Towards an integrated European market for card, internet and mobile payments

Position and Response to the Commission’s Green Paper

Background

The European Commission had issued a Green Paper entitled ‘Towards an integrated European market for card, internet and mobile payments’ which assesses the current landscape of card, internet and mobile payments in Europe. In addition to this initiative, the Commission has launched a broad-scale consultation process with stakeholders of the industry to validate or contribute to the Commission’s analysis and to help identify the right way to improve market integration.

EPASOrg is an international non-profit association founded in Europe by key industry players of different industries to foster interoperability by agreeing, developing and implementing common protocol specifications related to secure card payments. By increasing standardisation and interoperability, EPASOrg main intention is to overcome the barriers of today’s fragmented card payment environment, namely in the Single Euro Payments Area, which is one of the main challenges set out in the European Commission’s Green Paper.

Given its renowned expertise in standardisation and the large involvement of different stakeholders of the card payment industry in building up official ISO 20022 standards, EPASOrg has become the first non-profit association to implement Europe’s guidelines as regards open standards and the involvement of all actors of the industry, with the objectives of following an ISO 20022 standardisation process.
Whilst EPASOrg main mission is to promote the implementation and use of EPAS standards, EPASOrg has no mandate to enforce the implementation of its standards within the marketplace.

It is up to the actors (regulators, card schemes, manufacturers, service providers and retailers) to ensure that such an implementation takes place with the aim to achieve the business objectives and the development of the open market of card payments requested by the EC and ECB.

As such, EPASOrg believes that it is in a position to participate and to contribute to the Commission’s analysis by providing the opinions of its member organisations with regard to the issues addressed in the Green Paper’s consultation document. The EPASOrg association is also prepared to participate in any further consultation or hearing that could be taking place in the framework of the present Green Paper process.

The present paper will be organised in three main chapters:

- Comments on the Green Paper
- Responses to the consultation
- Conclusions

Contact person:

EC Transparency Register ID: 20906768430-34

William VANOBBERGHEN
Secretary General
EPASOrg A.I.S.B.L.
Rue du Luxembourg 19-21
B-1000 Brussels
Tel.: +33 6 72 95 19 03
Fax: +33 1 40 15 58 51
Chapter A. Comments on the Green Paper

Introduction

The Green Paper acknowledges that the lack of a concrete framework to address concerns such as technical standards, security, interoperability and the cooperation between market participants contributes to perpetuating a fragmented market in Europe.

One vision put forward by the European Commission (EC) and the European Central Bank (ECB) for electronic retail payments in Europe is that there should be no more distinction between cross-border and domestic payments to achieve a true digital Single Market at EU level.

With the EC and ECB, EPASOrg shares the concern that today’s legal, commercial and technical barriers inhibit the completion of a Single Euro Payments Area in Europe and could be removed by both a more active and adequate regulation in Europe and also through the involvement of all the actors of the industry in this process.

Up to now, a lot of effort in this regulation process carried out by the EC has been focusing on issues related to pricing and the need to find - among the business actors (banks, card schemes, processors, retailers) - an appropriate level of cost sharing. In the meantime, there is also a strong feeling among the market participants that less interest has been devoted by regulators to the potential impact and benefits that a level playing field in terms of standardisation and common specifications could bring to the same European unified domestic market.

A Common standardisation approach for a European unified market

ISO 20022 is certainly a good example of a common standardisation approach (methodology, process, repository) set up by the whole worldwide financial industry with a view to achieve a common set of messages throughout different activities of the financial value chain (Forex, payments, securities, trade services, cards, etc.) which may deserve more attention by the regulators.

SEPA Direct Debits (SDD) and SEPA Credit Transfers (SCT) referred to in the Green Paper are ISO 20022 initiatives specifically developed by the industry to address the requirements of cross-border payments in Europe and SEPA in particular.

In so doing, those initiatives do already contribute to the smooth and effective removal of barriers existing today at national level for traditional payments.
ISO 20022 for cards: Leading the way forward

Thanks to EPASOrg and its involvement of actors of the whole card payment industry, a similar and more recent ISO 20022 standardisation process (CAPE - Card Payment Exchanges) has been initiated for card payments by following the same approach and with the same EC objectives of open standards and removal of today’s technical barriers in Europe.

Similarly, ATICA – a project initiated by ISO TC68/SC7 to ensure the evolution - through reverse engineering - of existing ISO 8583 standards is pursuing the same objectives, but for the relationship ‘acquirers-issuers’. The ultimate objective of this initiative is to replace today’s proprietary standards belonging to the major international card schemes by open and common ISO 20022 standards to be implemented by any interested party and free of any royalty in their usage.

