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EUROPE COULD PLAY AN ACE:

THE NEW PAYMENT CARDS

(Communication from the Commission to the Council)

COM(86) 754 final

Summary

This initiative concerns payment cards which incorporate magnetic stripes and/or microcircuits and can be used to draw cash from cash dispensers or make payments via terminals installed at a growing number of points of sale.

It is important for the Community that cards issued in one Member State can be used in the others, where similar services are supplied (i.e. they should be "interoperable"). Technical compatibility must therefore be the aim, to be achieved notably through standardization. In this way, the Community will take a major step towards the completion of an internal market for payment systems and will provide concrete evidence that People's Europe is for real. It will also bring about technological cooperation in a field which is bound to involve technological Europe to the full.

Card interoperability depends to a large extent on there being cooperation, on a reciprocal basis, among the various card systems in the Community. This initiative aims to provide a framework for that cooperation and flank it with suitable Community provisions. In addition to provisions concerning technology and standardization, the initiative therefore deals with freedom of cross-frontier payments, competition rules, and certain rules relating to the use of cards (role of traders who accept cards; consumer protection).

Consequently, there are many parts to the initiative. The body of measures which the Commission has in mind make up a plan of action, which is explained in the final Chapter; a timetable is also given. For 1987, the plan involves sending several proposals to the Council (notably on standardization and consumer protection) and the adoption of Commission recommendations (e.g. on the relations between card issuers and traders who accept payment by means of electronic cards).

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I. Introduction : Scope

1. The means of payment available to individuals are currently developing fast in most of the Member States and in many other countries in and outside Europe. These changes are accelerating and increasingly involve new technologies. This is particularly the case where payment cards incorporate magnetic stripes or microcircuits. Current developments in this area have a transnational dimension which is assuming increasing importance for the Community. This is why the Commission is proposing a Community initiative on these cards.
2. The initiative concerns **transactions made by means of credit or debit cards incorporating magnetic stripes and/or microcircuits**. Such transactions chiefly involve withdrawing cash from a cash dispenser or making a payment via a terminal installed at a point of sale. Cheque cards come within this measure if they incorporate magnetic stripes and can be used as debit cards. "Company-specific" cards are also covered, if they rely on the same technology. (Further details of the scope of this measure and definitions of some of the terms are given in Annex 1 to this communication.) The initiative is aimed at payment cards made available to persons resident in a Member State or holding an account in a credit institution, assuming that such cards are issued by institutions governed by the laws of a Member State and having its head office in the Community.

II. The Community dimension of payment cards : objective

3. It is important for the Community that **cards issued in one Member State should give their holders access to services supplied in another** to cardholders resident in the latter, at least where the services are supplied in similar fashion in both States. This initiative is therefore designed to promote desegregation of the various card systems in the Community, notably by declaring that the payment instruments used should be compatible and the system networks interconnectable. Desegregation should

make it possible for payment cards issued for a particular system/country to be used outside it in the same way as inside. The term "interoperability" is used in this communication to describe the result of such desegregation.

4. Interoperability is not an objective which conflicts with the Community's policies for the internal market, technology and A People's Europe.

4.1 As regards completing the Community's i n t e r n a l m a r k e t which, according to the White Paper sent by the Commission to the European Council of 28-29 June 1985 (COM(85) 310 final of 14 June 1985) and endorsed by the latter, is to be achieved by the end of 1992, the Commission would draw attention to points 122 and 123 in that White Paper, which relate to two major aspects of this action. It is important, in this context, that trade in goods and services should be facilitated by whatever use can be made of the new payment media, which will definitely have a role to play in, for instance, distance selling. These developments should be framed in such a way as to provide for an appropriate balance between the various regions of the Community.

However, it is essential from the point of view of financial integration, a key component of a genuine internal market, to arrive at Community solutions where payment cards are concerned: it would be scarcely conceivable for a frequent payment medium, i.e. cards, to vary much from one Member State to another. Thus, the initiative looks forward to the complete liberalization of capital movements and to monetary integration within the Community. In addition, the new technical possibilities afforded by cards will encourage the growth of new financial services that will contribute to the development of the European financial area.

