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ECRI NEWS

Understanding Credit Markets for Europe

EDITORIAL

Numerous challenges in household retail finance

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The new Commission started in office on 01 November amid pledges to fix the European economy and to reinforce the transparency of the European regulatory process. In this context, it is worth taking a look at recent developments in household retail finance, thereby emphasising challenges ahead for this essential economic activity. First of all, household retail finance is witnessing plenty of regulation changes. Some much-anticipated large-scale reforms are almost completed and are likely to affect markedly household retail banking activities in the long run. Europe is putting the finishing touches on the banking union and, in Mario Draghi's own words, the success of its implementation will heavily depend on the progressive integration of household retail finance across the EU, a topic extensively discussed in the current ECRI Task Force on household retail finance. In addition, a new round of uncertainty may be triggered by the potential adoption by the European Parliament and the European Council of the structural reform of banks (if adopted, it will be most likely this autumn), whose rules will grant supervisors the power to forbid proprietary trading and to require the separation of other trading activities (such as 'market making') from traditional commercial and retail banking activities. As analysed in one of the recent ECRI Commentaries, one of the biggest challenges for retail markets in the coming years therefore is to assess potential costs and other effects of such separation.

In terms of business developments, the 2014 ECRI Statistical Package painted a relatively gloomy picture of the performance in household retail credit: the total amount of outstanding household real debt at end-2013 contracted for the third consecutive year in both the EU member states (EU27) and the euro area (EA17). These successive yearly contractions occurred despite significant easing in interest rates in many domestic markets over the last few years and reflect persistent deleveraging needs of households. Some segments in specific countries registered significant variations in 2013 and their evolution noticeably affected the development in total EA17 household credit. For example, the amount of consumer credit contracted significantly in France, Germany, Italy and Spain, whose cumulative contribution to the total household real debt in the EA17 stood at -0.5 pps in 2013. Within the housing loans segment, deleveraging dynamics were observed in Italy, Portugal, the Netherlands and Spain, contributing -0.9 pps to total EA17 household debt. By contrast, housing loans in Belgium, France and Germany remained robust positive contributors. More recently, some indicators tend to show that 2014 will record at best stagnation in overall real household lending.

In this context, the outcomes of the discussions on the current implementation of the Mortgage Credit Directive and Consumption Credit Directive are essential to help position the two related financial products for the coming years. As such, ECRI is organising a Task Force on household retail credit, with the aim of finding an appropriate balance between consumer protection and dynamic providers of household retail loans. Some of the related debates have been partially transposed into this Newsletter: an article deals with the issue of 'smart disclosure', one of the key topics in the current debate on the role of consumer credit, while two other articles present opposing views on the contribution of consumer credit to the economy.

On the saving side, while a significant number of the current domestic and European economic policies aim at improving the conditions for a sustainable recovery, the role that household saving should play in this respect often remains vague and numerous questions are still being raised on the drivers behind household behaviour. In this context, ECRI recently published a detailed research report on the main policy options for monitoring household saving: the impact of different policies on the propensity of households to save and on the liquidity levels of household savings is assessed. The contribution concludes that the creation of specific tools such as a "Bank Saving Survey", notably integrating some elements of housing and labour policies, could strengthen understanding and monitoring of household saving.

Last but not least, on the retail payment side, the political agenda remains very busy. As shown in this newsletter, the European Council, under the direction of the Italian Presidency, could soon reach a General Approach regarding the Payment Services Directive 2 (PSD2) and the multilateral interchange fees regulation (MIF). Once this General Approach is achieved, trilogues between the Commission, the Council and the Parliament can start, with the aim of achieving "a further integrated and efficient European payments market".

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ECRI STATISTICAL PACKAGE

2014 VERSION OUT NOW

LENDING TO HOUSEHOLDS AND CONSUMER CREDIT IN EUROPE

WHAT IS THE ECRI STATISTICAL PACKAGE?

Since 2003, the European Credit Research Institute (ECRI) has published a highly authoritative, widely cited and complete set of statistics on consumer credit in Europe. This valuable research tool allows users to make meaningful comparisons between all 27 EU member states as well as with a number of selected non-EU countries, including the US and Canada.