It is worth noting that both initiatives (EPASOrg with CAPE and ISO TC68 with ATICA) already do comply with SEPA requirements. CAPE specifications and their EPASOrg Message Usage Guides (MUGs) allow market participants in the EU to implement those specifications and to benefit from a light certification procedure (based on an auto-certification tool) which is currently under development.

Whilst the European Central Bank has acknowledged and gave its support to this ISO 20022 standardisation process, it is, however, worth to note that only a few references to ISO as a whole or to the ISO 20022 standardisation (with the exception of SCT and SDD) process has been made throughout the EC Green Paper document.

Similarly, no reference to other standardisation initiative such as the International Bank Account Number (IBAN) or Bank Identifier Code (BIC) which both participated to make SEPA a reality is being made in the document.

More attention should certainly be devoted to those new ISO 20022 standardisation initiatives targeting as from now on card payments. A total of 18 ISO 20022 messages – ready for implementation - has already been developed for payments made by card and there is more to come.

The regulators may certainly consider extending the enforcement of existing, open and common standards associated with the SCT and SDD schemes to the new card payment ones.

By giving to the market a reasonable time for implementing ISO 20022 card standards, market participants may be prevented for being pushed to more strict deadlines later on; should the regulator decide ultimately to use regulation, as it did for both SCT and SDD schemes.
A business approach in supporting standards

The standardisation work carried out by EPASOrg is essentially driven by market considerations which should be considered as the cornerstone of any standardisation initiative.

The vision set out by the Green Paper as regards the expected benefits for merchants looking for cheap, efficient and secure electronic payment solutions should be complement by their actual desire to use the internal market as an enabler of doing better business in an enlarged – Europe-wide - environment free of obstacles of all sorts.

One of the major benefits of using a common standard such as EPAS for the relationship “Merchant-Acquirer” consists of replacing progressively the numerous traditional national or scheme-driven solutions today by a state-of-the-art common solution accepted by all banks and card schemes operating in the EU.

From a mere business perspective, such an approach would enable retailers acting on the international market to rely on multi- and central acquiring solutions which are today handicapped by the lack of common standards.

From a bank or card scheme business perspective, it allows those actors to extend their market coverage and business opportunities beyond the national borders.

For manufacturers of terminals, the generalisation of common specifications facilitates the development of products without the need to rely on customisation of their equipment to meet diverging national functional and security requirements.

Competing internationally thanks to standardisation

More than looking for alternatives to handling cash or considering an improved customer experiences when using new payment instruments, the above business considerations could bring a lot of tangible commercial and business benefits for all of those actors operating at an EU level.

By improving their position EU-wide thanks to this standardisation approach, the EC would give those merchants, banks and manufacturers the necessary assets to address a wider worldwide market and put those actors in a better position to compete with their pairs beyond the EU borders.
Green Paper’s Standardisation section (4.3 Standardisation, p.15)

EPASOrg shares the European Commission’s view that European payments users (companies, consumers, merchants) will fully benefit from competition, freedom of choice and more efficient payment operations if cross-border interoperability is achieved.

The aim of achieving interoperability in cross-border card payment transactions was one of the aims of EPASOrg in initiating the standardisation work in card payments. This standardisation work was furthermore conducted with the active contribution of representatives the above-mentioned actors belonging to the different sectors of the whole card payment industry.

This wide consultation of the industry was also carried out with the aim to ensure that each participating entity would ascertain that its own business and community interests would be taken into consideration in this standardisation process.

As such, EPASOrg actually follows the Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal cooperation agreements in order to minimise the risk of foreclosure of potential competitors or innovation.

As far as competition and anti-trust issues are concerned, EPASOrg fully recognised from the beginning of its activities the potential threat that inappropriate business behaviours during meetings could compromise the whole initiative in the light of the European and national regulation. As a consequence, EPASOrg decided to require for each new application for membership to abide to a set of anti-trust guidelines (part of the whole application package available on the EPASOrg official Web site). Furthermore, any new cooperation agreement signed with standardisation partners (e.g. ARTS, IFX Forum) include in their Memorandum of Understanding a set of anti-trust guidelines to be followed by all participants to meetings.

Card payments

Whilst EPASOrg shares the views of the European Commission that in the Terminal to Acquirer domain (T2A) there may be some lack of common standards, our association considers that this situation recently improved to a large extent thanks to the EPASOrg standardisation initiative which was created some years ago to specifically address this lack of common and open standards by providing full-fledged ISO 20022 message schemes.
As of today, it is fair to say that EPAS standards are the only specifications on the market which fulfil the EC’s requirements in terms of:

- Involvement of all actors of the industry (manufacturers, card schemes, retailers, solution providers, software companies, etc.);

- Open and universal specifications free of any royalty;

- Transparent licence policy (End-user licence available on both EPASOrg and ISO 20022 official Web sites);

- Innovative ISO standards (first organisation to issue full-fledged ISO 20022 card payment specifications based on a methodology, processes and a common universal repository);

- Specifications developed by an international non-profit association based in Brussels;

- High-level security though dedicated security data components embedded in the message standard and which allow to secure part or all of the message;

- Certification through a simplified procedure carried out under the supervision of EPASOrg acting as Certification Body in its role of Specifications Provider of the EPAS standards.

