: the currency of the card account has no relevance for the purpose of the SCF. The account from which the card transaction is debited can be held in any currency.

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

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<sup>20</sup> Also see footnote 5 on page 4 of the SCF.

<sup>21</sup> See definitions

<sup>22</sup> See definitions

<sup>23</sup> See definitions

In the context of this Framework, remote transactions<sup>24</sup> are covered as part of card schemes' offerings provided a card number is used, a card account is debited, and the transaction is authorised by the cardholder.

(5) Supporting technology: In line with the June 2003 Cards Working Group Findings & Recommendations, as well as the December 2003 EPC Resolution on preventing and fighting card fraud, Version 2.0 of this Framework confirmed the EMV<sup>25</sup> chip<sup>26</sup> and, on the acquiring side, PIN<sup>27</sup>, as the supporting technology going forward. The terminal keyboard infrastructure to support PIN is required to allow issuers to make choices. It is the issuer's responsibility to decide for which card the use of PIN will be required. Individual banks, payment institutions and national communities continue to make decisions in the context of the Roadmap to complete the roll out of EMV. Magstripe-based transactions will not be SCF compliant after 2010 (yet they are in scope for this Framework in the 1 January 2008 to 31 December 2010 transition phase). All schemes were required to introduce a liability shift rule between acquirer and issuer and other incentivising measures to encourage the EMV migration from 1 January 2008. After 2010, all SCF compliant schemes will allow issuers to decline non chip based transactions in the SEPA area: it will be up to the issuers to decide whether they accept magnetic stripe<sup>28</sup> transactions as fallback.

(6) SCF-compliant cards: In summary an SCF-compliant card is a general purpose card issued by a card issuer within an SCF-compliant scheme (or schemes) and capable of handling transactions in Euro. SCF-compliant cards must have the potential to be effectively accepted at ATMs and/or by merchants in all SEPA<sup>29</sup> countries. However, in line with its pro-competitive values, and in the respect of the Rome treaty, the SCF does not mandate any level of geographical coverage within SEPA. From 31 December 2010 onwards all general purpose cards<sup>30</sup>, whether co-branded or not, in circulation must be issued under SCF-compliant schemes.

#### 1.4. Future evolution of the Framework

This Framework is written with consideration to the legal and regulatory, technology, and general market environments existing in the 2<sup>nd</sup> Quarter of 2009. It is intended that the high-level principles and rules spelled out in this Framework remain stable for the services covered by this Framework at least for a duration of 5 years.

However this Framework may require further revision if there continue to be changes in legislation and regulation, and interpretations thereto.

As regards technology, this Framework is generally written from an existing, underlying technology perspective. It may require revision e.g. when the payment chip standard technology evolves.

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<sup>24</sup> See definitions

<sup>25</sup> See definitions

<sup>26</sup> See definitions

<sup>27</sup> See definitions

<sup>28</sup> See definitions

<sup>29</sup> See footnote 1 page 4.

<sup>30</sup> For this purpose "closed loop scheme cards" (see definitions) will not qualify as general purpose cards.



As regards market environment, this Framework is written with consideration to the present legal and regulatory environments (4<sup>th</sup> Quarter of 2009). A significant change in this environment or in market organization could lead to a revision of the Framework.

### **1.5. Competition legislation**

This Framework acknowledges the market role of cardholders and merchants, issuers and acquirers. Thus it is meant to be in compliance with both existing national and European competition law requirements to the extent they have been formalised, are stable, have been communicated well in advance to all stakeholders, and are interpreted in a consistent manner.

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

This Framework further acknowledges that banks, payment institutions and card schemes who implement its dispositions are also competitors in the SEPA market. Therefore – irrespective of any disposition later in this Framework, no provision nor exchange of information will be deemed required nor will be accepted whenever such information is of a competitively sensitive nature.

### **1.6. Framework implementation and monitoring**

Implementation of the Framework is the responsibility of banks, payment institutions and card schemes. In order to meet the renewed commitment made in December 2009 (EPC Roadmap, see 4.2.2), SEPA customers must have access to a pan-European card payment instrument – a SCF compliant card.

