EUROPEAN COMMISSION
Directorate-General for Financial Stability, Financial Services and Capital Markets Union

REGULATION AND PRUDENTIAL SUPERVISION OF FINANCIAL INSTITUTIONS
Retail financial services and Payments

CONSULTATION DOCUMENT

Transparency and Fees in Cross-Border Transactions in the EU

Disclaimer
This document is a working document of the Commission Services for consultation and does not prejudge the final decision that the Commission may take.

You are invited to reply **by 30 October 2017** to this consultation using the **online questionnaire** available on the following webpage:

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

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses**.

This consultation follows the general rules of the European Commission for public consultations. Unless respondents indicate otherwise in the online questionnaire, responses will be published on the following webpage:

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

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1. INTRODUCTION

Since the introduction of the Euro, the EU has achieved a significant reduction in the costs of cross-border transactions (money transfers) through the establishment of a Single Euro Payments Area (SEPA) which:

- introduced a set of standards for euro transactions with the SEPA Credit Transfers and SEPA Direct Debits;
- prohibited IBAN discrimination (i.e. a single euro account, whatever the Member State, is sufficient to make any transfer in euro within the EU);
- and imposed, through Regulation 924/2009[1] on cross-border transfers, that euro transactions across borders must not cost more than corresponding euro transactions within a given EU Member States.

However, EU citizens who need to make transactions that involve EU currencies of EU Member States other than the euro still face major costs and obstacles which stand in the way of a deepening of the internal market. These issues were raised in December 2015 when the Commission presented a Green Paper on retail financial services[2] to consult on the potentials of a more integrated market for these services and the actions needed to achieve this goal. The consultation sought views on how to improve choice, transparency and competition in retail financial services to the benefit of European consumers, and on how to facilitate the cross-border provision of these services. In relation to payments, two questions on transaction fees and currency conversion were asked (Question 12 and Question 13) which received about 270 answers each[3].

The feedback to the Green Paper indicated that opaque and potentially excessive fees are a deterrent to cross-border transactions within the EU, particularly when they involve non-euro currencies.

Following the Green Paper consultation, the Commission presented an Action Plan on Consumer Financial Services[4] that set out further steps towards a genuine technology-

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[1] Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community - OJ L 266, 9.10.2009, p. 11–18

[2] See http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2015:630:FIN

[3] See answers here: https://ec.europa.eu/eusurvey/publication/retail-financial-services-2015?language=en

[4] See http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017DC0139

enabled Single Market for retail financial services where consumers can get the best deals while being well protected. The present public consultation focuses on actions 1 (which was already included in the 2017 Commission work programme[5]) and 2 of the Action Plan and aims at collecting feedback on transaction fees and currency conversion.

Action 1
As already announced, the Commission will, following a REFIT review, propose an amendment to the Regulation on cross-border payments to reduce charges for cross-border transactions in all Member States.
Action 2
The Commission will review good and bad practices in dynamic currency conversion and, on that basis, consider the most appropriate means (enforcement of existing legislation, voluntary approaches, reinforced legislation) to allow consumers to choose the best rate.

Two questionnaires

All stakeholders (including private individuals, companies, organisations, public authorities, experts) are invited to take part in this consultation. Some questions are of a general nature, others are more technical and would be answered more easily by experts.

To this end we are offering you the choice to reply to two different sets of questions:

- a simplified version of the questionnaire containing the questions of a general nature, more suited to non-experts including private individuals. This questionnaire has 17 questions and answering it takes approximately 10 minutes.

- the full questionnaire containing all questions, including those aimed at experts.

2. TRANSACTION FEES

The first action of the Consumer Financial Services Action Plan proposes to amend the Regulation on cross-border payments to reduce charges for cross-border transactions in all Member States.

The Regulation on cross-border payments equalised fees for cross-border and national payments in euro within the EU. However, payments involving currencies of EU Member States other than the euro are not covered by the Regulation, unless Member States extended the Regulation to their national currency on a voluntary basis. The Regulation gives the option to Member States to equalise fees for cross-border transfers in the local currency and corresponding domestic transfers. So far, only Sweden chose to opt in and align these fees with euro transactions. In all other Member States, fees for cross-border transactions in non-euro currency remain very high, and well above the

[5] See annex 2 of the Commission Work Program for 2017: https://ec.europa.eu/info/sites/info/files/cwp_2017_annex_ii_en.pdf

level of fees for purely national transactions in non-euro currencies. In particular, high minimum fees can make small transactions very expensive.