For all the above reasons, EPASOrg would like to correct the Green Paper statement which reads “… there are few private initiatives … such as EPAS… that...”. This statement may give the impression that EPAS is a proprietary initiative which is closed to a restricted category of stakeholders.

Actually, EPASOrg - the organisation in charge of the EPAS standards - is an open, legal and non-profit association (Association Internationale Sans But Lucratif – A.I.S.B.L.) open to all actors of the industry. EPASOrg membership is composed of stakeholders of the different industries related to card payments (retailers, card schemes, retailers, manufacturers and service providers). The Statutes and Rules of Procedures are available on the EPASOrg official Web (www.epasorg.eu) site as well as its Membership Application Package.

Furthermore, EPASOrg has, from its inception, created a specific “Counsellor” status specifically dedicated to European institutions, such as the European Commission and the European Central Bank acting in their supervisory role of payments in Europe. With the aim to providing a full transparency on all EPASOrg standardisation activities, the “Counsellor” status has been conceived in order to offer the possibility for the regulators to be involved at all levels of governance of our association.
Representatives of the EC and ECB are therefore invited to participate in EPASOrg activities at no costs and see by themselves whether EPASOrg standardisation activities do comply with the objectives of the regulators or whether some corrective actions need to be carried out.

EPASOrg is an initiative open to all stakeholders of the industry which offers to regulators a complete transparency to all its activities and at all level of governance of the organisation. Therefore, it is inappropriate to assert that it has “... developed in isolation and in different directions ... (and is) ... driven by diverging commercial interests”.

The main objectives when creating EPASOrg in Brussels as a non-profit organisation was to address a requirement expressed by the retailers and the manufacturing industry to issue standards that would meet the business requirements of those actors for smooth cross-border operations, multiple and central acquiring operations and a unique procedure for the acquisition of transactions within a unified internal EU market. Furthermore, an early regulatory pressure exerted by the European institutions to achieve a single unified payments area in Europe (the SEPA project) played a decisive role in the decision process.

With the provision of open ISO 20022 standards free of any royalty, this goal was largely achieved and it is fair to say that EPASOrg may certainly be considered today as “the” model to follow to achieve the regulators’ objectives of the availability of open standards in Europe, since the resulting specifications do also integrate a large consensus achieved by their contributors in this collaborative work.
Chapter B. Responses to questions

4) Are there currently any obstacles to cross-border or central acquiring? If so, what are the reasons? Would substantial benefits arise from facilitating cross-border or central acquiring?

4. a) Obstacles to cross-border or central acquiring

One of the obstacles to cross-border and/or central acquiring for retailers with an international scope of operations appears to be of a technical nature. Apart from the commercial and legal barriers that may exist today, the absence of common standards, especially in the acceptor-to-acquirer relationship hampers the development of this activity in Europe.

ISO 20022 CAPE messages do provide an appropriate response to this commercial need and will facilitate the development of this activity in Europe, once the standard is adopted by the main stakeholders of the industry.

In a nutshell:

- Absence of common standards may be an obstacle to cross-border or central acquiring in Europe. ISO 20022 CAPE standard is an appropriate response to the current lack of common specifications in Europe

4. b) Substantial benefits from cross-border or central acquiring

The substantial benefits are of a commercial nature since a level playing field will be created among the actors using the European market as a domestic one. Those actors will benefit from substantial economies of scale due to the use of a common platform for doing business Europe-wide.

Banks and payment service providers which are in a process to extend their activities across Europe will benefit from more competition and be in a position to offer better cross-border payment services.

Retailers will be in a position to better select – Europe-wide – their partners in Europe to conduct their card-related payment activities, as they do today in other large countries such as the US.

As a result, competition will be more acute for all actors of the value chain.
In a nutshell:

- Common standards for cross-border and/or central acquiring will create the conditions to stakeholders for doing better business in an enlarged European market

- Banks, payment service providers and retailers to benefit from a level playing field with more acute competition and better business opportunities through Europe-wide cross-border and central acquiring services

18) Do you agree that the use of common standards for card payments would be beneficial? What are the main gaps, if any? Are there other specific aspects of card payments, other than the three mentioned above (A2I, T2A, certification) which would benefit from more standardisation?

