

EU's Latest Visa Decision Affects Banks and Consumers Located in Turkey

Background

In 26 February 2014, the European Commission announced its decision to render legally binding the commitments offered by Visa Europe in an on-going investigation against its multilateral interchange fees for credit card payments. The investigation was initiated when the Commission sent Visa a supplementary statement of objections in July 2012, informing them that the inter-bank fees set by Visa and related practices may violate EU antitrust rules (Article 101 of the Treaty on the Functioning of the European Union – TFEU). These inter-bank fees are paid by merchants' banks (**acquirers**) to cardholders' banks (**issuers**) for transactions with Visa's consumer credit cards. The concerns related in particular to:

- Rules on 'cross-border acquiring' in the Visa system that limit the possibilities of a merchant benefiting from better conditions offered by banks established elsewhere in the internal market. These rules oblige banks to apply the inter-bank fees of the country where the merchant is located, even if the fees in their home country are lower. As a result, cross-border competition remains limited, the internal market is artificially segmented, and merchant service fees for accepting cards vary widely across the European Economic Area (EEA).
- All inter-bank fees set by Visa for transactions with consumer credit cards in the EEA. Currently, Visa Inc sets the fees for international transactions (where the issuer is outside the territory of Visa Europe) and Visa Europe sets the fees for cross-border transactions within its territory, as well as fees for domestic transactions in ten EU/EEA Member States (currently Belgium, Hungary, Iceland, Ireland, Italy, Latvia, Luxembourg, Malta, Netherlands and Sweden).

Visa Europe's commitments

In these commitments, which complement its commitments of 2010 on debit transactions, which were made legally binding by the Commission in December 2010, Visa Europe undertakes:

- As regards cross-border acquiring: to allow acquirers from 1 January 2015 to apply a reduced cross-border inter-bank fee (0.3% for credit and 0.2% for debit transactions) for cross-border clients. This is expected to introduce competition in domestic inter-bank fees and lead to considerably lower rates for merchants in the EEA, also benefiting final consumers. Visa Europe also agreed to apply the same fees to transactions carried out with merchants located within the EEA by Visa consumer credit and debit cards issued in non-EEA countries located in the territory of Visa Europe.
- As regards inter-bank fees: Visa Europe agrees to cap its credit card MIFs at 0.3% for all consumer credit card transactions in the EEA where Visa Europe sets the rate. This affects cross-border fees (where a card issued in one EEA country is used in another EEA country) and domestic fees in currently ten Member States, and represents a reduction of about 40-60% in the fees. The level of 0.3% for credit card transactions was also offered by MasterCard in its undertakings in 2009.

- As regards transparency: to simplify its inter-bank fee structure, and make the invoicing of card acceptance services more transparent to merchants.

The Commission is continuing the proceedings against Visa Inc. on international inter-bank fees. These are the fees that apply when a card holder from outside the Visa Europe territory (eg the U.S.) uses his Visa credit card to make a purchase at a merchant in the EEA. These fees are set by Visa Inc. and not by Visa Europe.

How does the decision affect Turkey?

As mentioned above, one of Visa Europe's commitments on cross-border acquiring is to apply the same fees (0.3% for credit and 0.2% for debit transactions) to transactions carried out with merchants located within the EEA by Visa consumer credit and debit cards issued in non-EEA countries located in the territory of Visa Europe. These countries include Andorra, Faroe Islands, Greenland, Israel, Monaco, San Marino, Svalbard and Jan Mayen Islands, Switzerland, Turkey, and Vatican City.

This specific commitment of Visa Europe means that, from now on, issuer banks located in Turkey will be paid lesser interchange fees when their Visa cardholders carry out transactions with merchants located within the EEA. Thus, a reduction of these fees will adversely affect banks located in Turkey. However, this may benefit the consumers who use these banks' credit cards, provided that the merchants pass on these cost savings to their customers.

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