An extension of the Regulation to all currencies in the EU would therefore bring down the costs of cross-border transactions in all Member States.

2.1. Non-Euro transactions

This section refers to cross-border transactions in a currency of a Member State other than the euro. Most frequently, this would be a transaction initiated in a non-euro Member State, either with another non-euro country or a euro area Member State.

Questions

[All stakeholders]

(1) Cross-border transactions in currencies other than the euro can be priced differently than transactions in euro.

(a) Do you know the cost of making transactions from your country to other EU Member states in currencies other than the euro? (yes/no)

(b) How expensive are fees for making transactions from your country to other EU Member states in currencies other than the euro?

From 1 to 5 (1: not expensive at all – 5 very expensive + don't know)

Please explain your reasoning (Text)

(c) How transparent/clear are fees for making transactions from your country to other EU Member states in currencies other than the euro?

From 1 to 5 (1: not transparent at all – 5 very transparent + don't know)

Please explain your reasoning (Text)

(d) Could you provide examples of fees that you have paid for such transactions? (Please provide the amount transferred, the countries involved (from X to Y) and the total fees paid for the transfer) (Text)

(e) Should the EU regulate the cost of these transactions or should this be left to individual Member States or the market? (choice – EU level / Individual MS / it should not be regulated (be left to the market) / don't know).

Please explain your reasoning (Text)

(2) An option is that the Regulation on cross-border payments is fully extended to all currencies of Member States. This would mean that a money transfer to another Member State would cost the same as a similar domestic transaction.

(a) Should the scope of the Regulation be extended so that a money transfer to another EU Member State costs the same as a money transfer within the country? (Yes/No/don’t know)

(b) If not, what would be the main reasons for not doing so? (Text)

(3) Cross-border transactions in currencies of Member States other than the euro are often priced ad valorem – i.e. as a percentage of the total amount transferred.

(a) Do you consider that this type of pricing practice make transactions too expensive? (Yes/No/don't know)

(b) What is the rationale behind such a pricing model? (Text)

(c) Does this practice reflect the internal costs of payment services providers? (Yes/No)

(4) Often, a minimum fee has to be paid for cross-border transactions in currencies of Member States other than the euro.

(a) Is this practice preventing low-value transactions? (very much so, to some extent, No, don't know)

(b) What is the rationale behind this practice? (Text)

(c) Should minimum fees be regulated to avoid disproportionate costs of low-value transactions? (Yes/No/don't know)

(d) What rules on minimum fees would be reasonable and fair, taking into account internal costs? (Text)

(e) What would be the economic or social impact of your proposed rules? (Text)

(5) Sometimes there is no maximum fee for cross-border transactions in currencies of Member States other than the euro.

(a) What is the rationale behind this practice? (Text)

(b) Is this practice reflecting internal costs of payment services providers? (very much so, to some extent, No, don't know)

(c) Should there be a mandatory cap on fees? (Yes/No)

(d) If yes, at which amount should this cap be set? (Text)

(e) What would be the economic or social impact of such cap (Text)

(6) Markets may be developing solutions to the problem of high costs of cross-border transactions.

(a) What market practices or solutions do you know that reduce the costs of cross-border transactions in currencies of Member States other than the euro? (Text)

(b) Should they be encouraged and, if so, how? (Yes/No and Text)

(7) The costs of cross-border transactions in currencies of Member States other than the euro are determined by various factors, including correspondent banking fees,

Swift fees and currency conversion fees.

(a) What is the weight of each of these factors in the total cost of transactions? (Text)

(b) Are there other factors that come into play? (Text)

(c) What scope is there for reducing such costs and how can this be achieved? (Text)

(8) Are there further comments that you would like to make in relation to cross-border transactions in a currency of a Member State other than the euro? (Text)

2.2. Euro transactions

This section refers to transactions in euro between two Member States of which at least one does not have the euro as national currency.

Questions

(9) Euro transactions are priced at a very low level in euro countries. However, this is not the case in non-euro countries even though payment services providers offering these services can benefit from the same infrastructures as payment services providers from euro area Member States for transactions in euro.

(a) Do you know the cost of making euro transactions in non-euro area Member States? (yes/no)

(b) How expensive are fees for euro transactions in non-euro area Member States?