18. a) Use of common standards for card payments

As mentioned above, EPASOrg is of the opinion that the use of common standards for card payments is not only beneficial for the whole card payment industry but it is also essential for the construction of Europe as a whole and for the benefit of all actors. The use of common and open standards issued by representatives of different sectors of the industry is a necessary pre-requisite if the regulator intends to drop the existing technical barriers hampering today the development of an integrated market for innovative payments.

In a nutshell:

- Common card payment standards not only beneficial to actors of the card payment industry but also for the construction of Europe as a whole

- Development of standards to be carried out by the relevant stakeholders of the industry, not by a single business community of stakeholders

- Use of common standard is a pre-requisite to drop the existing technical barriers hampering the development of an integrated market of innovative payments
18.b) Main gaps

There is no single answer to that question. Gaps do, indeed, exist but are of different nature: technical, commercial and legal are among the most important ones.

**Technical gaps:** most of the existing standards on the market are proprietary ones and/or developed by a restricted community belonging to the same business actors. This does not comply with the requirements of openness and free availability of the standards through an end-user licence.

Furthermore, most of the specifications have been developed in the past for a local or national usage which does not correspond anymore to the objectives set out by the EC for an integrated European market.

EPASOrg with the EPAS standards is the first initiative to have achieved full-fledged common specifications ultimately endorsed as ISO 20022 standards. In this respect, there is no “competition” with other standards since most - if not all - other standards existing on the market belong to a category which does not actually comply with all EC requirements.

In order to create a “level playing field” as regards common standards for card payments in Europe, a detailed set of global requirements should ideally be drafted by the European Commission in order to set out what are the expectations of the Commission in this regard and what would be the eligibility criteria to consider that a given common standard meets or not the requirements of the EC.

The example of electronic appliances is interesting in that respect: all appliances intended to be used in Europe need to go through a certification procedure before they can use the “CE” compliance logo. A similar procedure could be considered to ascertain that a given common card standard could be used in accordance with EC rules.

**Commercial gaps:** Common standards should ideally concur to the smooth disappearance of technical barriers, should the market decide to adopt them. The problem we see today is that most actors on the market act as if they were in a “chicken-and-egg” situation where the providers of those new standards expect a demand from the market for the products they intend to develop and the users do not commit to choose a product if it is not available “on the shelves”. Early adopters may even consider that they may not be appropriately rewarded to adopt the new standards since there is no actual pressure from the authorities to give the preference to common standards in Europe. Furthermore, common standards are not even clearly identified today by the regulator (e.g. EPAS standards considered as a ‘private’ initiative, not presented as a common standard by the Green Paper). A single community of business users may impose its own standards through market pressure, but this would not lead to the adoption of a single – common - standard in Europe which should also accommodate the requirements of all other activity sectors.
Legal gaps: no specific regulation to adopt common standard does exist today and no legal provision in the recent EU regulation addressed the need to rely on those standards. As we have seen above, there is no legal incentive or pressure to migrate towards a common standard policy with, as a consequence, no rationale for the actors to take the associated risks.

In a nutshell:

- **Technical gaps**: standards are most of the time proprietary, not available through an end-user License and/or restricted to a local or regional/national coverage or provided by a single category of users. No common standard available today (with the exception of ISO 20022 CAPE today and, tomorrow, ATICA). No global requirements set out by the regulators to identify those common standards that do comply with potential EC expectations

- **Commercial gaps**: “chicken-and-egg” situation where no incentive is given to the market to rely on common standards. Beware to single communities of users solutions which may not meet the requirements of all other activity sectors and, in so doing, maintain and, in some cases, reinforce most of today’s technical barriers

- **Legal gaps**: no legal incentives/requirements to stakeholders to rely on common standards

18. c) **Other specific aspects of card payments other than the three mentioned above (A2I, T2A, certification) which would benefit from more standardisation**

In order to ensure an appropriate level of interoperability in card payments, certification is a prerequisite to ensure that specifications have been implemented in a way which should restrict the risk of putting on the market solutions which do not provide a sufficient guarantee of working adequately within a given operational environment. Certification is therefore a transversal issue covering all elements of the card payment value chain (covering card to terminal, T2A and A2I) and should not to be considered as a specific “aspect of card payments”. Similarly, type approval enforced by card schemes in both a functional and security perspective may be considered as an area where the industry would benefit from more standardisation, or, at least, from a common methodology or guidelines/best practices to be implemented by the industry.

EPASOrg has extended its standardisation efforts to meet the requirements of retailers in Europe and worldwide through the provision of standards for a “Retailer Protocol” which addresses the need of defining clear interfaces between sale and payment functionalities.
The EPAS Retailer Protocol has been selected in the Netherlands as the national standard for cash register machines connected to a payment terminal or application. Similarly, ARTS - the Association for Retail Technology Standards of the National Retail Federation in the US – is working together with EPASOrg to achieve a common universal Retailer Payment Protocol standard to be used worldwide. In all those cases, the standardisation effort was initiated as a response to market needs expressed by retailers looking for solutions meeting their business expectations.