WHAT IS COVERED?

Two Statistical Packages are on offer. The more comprehensive product "Lending to Households (1995-2013)" contains valuable data on consumer credit, housing loans, other loans, total household loans, loans to non-financial corporations as well as total credit to the non-financial business and household sector. The 'standard' "Consumer Credit in Europe (1995-2013)" exclusively covers consumer credit data.

The 2 Packages in Fact & Figures:

- 38 Countries: EU 27, Croatia, Turkey, Rep. of Macedonia, Iceland, Norway, Switzerland, Liechtenstein, Australia, Canada, Japan and the United States.
- 19 years data series: 1995-2013
- National accounts: GDP, final consumption expenditure and gross disposable income of households, inflation and exchange rates.
- 150 (67) tables: present time series data in nominal and real terms, and per capita, as well as breakdowns by lender, type, currency and maturity are also available for selected countries.
- 27 (13) figures: highlight credit trends in a way that allows user to make meaningful comparisons of the retail credit markets across countries.

FACTSCHEETS

The European Credit Research Institute (ECRI) provides in-depth analysis and insight into the structure, evolution and regulation of retail financial services markets in Europe. Through its research activities, publications and conferences, ECRI keeps its members and the wider public up-to-date on a variety of topics, such as retail financial services, credit reporting and consumer protection at the European level.

ECRI is an independent, non-profit research institute whose interdisciplinary team of researchers and academic cooperation partners has developed a specialised body of knowledge on retail financial markets. It was founded in 1999 by a consortium of European banking and financial institutions. ECRI's operations and staff are managed by the Centre for European Policy Studies (CEPS) in Brussels.

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COST DISCLOSURE IN THE RETAIL CREDIT MARKET: RESEARCH AND POLICY IMPLICATIONS

By Rob Ranyard, University of Leeds

Consumer borrowing has been described as a decision-making process with three stages.[1,2] First, deciding whether to spend or not, or to defer spending; and, if deciding to spend, whether to fund it from current assets or income, or from expected future income, i.e. borrowing now and repaying later. The second stage involves choosing a specific credit option, while the third focuses on the management of repayments. From the point of view of rational life-cycle theory it makes sense to borrow sometimes in order to maximise satisfaction across the lifespan. There are, however, significant psychological factors underlying the decision to borrow. For example, in our ongoing research on spending and borrowing at Christmas,[3] we found that willingness to borrow was inversely related to money management skills and positively related to two psychological variables: a maladaptive coping style based on denial, and materialistic values. This suggests that support for money management and financial literacy could be more effective if these related psychological issues were addressed as well.

The aim of this article is to summarise research findings concerning the second and third stages of the borrowing decision process and briefly consider their policy implications. The focus is the cost and loan duration information that borrowers require both for informed credit choice, and for repayment decisions with revolving credit agreements such as credit cards. We have considered these issues from a mental accounting perspective, first introduced by Richard Thaler,[4] proposing that borrowers can represent instalment credit in terms of two alternative mental accounts: a total account, in which all future repayments are treated as equivalent to a current cost, thus added together to give the total cost of the loan; and a recurrent budget period account, whereby each future monthly budget period is seen as equivalent, or similar, to the current budget period. In the latter case, each future repayment is integrated into its associated budget period, so that the weekly or monthly repayment amount is the most important aspect of cost. The loan duration, or number of budget periods in which the repayment is required, is also important from this perspective.[5]

Annual Percentage Rate (APR) measure of credit cost

The first issue to consider is the role of APR in credit choice. On the positive side, it is a widely accepted standard of comparison based on a standard time period that is easy to use with a simple 'take the best APR' rule. In fact, in our research we have found that many people use APR appropriately in this way.[6] On the negative side, however, APR is a complex statistic that can be misunderstood: some people believe that an APR of 10%, for example, means that the interest charged would be 10% of the amount borrowed regardless of loan duration; others believe that it is a rate measure based on the initial, not the average, amount borrowed.[7] It has even been reported that a few credit card users believe that a higher APR indicates a cheaper loan. Finally, we have found that with flexible credit,

estimates of the loan duration or total cost are less accurate when APR is given.[8]

So while it is useful for many borrowers, understanding APR needs further support: perhaps via the teaching and learning of an approximate APR formula,9 essentially drawing attention to APR's relation to the average, rather than the initial loan. Second, an additional measure of relative cost, the Financial Charge per Week or Month, could be routinely provided. This is a user-friendly measure on a familiar scale that can be used to compare credit options for the same amount but with different APRs or different repayment schedules.