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

In line with the purpose, objectives and role as set in the EPC Charter, and the role accepted by EPC Members with the approval of the EPC Roadmap, within the constraints set by applicable competition legislation, and where relevant under the guidance of regulators and/or supervisors, the EPC will establish and maintain mechanisms to monitor the implementation of this Framework by banks, payment institutions and card schemes.

## 2. Commitments by SEPA banks and payment institutions

### 2.1. Introduction

Passing by the EPC Plenary of the relevant Resolution(s) constitutes a firm commitment by EPC Members to give effect to this Framework. This Framework is available to all banks that come under the 2<sup>nd</sup> Banking Directive (hereafter referred to as “SEPA banks”), and to payments institutions authorized by competent authorities of Member States, pursuant to the transposition of EC Directive 2007/64 to perform functions and/or delivering services in scope of the present Framework similar or equivalent to the functions and/or services performed or delivered by banks. The Associations that are EPC Members are bound by the same Resolution(s) to take the necessary steps to actively seek and obtain the commitment of their own member banks to implement the dispositions of this Framework. The roles assigned to EPC Members and European and national communities by the December 2004 EPC Roadmap have full relevance.

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

### 2.2. Roles and responsibilities of SEPA banks and payment institutions

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

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

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

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

#### 2.2.2. As issuer<sup>31</sup>

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

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<sup>31</sup> The dispositions applicable to issuing and acquiring banks and payment institutions also apply to third party issuers or acquirers. The latter are entities which may be partially or wholly owned by banks, and which according to the legislation of their country of registration, may or may not be required to hold a banking license.

The SCF and its impact on card payments and cash withdrawal transactions prevents neither banks nor payment institutions from developing value added services in addition to the card payment functions.

### 2.2.3. As acquirer

SEPA banks and payment institutions who act as acquirers or equivalent entities must offer to merchants the option to handle payment card transactions generated by one or more SCF compliant card schemes.

SEPA banks and payment institutions commit to

- make available to merchants full information on the benefits of accepting SCF compliant cards, and actively promote to them the benefits of migrating their terminal(s) to an EMV certified terminal to enable them to accept SEPA cards<sup>32</sup>
- encourage their merchants to accept subject to business conditions SCF-compliant cards of all schemes of which they are participants
- ensure that the ATMs they deploy (directly or indirectly) accept subject to business conditions to be agreed SCF-compliant cards of all schemes of which they are participants;
- ensure that their processors support the full compliance for ATMs and POS in line with Art. 1.3.2 above.

Banks and payment institutions who prior to end 2010 co-brand non SCF compliant and SCF compliant schemes on their cards must ensure in their acquiring or equivalent activity that the acceptance of the SCF compliant schemes is at least equal to the acceptance of the non SCF compliant schemes in accordance with the EPC SEPA definition<sup>33</sup>. It has to be made sure that the rules of non-SCF compliant schemes do not act as a barrier to the acceptance of SCF compliant products.

### 2.2.4. As card scheme participant

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

### 2.2.5. As member of a standardisation body

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

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<sup>32</sup> The EPC acknowledged that in 2001 the Dutch merchant community entered into a contractual arrangement with the Dutch banking community. The migration of POS terminals deployed in the Netherlands to EMV will be completed by the end of 2011.

<sup>33</sup> EPC SEPA definition (Slide 9 of EPC 2004-2010 Roadmap): “SEPA will be the area where citizens, companies and other economic actors will be able to make and receive payments in euro, within Europe, whether between or within national boundaries under the same basic conditions, rights and obligations, regardless of their location”. Focus of the Roadmap: “SEPA will be delivered as a priority within the eurozone. Within Europe, outside the eurozone there will be opportunities to participate in euro payment systems, and communities will be able to adopt SEPA standards and practices to contribute to the Single Market for payment services” (ibid.).

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## 2.3. Governance of the Framework

### 2.3.1. Intellectual property

EPC Members, represented directly on the European Payments Council (EPC) or indirectly through a European Credit Sector Association and/or a National Banking Association, acknowledge that EPC owns any and all the intellectual property rights and copyright in and to this Framework, including but not limited to the Cards Standardisation Volume<sup>34</sup>.