Similarly, EPASOrg helped the ADS+ Consortium, a project initiated in France with various stakeholders belonging to the card industry, to build a new standard associating a light payment terminal with a payment server. Most of the resulting work would inherit several attributes of the EPAS Retailer protocol.

The above initiatives are examples of aspects of card payments which will benefit from more standardisation since they meet the business expectations of different categories of stakeholders (retailers, manufacturers, solution providers, card schemes and banks).

EPASOrg in its role of specifications providers is also of the opinion that a better certification framework adapted to the requirements of our industry would enable stakeholders to rely on a robust set of requirements and/or guidelines to build their own certification policies.

This specific area of certification in the card payment industry and equipment type approval mechanisms set up by the different card schemes are certainly areas where standardisation maybe worth to be considered. The standardisation process may, ideally, be restricted to the definition of a common methodology and/or the issuance of guidelines or code of best practices to give the industry the opportunity to adapt their policies to the requirements of the market and the need for innovation.

In a nutshell:

- Certification and type approval to be considered as areas for a transversal standardisation process
- EPASOrg has extended its standardisation efforts to cover both an interface between a sale and a payment applications and between a light terminal and a server within a retailer environment
- Standardisation restricted to the definition of methodology, guidelines and codes of best practice to ensure flexibility vis-à-vis market requirements and the need for more innovation
19) Are the current governance arrangements sufficient to coordinate, drive and ensure the adoption and implementation of common standards for card payments within a reasonable timeframe? Are all stakeholder groups properly represented? Are there specific ways by which conflict resolution could be improved and consensus finding accelerated?

19. a) Current governance arrangements sufficient or not to coordinate, drive and ensure the adoption and implementation of common standards for card payments within a reasonable timeframe

It is unclear to which “current governance arrangements” one is referring to, but as of today, the market sees no actual pressure to adopt and implement common standards for card payments. The only rationale existing today comes from the market itself and especially from major retailers with an international business coverage looking for a common solution for their international operations.

Whilst a “reasonable timeframe” should better be defined, we don’t see today elements which could lead to believe that such a requirement for the adoption and implementation of common standards could take place in a short timescale. The experience of EPASOrg shows that the normal development of standards involving different stakeholders of the industry and different countries may take 5 to 8 years at a minimum. Furthermore, as we have seen above, there is no indication of what a “common standard” is or is not in the eyes of the regulator. For all those reasons, we doubt that the situation may evolve soon without addressing the above issues first.

We are of the opinion, however, that - without a clear stance of the EU regulators vis-à-vis a common standard approach – the risk exists that some initiatives belonging to a single activity sector consider using their market influence to impose their own solution which may not meet the requirements of all other activity sectors. This situation may lead other activity sectors to develop their own solution and, in so doing, create a new situation of standards multiplicity which may, at the end of the day, not meet the business objectives of reducing the number of specifications in Europe.

In a nutshell:

- No actual pressure to adopt and implement common standards for card payments in Europe today
- No incentive/pressure to adopt and implement common standards within a reasonable timeframe
- The development of common standards may take 5 to 8 years as a minimum (based on EPASOrg experience)
• The risk exists that single communities of users may impose their own solutions which may lead to a multiplicity of specifications which do not meet the objectives of common standards and slow down their acceptance by the market.

19. b) Stakeholder groups properly represented

Again, it is unclear which “stakeholder groups” mean in the context of the Green Paper since the stakeholders and their respective groups are not clearly identified in the document (a glossary of terms should certainly help to clarify this matter) or not properly organised.

EPASOrg may be a good example of an initiative where stakeholders from the different sectors of the card payment industry decided to work together and to participate in the governance of an organisation by taking decisions concerning card payment protocols and all relevant issues pertaining to card payment protocol standardisation.

This type of initiative which started in an empirical way from the business needs expressed by some stakeholders eventually evolved eventually to the setting up of a consortium of actors and the further creation of a legal – non-profit – structure in Brussels.

Whilst no rules for the representation of the stakeholders did exist at that time, it was decided to launch this initiative with the “natural” implication of the most relevant stakeholders of the industry. Once created, the organisation used procedures very similar to the ones used by standardisation groups such as ISO, CEN, ETSI and others official standardisation bodies (with the exception of a national delegation consultation) to ensure that the standardisation work to be carried out would meet the requirements of the stakeholders and also of the regulators.