Financial charge and total cost information

Other important aspects of the cost of borrowing are the financial charge, which is the sum of all charges incurred during the lifetime of the loan, and the total cost, which is the amount borrowed plus the financial charge. These are limited because they are absolute measures that don't take into account the duration of the loan. Nevertheless, they are easy to understand and consistent with one of the ways that people naturally think about instalment credit, in terms of the total account mentioned earlier. In addition, we have found that: 1) with revolving credit, estimates of loan duration are more accurate when total cost is given; [9] 2) total cost information moderates the effect of APR in credit decisions;[10] and 3) together with loan duration information, it leads to higher credit card repayments.[11]

In view of these and related findings, the following can be suggested with respect to presenting cost information. First, as presently required in most countries, an accurate value of the APR of all credit offers should be disclosed clearly at an appropriate point in the sales process. Disturbingly, a recent survey by the European Commission found that APRs advertised by some lenders across the EU were often substantially inaccurate.11 Second, for all fixed repayment credit, a clear presentation of the monthly repayment, the loan duration and either the financial charge or total cost is essential. In addition, we would like to see the Financial Charge per Month (or relevant instalment period) presented so that the relative cost of loans for the same amount and duration can be compared more transparently. Finally, for revolving credit, we recommend that total cost and loan duration information for a range of monthly repayments should be presented on monthly account statements.

Credit limit and minimum repayment information

Two items of information on credit card statements, credit limits and the required minimum repayment, have been found to affect spending and borrowing in unintended ways. On the former, it has been found that borrowers can interpret credit limits as a signal of their future income, and also that higher credit limits encourage spending.[12, 13] This leads to the suggestion that lenders should set credit limits according to affordability for a reasonable loan duration.

On minimum repayment information, research has shown that its mere presence acts as an anchor for repayment decisions, and that those who repay more than the minimum are influenced by it.[14] Secondly, it has been shown that raising minimum repayments raises borrowers' repayment levels more than proportionately. This leads to the suggestion that regulations for a minimum repayment level above 2% should be considered (it has been calculated that with an APR of 14%, repaying at 2% of the balance takes about 19 years). If, however, the level of minimum repayment were set too high, missed payments could become problematic.

Other supplementary information

There has been some recent research investigating ways to mitigate the anchoring effect of minimum repayment information. While informing borr owers of the long-term consequences of repaying only the minimum had little effect, informing them additionally of the monthly repayment necessary to repay the entire balance within three years, as required by the US CARD Act of 2010, increased the proportion of credit card users repaying at that amount, and sometimes increased the proportion of those repaying more than that amount. However, it has also been reported that a significant number of users may pay less when the three-year repayment amount is less than they would have paid otherwise. Nevertheless, we have found in a recent study that anchoring higher than three-year repayment amounts increased the proportion of users repaying at or above such higher levels. This reinforces the policy suggestion made earlier for revolving credit: total cost and loan duration information for a range of monthly repayments should be presented on monthly credit card statements.

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KEY DEVELOPMENTS ON CONSUMER PROTECTION FOR FAMILIES IN RELATION TO CONSUMER CREDIT

By Martin Schmalzried, Confederation of Family Organisations in the European Union (COFACE)

In the current economic climate, family consumption and spending is seen as one of the solutions to reviving growth and kick-starting our economies. Consumer credit, in that respect, is often seen as a way to boost consumption. However, from a family organisations’ perspective, a closer look needs to be taken at the role consumer credit plays in a family’s budget.