The contents of this Framework including but not limited to the Cards Standardisation Volume are available to any interested third party. They may be used at no charge to this third party. However the source must always be acknowledged and the contents may not be altered nor misrepresented.

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

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

The EPC Cards Working Group is the body responsible for the maintenance of this Framework. Directly or indirectly it will mobilize the adequate standardisation and rule-making bodies involved in developing and maintaining the standards necessary to the operation of the schemes adhering to this Framework.

### 2.3.3. Monitoring of Framework deployment

Through the EPC Charter, EPC Members have affirmed their ambition and will to shape SEPA through self-regulation, to the greatest extent possible. As a direct consequence of this stated ambition and will, EPC Members accept responsibility for actively monitoring the deployment of this Framework by adhering card schemes. EPC will establish a mechanism to perform this responsibility. Such mechanism will reflect the criteria set by the Eurosystem for self-assessment by schemes of their compliance with this Framework.

This Framework is available to cards schemes for formal acceptance and implementation.

EPC performs the role of monitoring SCF. The EPC is not liable to any EPC member, any bank, payment institution, scheme, customer or other person for any fact or omission (including any “faute grave”) in carrying out its role.

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<sup>34</sup> See definitions

## 3. Commitments by card schemes

### 3.1. Introduction

This Framework is presented to card schemes for implementation. An SCF-compliant scheme must operate in such a way that there are no barriers to effective competition between issuers, acquirers, and providers. Card schemes will acknowledge the fact that SEPA banks and payment institutions will neither distribute nor issue to cardholders general purpose cards from non SCF compliant schemes after end 2010. Adoption of this Framework by card schemes operating in SEPA is a decision taken by the participants in these schemes, reflecting demand and behaviour of their customers, as well as their strategy and business objectives – full adoption of this Framework is however the necessary condition for a card scheme to present itself as being “SCF compliant”.

Card schemes evidence their agreement with the requirements of the present Framework by publishing on their website a detailed self-assessment which will indicate how they implement the dispositions of this Framework. If their compliance is incomplete the self-assessment will be complemented by an implementation plan. After end 2010 only a positive self-assessment of all the (relevant) requirements set out in this Framework will entitle a card scheme to present itself as “SCF compliant”<sup>35</sup>.

The SCF is open to any scheme business model. Unless stated otherwise hereafter, the commitments described here are expected to be met by all schemes.

### 3.2. Scheme’s rules requirements

#### 3.2.1. Card scheme organization and activities

Any card scheme wishing to become SCF compliant will ensure and demonstrate that the legal and commercial barriers to SCF compliance are effectively removed. Failure of a given scheme to do so results in SCF non-compliance. Card schemes may be invited to provide to EPC any such information that may be required from time to time for monitoring purposes.

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

##### a) Participation<sup>36</sup>:

To qualify under the dispositions of this Framework, each card scheme must allow banks and payment institutions to participate on the basis of transparent and non-discriminatory criteria. In particular, these criteria may no more distinguish between banks or payment institutions<sup>37</sup> subject to supervision in the same country as the country of registration of the said card scheme, and banks or payment institutions subject to supervision by supervisory bodies from other SEPA countries, and conducting their business in the other SEPA countries.

<sup>35</sup> Note: on the basis of the commitments expected as a consequence of Chapters 2 and 3, it is not intended by the EPC, nor pursued with this Framework, to create a new “EU card scheme”.

<sup>36</sup> Also see Standard 4 of the Eurosystem’s Oversight Framework for card payment schemes – January 2008

<sup>37</sup> Provide the competent authority(ies) has(ve) granted a payment institution the right to operate in more than one EU Member State.

c) Licensing:

All SEPA banks or payment institutions must be offered basic card payment products and services throughout SEPA on the basis of a single licence from each SCF card scheme without the requirement to obtain individual licences for each SEPA country. This means e.g. that a licence for a SEPA country gives a bank or payment institution the right to issue or acquire in any other SEPA country or countries or region(s). For the purpose of licensing, “on us”<sup>38</sup> transactions within “banking groups”<sup>39</sup>, including “cross border on us” transactions, must be treated in the same way by any scheme as “on us” national transactions.