From 1 to 5 (1: not expensive at all – 5: very expensive + don't know)

Please explain your reasoning (Text)

(c) How transparent/clear to you are fees for euro transactions in non-euro area Member States transparent?

From 1 to 5 (1: not transparent at all – 5: fully transparent + don't know)

Please explain your reasoning (Text)

(d) Could you provide examples of fees that you have paid for such transactions? (Please provide the amount transferred, the countries involved (from X to Y) and the total fees paid for the transfer)

(e) Should the EU regulate the cost of these transactions or should this be left to individual Member States or the market? (choice – EU level / Individual MS / it should not be regulated (be left to the market) / don't know).

(f) Which elements still justify such a difference in pricing for euro transactions between payment services providers of the euro area and payment services providers outside the euro area? (choice)

– Volume

– Correspondent banking fees

– Other (please detail) (text)

(g) Should the Regulation on cross-border payments mandate that euro transactions in non-euro area Member States be priced as domestic transactions in local currency? (Yes/No/don't know)

(h) If not, what would be the best way to bring these transaction costs for consumers to a lower level? (Text)

(10) Are there further comments that you would like to make in relation with cross-border transactions in euro between two Member States of which at least one does not have the euro as national currency? (Text)

2.3. United Nations Sustainable Development Goals

On 1 January 2016, the United Nation's 17 Sustainable Development Goals[6] (SDGs) of the 2030 Agenda for Sustainable Development officially came into force. Among the SDGs, goal 10 calls for reduced inequality within and among countries and sets notably the following target: "By 2030, reduce to less than 3 per cent the transaction *costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent"*. Reducing the costs of cross-border transactions would help achieve this goal within the EU.

An amendment to the Regulation on cross-border payments to reduce charges for cross-border transactions in all Member States (action 1 of the Consumer Financial Services Action Plan) could make a significant contribution to achieving this target within the EU.

Questions

(11) The costs of remittances (the transfer of money by expatriates to their home country) can be significantly higher than the goal set by the United Nations.

(a) How far is the EU from attaining the goal set in the context of the Sustainable Development goals? (text)

(b) To what extent can the market be expected to drive down costs in the the foreseeable future, notably through FinTech innovations including virtual currencies? (text)

(12) Remittances occur both within the EU and between EU Member States and countries outside the EU. The most important flows of remittances involve countries outside the EU.

[6] http://www.un.org/sustainabledevelopment/sustainable-development-goals/

(a) Should an amendment to the Regulation on cross border payments aim at implementing the UN target and explicitly prohibit fees higher than 3% for all transactions within the EU? (Yes/No/don't know)

Please explain your reasoning (Text)

(b) With regard to non-EU countries, should the target be achieved through action at EU level or should this be left to individual Member States or the market?

– EU level

– Member State level

– The market (no regulation)

– Other (please explain – text)

(c) In particular, should the Regulation be amended to apply also to remittances between Member States and third countries? (Yes/No/don't know)

(d) Should another EU instrument be envisaged? Please detail (Yes/No/don't know + text)

(e) What actions could non-EU countries take in particular with regard to limiting the costs of cross-border transactions? (Text)

3. MORE COMPETITION IN CURRENCY CONVERSION

Currency conversion costs are inevitable when it comes to cross-border transactions involving non-euro currencies. Currency conversion rates are often not transparent for consumers when making credit transfers or when paying with a card or a mobile device in a shop, or when withdrawing money from an ATM, in a country with another currency than that of the consumer's home country. The rates fluctuate in line with foreign exchange markets, and internal bank margins applied to currency conversions differ from bank to bank.

The situation is becoming even less transparent as more and more consumers are offered, by merchants or ATM operators, the option to pay or withdraw cash using a service converting the amounts into their home local currency. This is called 'dynamic currency conversion' (DCC). By giving a choice to consumers, this could stimulate competition in currency conversion. However, in practice, it is very difficult for consumers to know which currency conversion offer is the most advantageous, and there are numerous examples of consumers being oriented towards a more costly currency conversion option at the point of sale or when using an ATM. The European Commission announced that it will review good and bad practices in dynamic currency conversion before considering the most appropriate means (enforcement of existing legislation, voluntary approaches, reinforced legislation) to allow consumers to choose the best rate.

More transparency for both currency conversion options (the merchant's and that of the customers' payment service provider) would enable consumers to make informed choices and could drive down costs.