Consumer credit should essentially be used for large/expensive investments such as purchasing a family vehicle, increasing the energy efficiency of a household, installing solar panels or paying for a higher education. Running a family budget is far from easy, as one can easily see from online simulations; therefore, for uncommon/personal expenditures, including for personal pleasures or desires, families should be encouraged to save money instead of resorting to credit, especially revolving credit, which has been linked in many studies to over-indebtedness. Financial institutions should redefine the balance of the products they propose, notably the balance between consumer credit with other financial products, such as savings products.

With the latest Consumer Credit Directive, the temptation is great to tick the “consumer protection” box and put an end to potential additional regulatory “burdens” stifling the consumer credit market. Unfortunately, the very nature of the financial services industry – a fast-paced innovative sector – calls for equally innovative regulation. Most recent developments such as e-banking or online advertising already call for new regulatory measures to address issues such as transfer or liability in e-banking (should consumers at the tick of a box be transferred liability in subscribing to complex financial products purchased online?) or assessing whether online advertising techniques can still be regulated by outdated legislation that did not foresee the recent developments in social networking advertisements, to name but one example.

While constantly upgrading regulation to match recent developments is a necessity, one should not forget that in many cases enforcement of existing regulation is still patchy. Reports from consumer organisations across the EU point to a lack of enforcement in myriad areas including: misleading advertising, information given to the consumer (pre-contractual information, information about the consumer’s rights, etc.), qualification and knowledge of staff who sell financial products, etc.

Given the lack of knowledge demonstrated by banking staff who sell financial products, and recent research showing that many consumers still do not understand basic concepts such as APR, there is a crucial need to make quality/independent financial guidance available to consumers and families. Such services, sometimes provided by consumer and/or family organisations, can help identify the specific situation/need of a consumer or family, taking into consideration the budgetary constraints and financial possibilities, with no incentive to sell a specific financial product. While educating consumers to better understand fundamental concepts such as interest rates or how to manage a budget responsibly, we must remain realistic as to the overall financial literacy we can expect from consumers. Most consumers will be taking out a mortgage credit only once in their lifetime. Is it reasonable to expect them to retain all relevant knowledge about a mortgage credit for decades before they will ever need to use it? Financial literacy therefore needs to be much more strategic and target consumers and families at critical times in their lives when their interest in how certain financial products function is naturally high: planning for parenthood (frequently coupled with seeking to purchase a house), the birth of one or more children (which can be associated with an interest in purchasing a new/bigger/more secure vehicle for the family), etc. And because there are no silver bullets in financial literacy, making sure that consumers and families have access to quality/independent financial advice on all their financial decisions during their lives is of critical importance. To this end, governments must consider funding organisations that carry out such services, to ensure their long-term sustainability.

Finally, as a measure to encourage more responsible lending and borrowing, COFACE advocates for a wider use of public credit registers set up specifically to help prevent over-indebtedness (as opposed to credit registers used to help identify potential lending clients). While data from credit registers cannot address many of the risks associated with defaults on credit, such as death, separation or loss of employment, it can prevent banks from lending the ‘extra’ credit that could tip the balance of a family’s budget.

For more information on COFACE’s position regarding public credit registries, visit www.coface-eu.org or contact Martin Schmalzried at mschmalzried@coface-eu.org.

NO ZERO RISK – NOR SILVER BULLET IN CONSUMER CREDIT

By François Langlois, Head of Institutional Relations, BNP Paribas Personal Finance

On the eve of a new European Commission, the consumer credit industry would like to be considered more as an ally to the economy than a devil driving directly its customers into over-indebtedness.

When an engineer talks of, let’s say, the safety of cars, we have no preconceived notion what he means. But when I speak of consumer credit to anyone, it is very likely that my interlocutor immediately calls up his own decisional grid of what he thinks of credit. People do not really appreciate the so-called ‘power of the banker’ but are very alive to the vulnerability of the borrower who can get into financial difficulties. One has precise ideas of what he would do for the other if he were their banker.

Let me tell you what I think are some fundamental ‘truths’ that reflect credit in a more objective way.