At their discretion, banks or payment institutions must be able across SEPA to enter solely into an issuing licence. At their discretion, banks or payment institutions must also be able across SEPA to enter solely into an acquiring licence.

d) Contracting<sup>40</sup>:

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

e) Scheme pricing principles:

Card schemes commit to provide their participants with SEPA-wide, transparent pricing structures (“scheme fees”), that will endeavour to allow for participation by the greater number of banks and payment institutions. In this context “transparent” shall mean that the nature of the service or activity thus remunerated is unambiguous for the scheme participant or user: prices may not be presented in a bundled<sup>41</sup> manner when referring to services or activities of a different nature. E.g. schemes will not operate cross-subsidies between their issuing services and acquiring services or between their network / processing services and brand expenditures.

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

f) Open business model:

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

g) Operational quality<sup>42</sup>:

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

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<sup>38</sup> See definitions

<sup>39</sup> See definitions

<sup>40</sup> Also see Standard 1 of the Eurosystem’s Oversight Framework for card payment schemes – January 2008

<sup>41</sup> Not in a bundled manner: as processing and clearing must be separated from a scheme’s brand management and governance, scheme participants must also be charged separately for these different services and functions.

<sup>42</sup> Also see Standards 2 and 3 of the Eurosystem’s Oversight Framework for card payment schemes – January 2008

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

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

Scheme rules may not require as a condition of participation that any particular provider of processing services (e.g. network management, authorisation<sup>43</sup> switching, clearing, settlement) be used. Equally SCF compliant schemes may not mandate any certification to be performed only by a proprietary certification body. This, however, is not intended to pre-empt legitimate risk management<sup>44</sup> requirements from card schemes.

Consistent with 3.2.2 d) above, no card scheme will discriminate when pricing services or charging any fee between banks and payment institutions who use additional services offered by the said card scheme, and banks and payment institutions who do not, or only partially so.

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

Card schemes must ensure that merchants (or ATM owners) are not prevented from accepting any card from another SCF compliant scheme. The merchant retains the choice not to accept some brand(s) or to surcharge<sup>45</sup>.

### 3.2.5. Three-party schemes

A constant objective for the SEPA Cards Framework is inter alia to enhance the level playing field throughout SEPA. Therefore the high-level principles and rules formulated in the present SEPA Cards Framework should apply to all market participants when they provide same or similar services, and this irrespective of their legal form or structure. This means that also three-party schemes should become SCF-compliant when offering services that are in scope of this Framework. However the SEPA Cards Framework recognizes that:

#### *3.2.5.1. Three-party card schemes without licensees*

Three-party card schemes which undertake both issuing and acquiring fully within their own entity are exempted from above requirements regarding open access to the scheme, separation of scheme governance, management, and processing, and cross-border issuing and acquiring. However other SCF requirements including yet not limited to technical standards for cards and terminals apply to three-party schemes without licensees as well.

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<sup>43</sup> See definitions

<sup>44</sup> See definitions

<sup>45</sup> In accordance with Art. 50.1 and 52.3 of Directive 2007/64/EC and its transpositions.

### *3.2.5.2. Three-party card schemes with licensees*

- Such schemes should be transparent regarding their licensing (i.e. the method for applying for a licence, and the selection criteria). This transparency requirement is however without prejudice to the discretionary powers of the said scheme regarding the issuance of a licence.
- The principle of SEPA-wide licences for issuing and/or acquiring also applies to three-party schemes. However, where prior to end 2008 a three-party scheme has granted any licensee the right to operate within a single country only, on an exclusive basis, by end 2013 at the latest that licence must be transformed into a SEPA-wide issuing and/or acquiring licence.
- Any licensee of such scheme must be allowed to work with the issuing and/or acquiring processor of his choice (whilst the said three-party card scheme will not discriminate when pricing services or charging any fee between licensees who use additional services offered by that scheme, and licensees who do not, or only partially so);
- Three-party card schemes with licensees are exempted from the requirements to separate scheme governance, management, and processing.
- Such scheme may restrict authorisation, clearing and settlement to itself.
- However other SCF requirements including yet not limited to technical standards for cards and terminals apply to three-party schemes with licensees as well.