Whilst EPASOrg decided to follow an ISO 20022 fast-track standardisation procedure, it is fair to say that it wouldn’t have considered at that time a more traditional procedure - still used today by most official standardisation bodies such as ISO or CEN - which do rely on the consultation of their national member delegations for any decision to be taken. The weight and length of the process may no longer be compliant with the expectations of the industry, essentially in the field of information technology developments.

This is one of the reason why the European Committee for Standardization (CEN) decided to create some years ago a new approach in standardisation with the launch of CEN Workshop Agreements. A CEN Workshop agreement (CWA) is a standardisation document, developed in a CEN Workshop. The latter is open to the direct participation of anyone with an interest in the development of the agreement. There is no geographical limit on participation and hence participants may be from outside Europe. The development of a CWA is fast and flexible, on average between 10-12 months.
CWAs are therefore good examples of standardisation procedures addressing the business needs of the market for a more fast, efficient and effective way of developing standards.

Whilst official CWA initiatives or similar fast-track procedures (ISO 20022) should certainly be supported and encouraged by the regulator, non-official ones should also be recognised and supported by the same regulator, once evidence has been given that they maintain a fair balance between the actors, is used in a non-discriminatory way and respects a set of anti-trust guidelines complying with the EC regulation.

A similar fast-track procedure has also been put in place by ISO with similar objectives of a faster standardisation development process.

In a nutshell:

- EPASOrg: a good example of a standardisation initiative providing concrete results developed outside of any “official” standardisation environment and involving most actors of the industry
- ISO 20022 and CEN CWAs: examples of “fast-track” standardisation mechanisms meeting the requirements of the industry
- Preference given to a “fast-track” standardisation process (issued by official standardisation bodies or not) vs. a more traditional standardisation process involving national delegations

20.a) Should European standardisation bodies play a more active role in standardising card payments?

As we have seen above, European standardisation bodies (we understand here official ones) could certainly play a more active role in standardising card payments as they actually did in the past. Initiatives such as CEN CWAs or ETSI (with GSM – Groupe Speciale Mobile standards) are good examples of appropriate fast-track standardisation mechanisms conducted with success.

However, given the worldwide scope of card payments today, most of the efforts should not be dedicated exclusively to a European standardisation process.

Examples in card payments show that the International Organization for Standardization (ISO) has played, until now, a major part in this standardisation process by delivering standards which are not only used in Europe but also worldwide (e.g. ISO 8583, ISO 7816, ISO 14443, ISO 20022, etc.).
A preference should, nevertheless, be given to official – as well as non-official – bodies using a fast-track standardisation approach to better address the requirements and expectations of the industry.

In a nutshell:

- Official European standardisation bodies to play an active role in card payment standardisation, especially through a fast-track procedure, but other official initiatives (such as ISO) as well as non-official ones (such as EPASOrg) to be considered as well

**20.b) In which area do you see the greatest potential for their involvement and what are the potential deliverables?**

Whilst some efforts have already been carried out by ISO in the global certification domain (ISO Guide 65, ISO 17065), additional efforts could certainly be conducted to rely on a certification framework and conformity assessment procedures more specifically adapted to the requirements of the card payment industry.

By relying on ISO standards instead of mere European norms, one could also ensure that the resulting specifications would create a level playing field on a worldwide level instead of targeting a single region of the world.

From a terminal manufacturer viewpoint, extending the coverage of the standardisation process would also give to the European manufacturing industry a business advantage since most of those actors (both card and terminal manufacturers) are located today in Europe and develop their business worldwide.

The deliverables here should ideally take the form of requirements, guidelines and/or codes of best practices instead of detailed specifications to enable/maintain innovation and provide appropriate responses to market requirements.

In a nutshell:

- Certification, conformity assessment and type approval to be considered for standardisation (through guidelines, requirements, code of best practices, etc.)

- Not only European norms, but also ISO to be considered as valid candidates in this process
20.c) Are there other new or existing bodies that could facilitate standardisation for card payments?

EPASOrg is a standardisation initiative which has played an active role in the card payment standardisation process and which will continue to play a dynamic role in this domain.

The regulators may be worth considering to draft some rules or guidelines for any initiative considering to participate in a SEPA standardisation process in order to ensure an appropriate involvement of all actors of the industry, to create a level playing field between those actors and vis-à-vis third parties and to ensure the compliance to anti-trust provisions and the ability to disseminate in time deliverables meeting the expectations of the market.

In a nutshell:

- EPASOrg a valid candidate to facilitate standardisation for card payments
- A set of minimum rules to comply with for any initiative wishing to become a body participating in a SEPA standardisation process

25) Do you think that physical transactions, including those with EMV-compliant cards and proximity m-payments, are sufficiently secure? If not, what are the security gaps and how could they be addressed?