First, persuading citizens that credit will compensate for their lack of financial resources is an enormous mistake (as we have learned from the US subprime crisis). Consumer credit is not here to boost the economy but to go with it and to take into account the evolution of consumption and facilitate the transfer from one business model to another

(for instance to save better energy in your home or your car).

Second, there is no bad product at first sight; more often there are misuses of these products. For instance, the belief that revolving credit is a bad product and a major cause of over-indebtedness is very common in France and many other parts of the EU. For me, such a conviction is wrong, as it mixes up both concepts of ‘correlation’ and ‘causality’. Since the strong regulation on revolving credit was introduced in France, over-indebtedness has not decreased, and personal loans are simply replacing revolving credit in the new over-indebted files. If there is a correlation between over-indebtedness and revolving credit, there is no causality link. Even if revolving credit would pass away from the market, over-indebtedness by credit would still be there.

Third, when one concludes that a regulation is not grounded in reality, it can be replaced by a new one or simply enforced more firmly by the authorities and control bodies. In the first solution, there is a serious risk of always running behind the latest developments on the markets. We have a preference for the second approach because responsible industry always appreciates it when the authorities grow up to validate the story of the “ugly duckling”. Moreover, what industry likes is stability of sane laws. In France we all have in mind the 1978 law on information technology and liberties, which was carefully drafted with a lot of foresight and innovation and there has been no need to rewrite it.

Fourth, the task of exercising quality control in granting credit is immensely important and I think that the job is done well in a large majority of cases. But more needs to be done if we want to tackle over-indebtedness and the challenge of anticipating problematic “events” that will arise in the course of the loan. Zero risk does not exist. Having said that, a new model is emerging in some countries that holds out promise for the industry and client alike: instead of waiting for arrears to suddenly appear on the account, efforts are being taken to predict potential difficulties thanks to modern profiling tools and new expertise. By making a diagnosis in advance, we can find better solutions and prevent clients from becoming debtors. And if necessary, a specialised association is available to support our client and help him to put his accounts on a sounder basis. After less than three years, the results in France are very encouraging.

Over the last six years, the consumer credit industry has worked intensively on the consumer credit Directive (CCD) – including its transposition at the national level and many additional heavy measures in some member states. At the same time, the crisis hit our continent, inflicting significant collateral damage on the economy. And finally, supervision rules arrived, dramatically changing the rules of the credit game. That is another truth.

Some lenders either refocused their activities or got out of the market during this same period. We are still here, dedicated to offering consumer credit to individuals throughout Europe. We are primed for the revival of the economy. What we need is a pause in regulation, having now achieved a good balance between economic growth and consumer protection.

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EU POLICIES SUPPORTING CREDIT FOR SMES: THE USE OF FINANCIAL INSTRUMENTS IN THE 2014-20 MFF

By Federico Infelise, CEPS

In the EU budget context, innovative financial instruments (IFIs) are financial instruments that support EU policies not by the means of pure grants, i.e. loans, guarantees, equity or quasi-equity investments or participations, or other risk-bearing instruments, possibly combined with grants.

IFIs have been considered EU budget tools since the 1994-99 Multiannual Financial Framework (MFF). Since then, IFIs have played a greater role in financing EU policies and, in the 2007-13 MFF, IFIs accounted for 1% to 1.5% of the resources deployed in the entire EU budget. The recent economic crisis, constraints on public budgets and the intrinsic ability of IFIs to leverage financial resources are pushing policy-makers to endow these instruments with a more central role in the present MFF, in terms of both resources and the number of policy areas where they are deployed.

In the present MFF (2014-20) the offer of financial instruments in support of EU objectives has been consolidated. Support for SMEs will be grouped under the Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME).

The overall budget for the seven-year period of COSME is €2.3 billion, beginning this year with €275 million and rising progressively to €430 million in 2020. At least 60% of the resources over the whole period will be allocated to financial instruments. Member states can also use structural funds to set up financial instruments for a variety of objectives, including SME support, but the size of the support over the MFF period is still not set.