The Payment Services Directive in its Title III - already in force – imposes a certain degree of transparency of conditions and information requirements for payments services on payment services providers. In particular, article 37 requires that payment services users be informed of

- *"all charges payable by the payment service user to his payment service provider and, where applicable, the breakdown of the amounts of any charges"*
- and *"where applicable, the actual or reference exchange rate to be applied to the payment transaction."*

Regarding DCC services, article 49 indicates that

1. Payments shall be made in the currency agreed between the parties.

2. Where a currency conversion service is offered prior to the initiation of the payment transaction and where that currency conversion service is offered at an ATM, at the point of sale or by the payee, the party offering the currency conversion service to the payer shall disclose to the payer all charges as well as the exchange rate to be used for converting the payment transaction.

The payer shall agree to the currency conversion service on that basis.

Questions

(13) Currency conversion can be done for the consumer by the payment services provider (PSP) of the consumer/payer, the PSP of the payee or a dynamic currency conversion provider working with the merchant or ATM operator.

(a) How big are the differences in the costs between these various options? Which one is less costly for payment services users? (text)

(b) How are currency conversion costs priced by payment services provider and what is the usual pricing model applied? (text)

(c) How aware are consumers of the different options for currency conversion that exist and their prices?

(From 1 to 5– 1: not aware– 5: fully aware + don't know)

(d) How empowered are consumers to make the best choices for service provider for currency conversions?

(From 1 to 5– 1: not empowered at all– 5: fully empowered + don't know)

(14) Better information would allow consumers to choose the most advantageous currency conversion option.

(a) Are the current transparency and information obligation regarding currency conversion in title III of the Payment Services Directive fully complied with when consumers are making cross-border transactions? (very much so, to some extent, No, don’t know)

(b) Are the transparency and information obligations regarding currency conversion in title III of the Payment Services Directive sufficient for consumers nowadays? (very much so, to some extent, No, don’t know)

Please explain your reasoning (Text)

(c) If changes are needed, what could be the changes required and in which time frame? (Text)

(d) Could real-time exchange rate quotation and estimates of real time final fee/price quotation be a reasonable target for all currency conversion service providers? (very much so, to some extent, No, don’t know)

(e) Could, over the longer term, terminal upgrades be envisaged to provide this information to users? (very much so, to some extent, No, don’t know)

(f) How much time would be required to implement these changes? (choice)

– Less than 3 years

– 3 to 5 years

– More than 5 years

Please explain your reasoning (Text)

(g) Should ancillary transparency measures be taken on the technical side (e.g. imposing obligations on currency conversion service providers or users' banks to offer publicly available online calculators and applications on currency exchange) (Yes/No/don’t know)

Please explain your reasoning (Text)

(15) Dynamic currency conversion (DCC / option to pay or withdraw cash using a service converting the amounts into their home local currency – see explanation in opening paragraph) could, in principle, provide more choice for consumers and bring more competition into the market for currency conversion.

(a) How justified are concerns about DCC services misleading consumers towards more costly currency conversion options? (Text)

(b) Are there situations in which DCC services enhance competition and allow consumers to benefit from better currency conversion deals? (Yes/No/don’t know)

(c) Please provide examples of good practices. (Text)

(d) If this is not the case, should DCC services be banned or are there ways in which it could be ensured that they benefit consumers? (Text)

(16) DCC users may not be aware that merchants proposing the service may receive as

a reward part of the margin earned on the transaction through the DCC service provider.

(a) Should consumers be made aware of the interests of merchants/ATM operators to promote their own DCC services? (Yes/No/don't know)

(17) It may be technically too difficult to provide full information on the different currency conversion options at the point of sale or cash dispenser.

(a) Could merchants or ATM operators be obliged to reimburse customers making a payment within the EU if the currency conversion they proposed was not economically beneficial to their customers? (Yes/No)

(b) How could a consumer be made aware of the prejudice suffered as a result of having been oriented towards an unfavourable currency conversion option? (Text)

(18) EU consumers travelling to countries outside the EU and non-EU consumers travelling in the EU may also face high currency conversion costs.

(a) What measures could be envisaged to protect EU consumers against high currency conversion charges in third countries and should such measures be taken? (text)

(b) What measures could be envisaged to protect non-EU consumers staying in the EU against high currency conversion charges and should such measures be taken? (text)

(19) Are there further comments that you would like to make in relation with currency conversion or DCC services? (Text)