25. a) Security of card payment transactions

The global security associated with a card payment transaction depends on the level of security of each element of the chain up to the issuer. In case of a transaction generated on an m-payment device (e.g. a smartphone), the weakest element of the chain could be the device where the transaction was actually initiated and which may not meet all the security requirements issued today by the industry.

Whilst EPAS standards do not address the payment terminal itself, EPAS specifications have been designed in a such way that - in order to ensure an end-to-end secure path from a card up to an issuer - specific security data components have been added to both the ISO 20022 CAPE (Acceptor-to-Acquirer) and ATICA (Acquirer-to-Issuer) messages to carry in a secure way all transactions from the terminal up to the issuer of the card. Those data elements embedded in the standard do provide the flexibility to secure either a part of or the whole message.
In a nutshell:

- The level of security depends, most of the time, on the security associated with the equipment where the transaction was initiated (e.g. smartphone, mobile phone, etc.)

- ISO 20022 CAPE and ATICA standards do provide a high level end-to-end security from the terminal equipment to the issuer (the terminal itself is, however, not covered by those standards)

25. b) Security gaps to address

As far as m-payments and e-payments are concerned, the security gaps usually concern the device or the card acceptance location where the transaction is initiated. Most m-payment and e-payment equipment today does not provide all the security required to authenticate a cardholder in a highly secure way. Whilst the situation may be improving in the future, it remains, nevertheless, a matter of concern as of today. Existing ISO 20022 specifications for card payments do embed their own security data components which ensure that the remaining part of the payment chain is not at risk. This additional security, however, does not address the acceptance equipment which may not provide all guarantee of security today.

In a nutshell:

- Efforts to be carried out to better secure the acceptance equipment, especially in m-payment and e-payment environments

- ISO 20022 CAPE and ATICA embed their own high-level security data components securing the transaction from a terminal up to an issuer but do not address the security issues pertaining to the card acceptance equipment itself

29) How do you assess the current SEPA governance arrangements at EU level? Can you identify any weaknesses, and if so, do you have any suggestions for improving SEPA governance? What overall balance would you consider appropriate between a regulatory and a self-regulatory approach? Do you agree that European regulators and supervisors should play a more active role in driving the SEPA
29 a) SEPA governance arrangements at EU level

We do believe that a high-level governing body such as the SEPA Council created in March 2010 makes sense in addressing the issue of governance related to SEPA and the implementation of SEPA standards within the euro payments area. The governance level should be composed, at least, of representatives of the EC, ECB and the stakeholders of the industry.

EPASOrg is also of the opinion that open standardisation bodies (official and non-official ones) could play an active role in this structure as well and benefit from the orientation and guidelines provided by the Council as regards the priorities and procedures in terms of standardisation.

29 b) Suggestions for improving SEPA governance

Taking example of the ISO 20022 registration process, the SEPA Council may ideally consider setting up a SEPA Registration Management Group (SEPA RMG) and a SEPA Registration Authority (SEPA RA). Any new Business Justification issued by a relevant standardisation initiative for a new standard could be examined by the SEPA RA before being further forwarded to the SEPA RMG for approval.

Once approved, a Business Justification would initiate the actual standardisation work to be carried out by the submitting organisation. The outcome of this standardisation work would be further examined within the relevant SEPA Standards Evaluation Groups (SEPA SEG).

Similarly to ISO 20022 and once approved by the relevant SEPA SEG, the candidate message would become full-fledged SEPA Standards after a final endorsement process carried out by the SEPA Council.

For existing standards (such as: ISO 20022 SCT, SDD, CAPE, ATICA), a simple procedure of assessment of the compliance of those standards vis-à-vis SEPA Requirements issued by the SEPA Council should be carried out before those existing standards become full-fledged SEPA Standards and be disseminated on the official SEPA Council Web site.

As far as Intellectual Property Rights (IPRs) are concerned, a similar procedure as the one adopted by ISO 20022 could be considered as well. The submitting organisation at the origin of a Business Justification and which contributed to the ISO 20022 work would keep any IPR it has on this information.

Furthermore, to ascertain a widespread, public and uniform use of the ISO 20022 information, the contributing organisation would commit to grant to third parties a non-exclusive, royalty-free license to use the published information.

The submitting organisation would also agree to ensure the further maintenance of the standard.
Changes to SEPA Standards and Specifications should follow a formal procedure of Change Requests managed by the SEPA RA. Any third party would be able to contribute to this process.

When the change request is valid (that is, conforming to a Change Request Template provided by the SEPA RA), the SEPA RA would return a positive acknowledgement to the submitter, publish the change request in the Catalogue of change requests and forward it to the SEPA SEG for a further examination and action.