Finally a National Central Bank or the relevant regulatory body could exempt a three-party scheme with either less than 5% of the total number of card transactions in its respective market, or accounting for no more than 250 million transactions per annum – whichever comes first - from the requirement for SEPA compliance, and thus from the requirement to comply with this Framework.

### **3.3. Principles for interchange fees**

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

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

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

### **3.4. Commitment to fraud prevention**

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



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

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

### **3.5. Transaction authorisation by issuer**

All transactions are to be authorized by the issuer, either on-line, or off-line by the chip. Off-line-only terminals are an exception, only to be deployed in environments where it is from a SEPA rationale impossible, or not economical, to deploy online terminals. The issuer will decide whether or not cardholders are permitted to use their cards in an off-line environment or not.

### **3.6. Principles for interoperability**

#### **3.6.1. Cardholder experience**

Card scheme rules must enable and facilitate for cardholders a consistent payment and cash withdrawal service experience throughout SEPA. In accordance with Directive 2007/64EC, where several payment applications are made available by the issuer in the same card, supported by the same terminal, and are accepted by the merchant, cardholders will have through their cardholder agreement with their card issuer the choice of which payment application they will use provided the merchant accepts it and its POS equipment supports it<sup>46</sup>. The agreement between the cardholder and the issuer will define the choices available to the cardholder. Prevalence at POS or ATM for a particular payment application may not be mandated by a card scheme or ATM operator or merchant.

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

#### **3.6.2. Merchant experience**

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

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<sup>46</sup> For example, where the 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.

### 3.6.3. Standardisation activities

To deliver such cardholder and merchant experience, the European banking industry will continue to contribute to free and open international standardisation activities.

EPC's objective is to develop and maintain standards that are open and free for use.

The standardization required to achieve SCF compliance is described in the EPC Cards Standardisation Volume (first published in January 2009). This Volume complements the SEPA Cards Framework. The Cards Standardisation Volume will be maintained independently from the present SEPA Cards Framework.

Business cases for standardisation will continue to reflect the objectives of wide acceptance and/or cost reductions and take into consideration in the implementation planning the high number of affected terminals as well as investment cycles.

#### *3.6.3.1. Necessary interoperability domains*

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

- cardholder to terminal interface,
- cards to terminal (EMV),
- terminal to acquirer interface (protocols or minimum requirements),
- acquirer to issuer interface, including network protocols (authorisation and clearing).

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

#### *3.6.3.2. Certification principles*

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

#### *3.6.3.3. Terminal certification*

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

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

#### *3.6.3.4. Scheme rules*

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

### **3.7. Market statistics**

Under this Framework, card schemes commit to provide to the European Central Bank, within conditions defined by the latter, such statistical information that allows the latter to publish at regular intervals a comprehensive and accurate picture of the European card market.

## 4. Attachments

### 4.1. Document history

- The SEPA Cards Framework was developed by the EPC Cards Working during 2005.
- Version 1.0 of the SCF was approved by the EPC Plenary on 21 September 2005.
- Version 2.0 of the SCF was approved by the EPC Plenary on 8 March 2006 – notably to incorporate minor amendments pursuant to a review by external legal counsel - and made public.
- The objective with the present proposal for a revised Version is to acknowledge a number of developments since March 2006, namely:
  - the November 2006 Eurosystem’s View of a SEPA for cards;
  - the Payment Services Directive (Directive 2007/64/EC);
  - the January 2008 Eurosystem’s Oversight Framework for card payment schemes;
  - the June 2008 SCF Q&As approved by the Eurosystem and DG Competition;
  - the November 2008 Eurosystem’s 6<sup>th</sup> Progress Report on SEPA.

### 4.2. EPC Resolutions addressing cards - The banking industry vision

#### 4.2.1. EPC Resolutions addressing cards

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

#### 4.2.2. The banking industry vision

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

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

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

This single European card market is made possible and strengthened, by concerted actions on non-competitive issues, at card industry level, including the global card schemes, as well as domestic card schemes, and through the ECB/Eurosystem, EC and governments, and also card acceptors<sup>47</sup>, regarding especially:

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<sup>47</sup> Card acceptor: the party accepting the card and presenting transaction data to an acquirer.