Under COSME, the main instrument targeting bank credit for SMEs is the Loan Guarantee Facility (LGF). The LGF provides counter-guarantees and other risk-sharing arrangements for guarantee schemes. The implementation of the financial instruments will be entrusted to the European Investment Fund (EIF), which is in charge of selecting the interested financial intermediaries that will actually deliver the services to enterprises.

The EU added-value of the LFG is that it encourages financial intermediaries to finance transactions that they would otherwise not finance, owing to the risks involved. Nevertheless, two major issues will affect the overall effectiveness of LFG:

- the ability of the new programmes to reduce the considerable ‘deadweight loss’, i.e. the subsidisation of loans that credit institutions would have issued without public interventions, that apparently characterised analogous actions in the preceding MFF (whose SME Guarantee Facility incurred a deadweight loss of 38% according to the European Court of Auditors);
- the overlapping and coordination problems generated by the provision of these services in member states where analogous initiatives are already running under the control of national development banks, e.g. KFW in Germany, Caisse des Dépôts in France, etc.

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ECRI PUBLICATIONS

1. A Review of Policy Options for Monitoring Household Saving NEW!
   ECRI Research Report, October 2014
   Sylvain Bouyon, ECRI/CEPS Research Fellow
   Download: http://www.ecri.eu/new/node/402

2. The Impact of Banking Structural Reform on Household Retail NEW!
   Finance. ECRI Commentary, October 2014
   Sylvain Bouyon, Filippo Boeri, ECRI/CEPS Research Fellow
   Download: http://www.ecri.eu/new/node/401

3. ECRI Statistical Package 2014
   Sylvain Bouyon and Filippo Boeri, ECRI/CEPS Research Fellow
   Download: http://www.ecri.eu/new/node/165

4. Consumer Credit in Europe (1995-2013): ECRI Statistical Package 2014
   Sylvain Bouyon, Filippo Boeri, ECRI/CEPS Research Fellow
   Download: http://www.ecri.eu/new/node/165

5. Another contraction in European household credit markets: Key findings from the ECRI Statistical Package
   ECRI Commentary, August 2014
   Sylvain Bouyon, Filippo Boeri, ECRI/CEPS Research Fellow
   Download: http://www.ecri.eu/new/node/165

6. Multilateral Interchange Fees: Competition and regulation in light of recent legislative developments
   ECRI Research Report, January 2014
   Maria Chiara Malaguti (Catholic University) and Alessandra Guerrieri (Bocconi University)
   Download: http://www.ecri.eu/new/node/391

FORTHCOMING PUBLICATIONS:

ECRI Task Force Report on Household Retail Credit
Sylvain Bouyon, ECRI/CEPS Research Fellow

ECRI TASK FORCE

The Future of Credit and Retail Finance in the European Union: Returning to the agenda for growth in 2014-2019

- First meeting: 12 May 2014
- Second meeting: 29 September 2014
- Third meeting: 08 December 2014
- Fourth meeting: Q1 2015

WHERE IS RETAIL FINANCE AS POLICY PRIORITY?

Karel Lannoo, CEO of CEPS

With the achievement of banking union, policy makers will focus their attention on other areas of financial services. One has already been announced, namely capital markets union, whatever that will mean, but retail financial services remain of limited interest. Of all the measures to have been announced in the post-crisis period, only one concerned retail markets, the mortgage credit Directive.

Cross-border provision of retail financial services remains extremely limited in EU, and the wide diversity in prices and practices will create a demand for more pan-European initiatives. ESMA is working on its interpretation of conflict-of-interest provisions for investment services, but several member states did not wait and have de-coupled sale from advice. This indicates that there is limited interest for EU-wide initiatives covering retail financial services.

However, a well-functioning banking union will also require increasing cooperation among conduct of business authorities. This does not mean that we need to create a pan-European 'Consumers Bureau', as the US has done, but increasing cooperation in data exchange, product comparison and tackling of malpractice could strengthen consumer confidence, and slowly increase cross-border retail financial services. A visit to the website of the US Consumer Financial Protection Bureau, (CFPB) at www.consumerbureau.gov could be revealing as to what is possible. The agency was created as a result of Dodd Frank bill, and now employs about 1,500 persons. The consumer side of the European Supervisory Authorities pales in comparison.