4.2 This initiative is also prompted by the aspects of industrial and technological policy involved in the development and manufacture of suitable card readers and microcircuit cards and the installation of electronic data transmission networks - the infrastructure for these new payment media. This is a technological challenge which the relevant industries in the Community will have to take up. Developments in this field mean that considerable investment will have to be made by the manufacturers of the technology, equipment and infrastructure involved (including many

small and medium-sized firms) and by the bodies issuing cards and managing the transactions carried out with them. Since these are long term investments, manufacturers and card-issuers are faced with decisions definitely involving risk, which they cannot incur unless they can be sure of a sufficiently large and stable market. The internal market of the Community and its research and technology potential to which refers the proposed framework programme for Community action in the area of research and technological development have these advantages, provided that any fragmentation such as might result from the development of divergent national systems is avoided. Developments in this field could open up huge external markets for the Community, enabling it to exploit the technological lead it has acquired.

- 4.3 It should be realized, finally, that a People's Europe would certainly be incomplete if the holder of a payment card issued in one Member State found it difficult to use that card in another to gain access to the increasingly numerous services supplied against payment by card. For the Community's citizens, as individuals, to feel the practical benefits of these cards, crossing a border between two Member States must not invalidate a means of payment which is increasingly used within the separate States.

Evidently, therefore, this initiative will have a considerable impact on tourism policy, the objectives for which the Commission set out in its communication to the Council in January 1986 (COM(86) 32 final).

III. THE COMMUNITY INITIATIVE AND RECIPROCATION SYSTEMS: GENERAL PRINCIPLES

5. Making the new payment media interoperable involves responsibilities other than just those of the Community institutions: it is for the bodies which issue cards and manage the transactions carried out with them to set up the appropriate technology, make sure it is compatible and reach agreements that will make it possible for systems to be mutually accessible. In this way, they will benefit from a wider, integrated market. This initiative is designed to flank those essential desegregation efforts with measures designed to help the bodies concerned to achieve interoperability.

6. Interoperability presupposes that there is cooperation among the various payment systems in the Community. The bodies concerned, associations of credit institutions, for instance, which together issue a certain type of payment card - will have to determine the procedures whereby their systems can become mutually accessible. These procedures will depend on free negotiations, based on the principle of reciprocity, between the bodies concerned. This initiative is not intended to anticipate those procedures; rather, it is meant as a frame of reference for the cooperative effort envisaged.
7. Reciprocity is the basic principle on which this cooperative effort must be based; but more specific solutions will still have to be worked out to ensure equilibrium among a number of other principles which will be conditioned, in large parts, by considerations concerning adequate competition and consumer choice.
 - 7.1 For instance, a balance will have to be struck between developing over-centralized system, including the introduction of a single electronic payment medium (which would not bode well for free competition throughout the Community) and a plethora of bilateral agreements of various descriptions, leading to fragmentation of the common internal market.
 - 7.2 Similarly, a system which while decentralized has the common features essential to cooperation will have to leave the autonomy of European financial institutions unaffected by the organization of the payment systems in Europe and preserve the important links which keep European systems open to world payment systems and networks.
 - 7.3 A third balance that has to be achieved concerns the technological security of systems and their cost. The mutual opening-up of systems will make them more accessible: at present, they are often confined to a single country, or even to certain institutions within a country. But this process of desegregation cannot be at the expense of security. Watertight security, even if technically feasible, would be extremely costly. Although the public interest obviously requires that the individual be protected against the risk of financial loss inherent in payment systems, absolute security may seem unattainable to system operators from the economic point of view, and the latter is something which they have to take into consideration. A happy medium has to be found, therefore, between a satisfactory level of security and reasonable cost.

8. This initiative relates to transactions made with cards which incorporate magnetic stripes and/or microcircuits. However, it is also part of a wider picture in which, in particular, cheque guarantee cards and credit-card payments play an important part, without electronic technology being involved. All these payment media must be borne in mind, when it comes to implementing cooperation and attaining the type of reciprocal arrangements discussed above, all these payment media must be borne in mind. Notwithstanding, the measures proposed in this initiative are specifically concerned with magnetic and/or microcircuit cards. The technological and legislative aspects of these cards still give rise to problems, but once these have been solved, the cards should achieve the transnational dimension which cheque guarantee and conventional international credit cards have largely acquired.