- Preventing and combating fraud,
- An open, competitive market for cards that promotes widespread usage,
- Coherent legislation and regulation responding to proposals from European institutions for legislation and regulation, with a preference for self-regulation,
- Deeper standardisation (i.e. authorisation<sup>48</sup> interfaces, clearing<sup>49</sup> interfaces, smart card and accepting devices specifications), stronger cooperation, especially on chip migration (provided this is not at the expense of competition).

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

### **4.3. Excerpts from EPC Charter and EPC 2004 – 2010 Roadmap**

#### **4.3.1. EPC Charter**

##### **Excerpts of EPC Charter**

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

For Credit Institutions within the Single Euro Payments Area (SEPA) the EPC shall:

- define common positions for core payment services;
- provide strategic guidance for standardization;
- formulate rules, best practices and standards;
- support and monitor the implementation of decisions taken;
- perform the functions of Scheme Management;

so that they can:

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

The objectives and critical success factors are defined as being:

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

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

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<sup>48</sup> Authorisation: the process by which a transaction request is approved or declined. In general, the decision to approve or decline a transaction is taken by the issuer, or by a third party on behalf of the issuer.

<sup>49</sup> Clearing: the process of exchanging financial transaction details between an acquirer and an issuer to facilitate both the posting of transactions to cardholders' accounts and the reconciliation of an institution's settlement position

All objectives should be achieved through self-regulation by decisions taken by the EPC Plenary, the Co-ordination Committee and the Scheme Management Committee.

Article 3: The role of the EPC

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

Within its scope, EPC will act as the standardization body for payments related standards and provide guidance to and liaise with other standardization bodies in order to achieve its objective.

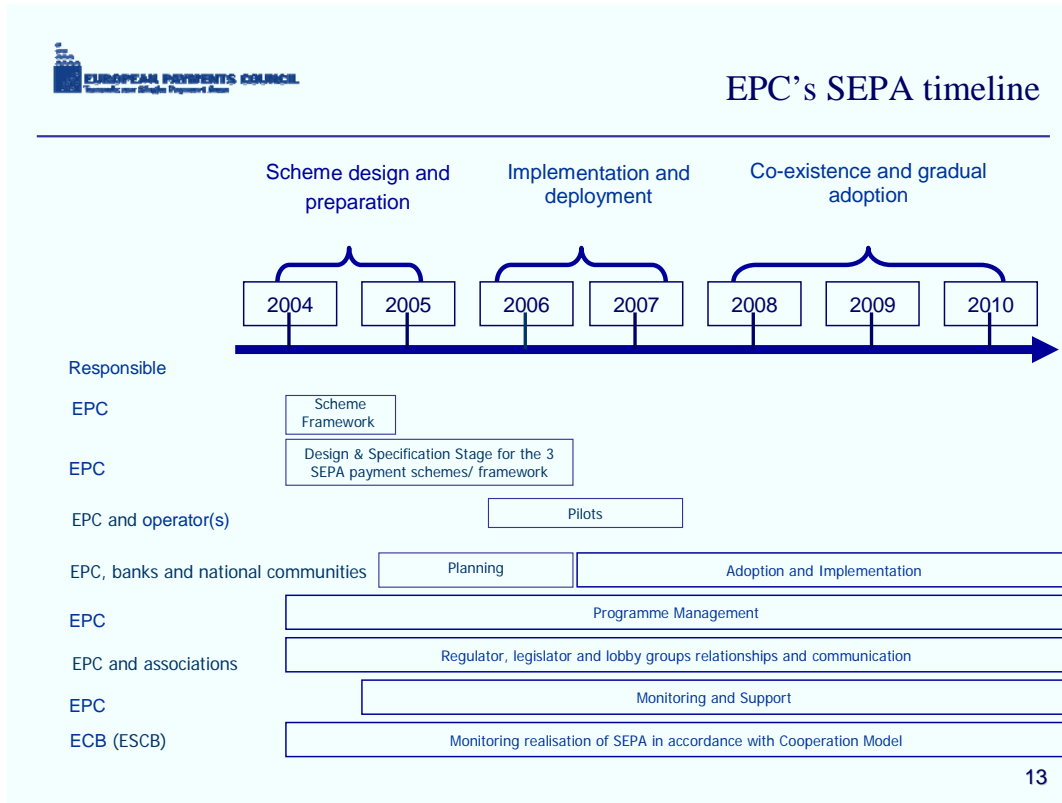
The EPC shall be responsible for the performance of functions relating to Scheme Management, as set out in the Internal Rules of the EPC.

