



1 August 2024

To Tulip Saddiq, Economic Secretary to His Majesty's Treasury, and Aidine Walsh, Chair of the Payment Services Regulator

Cc John Berrigan, Director-General for Financial Stability, Financial Services and Capital Markets Union, and Olivier Guersent, Director-General for Competition, European Commission

Subject: Cross-border interchange fees

Dear Minister,

Dear Chair,

On behalf of the European banking and card-based payments industry we wanted to raise serious concerns about the potential price cap that the UK is considering to impose on EU banks and payment companies specifically.

We are aware the UK regulator is considering proposing an 'interim' 20/30 bps inter-regional interchange price cap on all EEA to UK card-not-present transactions (CNP).

While we appreciate the rationale for taking action to boost competition and innovation in payments domestically, and cross border, we see the proposed measure as potentially discriminatory, a risk to the integrity of national payments and retail banking markets in the EU and counterproductive as it will limit the ability for new innovative solutions to scale-up and grow. It will also negatively impact EU consumers by creating pressure for EU issuers to reduce services or introduce new fees (e.g. account fees, FX fees, etc).

For example:

- The costs incurred by EU issuers for enabling such transactions often can exceed 20/30 bps (including mandatory costs they must pay to third parties, and core costs on servicing consumers and providing consumer protections). Costs have increased since 2015 and are higher than for domestic transactions. As the cap being applied would likely be below many issuers' costs for such transactions, EU issuers will lose money on each transaction. The cap will not increase competition or boost innovation, but mainly benefit a few large UK online merchants.
- The 2015 Interchange Fee Regulation's (IFR) approach to setting the same interchange for card-present (CP) and card-not-present (CNP) transactions is out of date and superseded by the 2019 'Commitments' approach of setting a higher rate for CNP, reflecting the obviously

higher fraud costs of those transactions¹. By setting the same interchange level for CP and CNP transactions, the PSR would be adopting an outdated approach.

- We understand the UK plans to implement this cap just on EEA issuers. UK issuers and those based in the US or other markets will not be subject to such a price cap for their cross-border transactions. This will put existing EU payments companies at a disadvantage, but importantly also undermine the ability for new card-based FinTechs based in the EU to start up or scale.
- While we respect any regulator's right to act to address concerns in the market, the process being followed is particularly concerning. For example, the UK regulator plans to apply this 20/30 bps 'interim' cap' while it conducts an 18-month study to decide if a cap is even needed and what level would be appropriate.

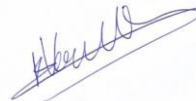
Given the potential negative impact on EU issuers, we would appreciate confirmation from the UK authorities that (i) the UK will properly consult EU Member States and do an impact assessment before taking such a material step and (ii) EU issuers will not be subject to any cap that unfairly disadvantages them (e.g. cap below costs, discriminatory between EU issuers and international issuers, etc).

We thank you for considering our observations and request, and we remain at your disposal to elaborate further on our views.

With kind regards,



Sébastien de Brouwer
Deputy CEO
European Banking Federation



Robrecht Vandormael
Secretary General
Payments Europe

About EBF

The European Banking Federation is the voice of the European banking sector, bringing together national banking associations from across Europe. The federation is committed to a thriving European economy that is underpinned by a stable, secure, and inclusive financial ecosystem, and to a flourishing society where financing is available to fund the dreams of citizens, businesses and innovators everywhere.

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About Payments Europe

Payments Europe is the voice of the card-based payment industry in Europe. Our mission is to promote a better understanding of the complexity of card-based payments and the inherent value it brings to society. We support a vibrant, innovative, and competitive European payments market, that is based on a balanced regulatory framework and that puts consumers and consumer protection at the heart of everything. Payments Europe's members are card issuers, card acquirers, card schemes and other businesses that offer card-based payment solutions in Europe.

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¹ On 5 July, the Commission took note of the extension of the [2019 Commitments](#) until November 2029.