IV. COMPATIBILITY OF INSTRUMENTS AND THE INTERCONNECTION OF NETWORKS: STANDARDIZATION

9. First and foremost, compatible instruments require the standardization of physical characteristics (card size, location of microcircuits and/or magnetic stripes, and interaction between card and card-reader) and of security devices (identification of card holder at the start of a transaction); also, interfaces and technical conventions must be agreed so that the information encoded in the card can be correctly interpreted by card-readers.

While there can be differences in the technology, it is important to reach a consensus on minimum standards, functional specifications and agreements which make it possible and easier to develop the practical applications of that technology and its acceptance by users. These standards must be specific enough to allow objectives to be achieved, but must also respond to technological developments yet to come and the future supply of, and demand for, services. Accordingly, industry, telecommunications bodies, providers of services, users and, as far as rules are concerned, the public authorities must cooperate within a consistent framework.

10. Considerable progress has already been made on the standardization of magnetic cards, for which there are several ISO standards already available; in conjunction with the competent organizations, however, an effort should be made to achieve greater consistency in the harmonized application of these standards.
11. As regards microcircuit cards, the objective of this initiative is to start a dialogue with the various economic operators which will make it possible to define requirements, carry out pre-standardization work and hold the necessary consultations for determining internationally acceptable standards for microcircuit cards and their applications.
- 11.1 The field of inquiry must include all technical aspects of the functional specifications and standards needed to create the essential technical conditions for the widespread use of microcircuit cards throughout the Community, i.e. the proposed scheme of work must analyse at least the following:
- card-reading technique;
 - identification protocols;
 - authentication procedures and functions;
 - the most advanced card functions;
 - card security devices;
 - the functional integration of cards, networks and services.
- 11.2 The approach proposed consists in establishing close cooperation with existing standards bodies, notably CEN/CENELEC, as well as operators in this sector such as the European Conference of Postal and Telecommunications Administrations (CEPT) and the International Association for Microcircuit Cards (INTAMIC). This will be underpinned by cooperation at pre-standards level, where decisions will be based on a systematic analysis of technological, functional and standards characteristics. The work will be done by industrial suppliers, principal users, telecommunications bodies and specialized research institutes.
- 11.3 The Commission intends to draw up a framework R e g u l a t i o n (to be determined, in detail, with the main economic operators in this sectors) for this pre-standardization work. This proposal for a Council Regulation will be finalized in June 1987 under the proposed framework programme for Community activities in the

field of research and technological development. It will be derived from similar work being done in information technology (ESPRIT), telecommunications (RACE) and other allied fields.

As regards work on s t a n d a r d i z a t i o n for microcircuit cards, existing directives such as 83/189/EEC (procedure for the provision of information in the field of technical standards and regulations) and 86/361/EEC (telecommunications terminals) provide a legal basis for assigning to European standards bodies (CEN/CENELEC) and specialist technical bodies (CEPT) work relating to the preparation of Community standards and common technical specifications, preferably founded on international standards, so as to produce harmonized technical specifications which can be used for reference throughout the Community. It will be necessary to draw up a work programme as quickly as possible on the basis of the tasks to be assigned to CEN/CENELEC.

The Commission could also consider drawing up a D i r e c t i v e designed to consolidate standardization efforts in this field, if appropriate, on account, notably, of security aspects, confidentiality of transactions or the appearance of legislative barriers resulting from steps which may be taken by one or more Member States and which would be incompatible with the required degree of harmonization at Community level.

12. The **difference between magnetic and microcircuit cards** must not stand in the way of achieving compatibility among these instruments. Compatibility should be ensured by providing for hybrid cards and/or readers. Although the microcircuit card seems to be the technological option which is increasingly attracting the sectors concerned and therefore to have a promising future, considerable investment in magnetic technology still has to be recovered and so this technology will continue to be widely used over at least the next decade. As a result of the work being done on standardization, it is to be hoped that agreement on the positioning of the magnetic stripes and microcircuit can be reached among all those concerned.

Thus, the changeover from magnetic to microcircuit technology may well be gradual. Microcircuit cards issued in the years ahead will have to contain magnetic stripes as well and, in hybrid systems, readers will have to accept both technologies.

13. As regards the interconnection of networks, it is for the organizations concerned to determine the most appropriate technical solutions (on-line or off-line technology; rented lines or switched networks; network architecture, including authorization and/or centralized or decentralized clearing centres).

It is important, at all events, that the basic services supplied by today's public networks should offer every essential guarantee of continuity and that network operators should supply the bodies managing card systems with services that are sufficiently attractive from all points of view, including charges. The CEPT could be responsible for this aspect.