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

The EPC is an international non-profit association (« A.I.S.B.L. ») governed by the provisions of Title III of the law of 27 June 1921 of the Kingdom of Belgium on non-profit associations, international non-profit associations and foundations.

4.3.2. EPC 2004 – 2010 Roadmap (updated in March 2008)

Section 3.7, page 12 of the 2004 – 2010 EPC Roadmap



Section 4.1 of the 2004 – 2010 EPC Roadmap:

Banks as EPC Members and as members of European and national banking communities are asked to support the SEPA vision and scope. Consequently they will be required to contribute to the EPC deliverables at EPC and at national level, by planning and preparing for change in 2005. All this calls for timely decision-making regarding mobilisation and execution.

Banks will need to implement and monitor progress at bank and national community level. This will involve giving timely guidance to their associations, payment scheme organisations and infrastructures. Constructive engagement with customers, consumer and lobby groups, governments and other stakeholders, supported by appropriate communication programmes, will be required.

Banks will need to support the establishment of national SEPA implementation organisations in 2005, either adapting existing programme management structures or creating new ones

4.3.3. Crown Plaza Declaration by the European Payments Council (Brussels, 17 March 2005)

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

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

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

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

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

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



#### 4.4. Definitions

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

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

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

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

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

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

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

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

**Card scheme**: generic term for the entity that offers card-based payment products and services and which, with exception of the standards, provides the organisational, legal and operational framework rules necessary for the services marketed by the brand to function. Institutions participate in payment schemes by entering into (one or more) licence agreements. A scheme may translate into or be a “4-party” or “3-party” model.

**Cards Standardisation Volume**: document supporting the SCF and defining the functional and security requirements as well as the target evaluation methodology and certification architecture recommended by the EPC for adoption by players throughout the card payment value chain to ensure interoperability within SEPA.

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

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

**Closed loop card schemes**: card schemes where the acceptance environment is restricted to a limited number of merchants.

**EMV**: acronym for the standard administered by the consortium (EMVCo) of currently 4 companies (JCB, MasterCard, Visa and American Express) jointly sponsoring the global standards for electronic financial transactions. Refers to the technical specifications produced by the consortium and adopted by all 3 companies, designed to ensure the global interoperability of the chip cards, chip terminals, financial messages and related services.

**General purpose application**: an application used to make payments and/or cash withdrawals for which the usage is not limited to a closed acceptance environment.

**General purpose card**: a card containing at least one general purpose application. Debit, credit and ATM "cash only" cards are general purpose cards. However, for example, single retailer chain or single outlet store cards and e-purse cards and on-us only ATM cards are not.

**Interchange fees**: A fee paid by a bank or payment institution participating in a scheme to another participating bank or payment institution, in relation to a card transaction.

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

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

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

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

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

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

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

**Payments / Payment transactions:** either POS transactions or remote transactions. In the context of this Framework, remote transactions are covered if they are part of card schemes' offerings, providing a card number is used, a card account is debited, the transaction is authorised by the cardholder and is covered by the issuer/cardholder contract.

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

**Payment institution:** means a legal person that has been granted authorisation in accordance with Article 10 of the Payment Services Directive (PSD) to provide and execute payment services throughout the EU community.

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

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

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

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

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

**Three-party scheme:** Card scheme involving the following stakeholders: 1) the card scheme itself, acting as issuer and acquirer, 2) the cardholder, and 3) the accepting party. This compares with a four-party scheme where the issuer and the acquirer are separate entities and are also separate from the card scheme itself. Three party schemes are defined and regulated by Article 28 (2)(c) of the Payment Services Directive.