A second issue is financial literacy. Much of the financial services legislation creates administrative burdens that are not easy to understand for the average consumer, or that could be formulated in a more straightforward way. In addition, rules are so complex that nobody understands them. Rules should also be required to pass an 'understandability' test before they are applied, especially to the lay public. *klannoo@ceps.eu*

THE PAYMENTS PACKAGE: HOW SMOOTH PROGRESS CAN BE ENSURED, OR NOT, IN THE NEXT STAGES OF THE LEGISLATIVE PROCEDURE

By Monica Monaco, Trust EU Affairs

On the morning of 2 April 2014 the Payments Package, composed of the revised Payment Services Directive (PSD2) and the Regulation on Interchange Fees (IFR), was discussed for 38 minutes in the Plenary sitting of the European Parliament. The Rapporteurs, Mr Zalba Bidegain and Mr Feio, both from the EPP, briefly introduced the key measures in their reports and commented on the "last minute" amendments presented to Plenary for a vote.

On the PSD2, two amendments had been proposed; both concerned Article 65, which covers the attribution of liabilities for refunds of unauthorised transactions for third-party payment services providers (TPPs). On the IFR, the main proposed amendment concerned the exclusion of "commercial cards" from the scope of the Regulation. In the ECON Committee vote, commercial cards were included in the scope as were three party payment cards, despite the European Commission's text excluding them. The "last minute" amendment aimed at partially restoring the original proposal, excluding commercial cards again from the scope of the IFR.

A substantial part of the 38minute pre-vote discussion on the 2nd of April 2014 was devoted to commercial cards, and the MEPs appeared to have diverging views. The vote took place on the 3rd of April 2014. The Plenary vote confirmed the ECON Committee texts in their entirety, both for the PSD2 and for the IFR. The two Rapporteurs asked to postpone the vote on the legislative resolution and the postponement was approved by the Plenary.

The newly elected Parliament is again due to bring the Payments Package to the Plenary for a vote in this Parliamentary term.

The Council, under the direction of the Italian Presidency, has progressed in the meantime at a very fast pace. Council meetings on the Payments Package filled the Permanent Representations calendar throughout July, September and October. There are rumours that a General Approach is soon to be reached by the Presidency. Once the General Approach is reached, trialogues between the Council, the Parliament and the Commission will start. According to rules 73 and 74, the Parliament negotiating team entering the trialogue must be led by the Rapporteur and comprised of at least the shadow rapporteurs from each political group.

Despite the fact that the Rapporteurs for the various political groups have only recently been appointed, and that none of them has officially started to work on the content, they already seem to have diverging views on key issues, exactly as member states have been shown to have during the Council negotiations thus far.

On the PSD2, the definition of limited networks, the definition of debit and credit cards, the TPP's liabilities, and the requirements for strong customer authentication seem to have been discussed at length at the Council level, as member states approach them in very different ways. As for the IFR, the level of interchange, the treatment of domestic schemes, the level playing field between three- and four-party systems, as well as the legal separation between card scheme management and processing and the co-branding provision – to mention only the most controversial issues – seem to have been the object of endless, politically charged exchanges.

Will an Italian Presidency General Approach text resolve these controversial issues through compromise? The will is certainly there, and the Presidency has been working without pause toward this end. But the same national political differences, most of them deeply rooted in diverging national economic interests, may well rise again in the Parliament in the coming months.

In essence, "last minute" amendments could again be presented to the next Plenary. Even before that stage, trialogues are expected to be quite animated.

All parties might want to keep in mind that the aim of the whole exercise, described so well by the European Commission, is "the achievement of a further integrated and efficient European payments market".

Based in Brussels for the past 12 years, Monica Monaco created Trust EU Affairs in September 2013 to advise clients on relevant EU legislative initiatives. Monica focuses on payment systems and new payments solutions, such as mobile and contactless payments. She was Senior Manager for EU Relations and Regulatory Affairs in the legal department of Visa Europe for more than 10 years. Monica can be reached at: monacom@trusteuaffairs.com.

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