29 c) Overall balance between a regulatory and a self-regulatory approach

A regulatory approach should be restricted each time the market may not benefit from a regulation or when this regulation is going too far in its provisions, especially when too much regulation would prevent innovation or introduce mechanisms which hamper the normal evolution of business.

A total absence of any regulation may have as a reverse effect to prevent the market to evolve in a way which may bring benefits to all actors on this market. The evolution of a national domestic market towards a European one may not occur without a minimum level of regulation where clear guidelines and rules may help actors to take new positions and develop new services in the new enlarged market.

The example of the deregulation (through regulation!) of the telecom sector in Europe in the ‘80s is a good example where the European regulator created favourable conditions for opening up the market of telecommunications for the benefit of most – if not all – actors on the market.

When a “chicken-and-egg” situation is encountered, namely when no regulation exists and no incentive is provided to parties to move forward by implementing a given solution (e.g. case of an acceptor-to-acquirer protocol), regulation may help to get actors acting and to quit the deadlock situation they were stuck in.

Finding the appropriate balance and appropriate time for regulation may be a difficult exercise for the regulator. A consultation initiative such as the one initiated with the Green Paper involving different stakeholders of the industry may be seen as the adequate solution to determine the most appropriate moment and scope for such a regulation process.
Chapter C. Conclusions

EPASOrg is willing to participate and to contribute to the Commission’s analysis by providing the opinions of its member organisations. The association is also prepared to participate in any further consultation or hearing that could be taking place in the framework of the present Green Paper process.

Removal technical barriers to facilitate card payment business in Europe

Removing technical barriers remains one of the objectives of the European Commission with the view of creating the conditions for an open market of card payments.

This vision is also shared by EPASOrg which provides card payment standards that meet this specific objective. EPAS standards are the only set of specifications on the market today that fulfil EC’s and/or market requirements of:

- Involvement of all major actors of the industry
- Open, universal and free of any royalty standards
- Transparent license policy
- Specifications developed by a non-profit association
- Innovative (first full-fledged ISO 20022 standards), based on a common methodology, processes and a universal directory
- Standards providing their own high-level security data component to secure part or all of the messages
- Entity developing its own certification policies and procedures in its quality of Specification Provider

Innovative, open and common standards are a pre-requisite to create the conditions of a level-playing field beyond today’s national borders.
Obstacles to cross-border or central acquiring

The absence of a common standard in the relationship “acceptor-acquirer” can be considered today as a major obstacle to achieve cross-border or central acquiring. The ISO 20022 CAPE standard is an appropriate response to the current lack of common specifications in Europe today. Furthermore, common standards will help to create a level-playing field with more acute competition and better business opportunities through Europe-wide cross-border and central acquiring services.

Main gaps in using common standards

From a technical viewpoint, most of the specifications existing on the market are either proprietary (even though based on ISO 8583) and/or developed by a restricted community of business actors.

To achieve a level playing field between all actors of the industry, common standards should be open, easily available (through an open license, for instance).

The European Commission should determine the eligibility criteria to consider whether a common standard meets or not the requirements of the EC.

From both a commercial and legal perspectives, some regulatory actions initiated by the EC could help business actors to get rid of the deadlock situation existing today where users do expect from solutions providers to come up with “on the shelves” solutions and solution providers do not develop a solution before having identified a real business need from a user.

Additional fields of standardisation

Some specific areas associated with the commercial act of buying a good and/or service with the related payment may be further explored. The EPAS Retail Protocol is a good example of such a common standard which may boost the European manufacturing industry and provide an appropriate response to retailers who may look for a standardised solution.

Certification and Type Approval should also be investigated as areas in which a common methodology, guidelines or code of best practices could help the industry.

Role of European standardisation bodies

European standardisation bodies and the ISO have played an active role in the standardisation of payments as a whole, and card payment in particular. Fast-track standardisation procedures meet the expectations of the industry by reducing the time-to-market availability of the standards, especially in an IT environment.
Non-official standardisation bodies should not be excluded from this process, once they have demonstrated that they meet the requirements set out by the regulators for the provision of SEPA standards.

**SEPA Governance**

The creation of a SEPA Council in March 2010 may be considered as a good example of SEPA governance.

The practical implementation of this governance could be based on existing models (ETSI, ISO 20022). It should also ensure an appropriate involvement of most actors of the industry.

**Regulatory vs. self-regulatory approach**

There are specific cases where regulation may appear to be the best solution to avoid a deadlock or “chicken-and-egg” situation where business actors remain in a position which does not give them the possibility to evolve. The deregulation of the telecom market in the 80’s is a good example where regulation created favourable conditions for opening up the European market of telecom services for the benefit for most – if not all – actors on the market.

Any regulation process should, however, avoid hampering innovation or the normal evolution of business.