Whether the value added services concerned ought to be the subject of a special Community initiative on electronic data transmission will also have to be examined. The Commission's proposal on the Coordinated Introduction of an Integrated Services Digital Network (ISDN); will also have to be taken into consideration in this context (see COM(86) 205 final).

V. Reciprocity: priority objectives in practice

14. Instrument compatibility and the interconnection of networks will make interoperable electronic payment systems possible only if the bodies issuing cards and managing the transactions carried out with them reach agreements on the reciprocal desegregation of the various systems. It is possible, at least in theory, that very extensive agreements could be concluded, whereby each system would allow all the other systems to benefit from the contractual relationships which it had established so that, for instance, they could thereby provide a payment service, via point-of-sale terminals with a variety of traders or providers of services. The scope for using each card would thus be considerably extended. However, the present competitive position has to be borne in mind, and desegregation will therefore probably be achieved only in stages.

14.1 As regards CDs, relationships between systems already seem more conducive to closer cooperation, especially if one ignores all ATM functions and concentrates simply on cash dispensing. During an initial phase which, while paving the way for lasting and fairly far-reaching arrangements, would be something of an experiment given the rather restricted technological application proposed, cash withdrawal facilities using any debit card issued in a Member State (possibly up to the same limit as the cheque guarantee ceiling in the Eurocheque system) would be available at any CD in the Community. All the bodies concerned should give a measure of priority to achieving this level of interoperability.

14.2 They ought to give priority also to recognizing the principle that, pending the gradual conclusion of agreements making greater reciprocity possible where this transfer technique is concerned, they should as of now, when setting up EFTPOS systems, desist from installing several terminals at a single point of sale. This objective is the basis of one of the provisions envisaged in the code of conduct (see point 21.2) which the Commission is currently drawing up. Traders and providers of services who accept cards from several systems will need to have only one card-reader installed at their sales points.

Of course, no trader or provider of services will be forced to accept cards from all systems. He will be free to exclude some, accept no cards at all, or simply allow his own in-house card.

VI. Application of the EEC Treaty: payments and competition rules

15. The use of payment cards for cross-frontier settlements within the Community cannot normally be restricted by legislative or administrative provisions.

Article 106 of the Treaty lays down the principle of freedom of payments for all transactions that have been liberalized under Community law. Settlements made with payment cards generally involve purchases of goods and services (either during foreign travel or from the country of residence for the purchase abroad of goods and services); they are ordinary transactions which have been fully liberalized under Community law.

Member States maintain the right to check whether the transfers carried out have not in fact been used to make unliberalized transactions, e.g. capital movements restricted under current Community rules. Such checks, however, cannot have the effect of restricting the amount of payments relating to liberalized transactions, nor render them invalid or subject to approval by the authorities. These principles have been clearly endorsed by the Court of Justice.

It would be unwarranted, therefore, to restrict, for verification purposes, the use that is made of these new payment instruments, since they do indeed make it technically possible to check quickly and easily the nature of the underlying transaction and whether it took place. Furthermore, such checks are necessary only in countries which maintain exchange controls and will disappear as progress is made towards the complete liberalization of capital movements in the Community.

For the reasons given in point 8 above, the same principles should apply to cheques backed by guarantee cards and to non-electronic credit cards.

16. All necessary steps should be taken to see that transactions involving the new payment media can be made in ECU. This does not mean that, as regards payments via point-of-sale terminals, prices must be given in ECU, but that it should be possible for transactions both as far as the holder (bank account) and the issuer (e.g. clearing systems) to be cleared in ECU.

17. Interoperability of the new payment media presupposes that there is cooperation, based on reciprocity agreements, among the various payment systems in the Community. Subject to more detailed examination, it is possible that such agreements - essential if systems are to be mutually accessible - are not caught by the prohibition on agreements laid down in Article 85(1) of the EEC Treaty or, at the very least, that they meet the four cumulative requirements of Article 85(3), since they:

- contribute to promoting technical or economic progress, notably by providing for card interoperability throughout the Community in accordance with the principles stated above, thus helping (i) to achieve the general objectives of strengthening the internal market of a people's Europe and (ii) to implement industrial policy in this field;
- allow users (consumers and traders) a fair share of the resulting benefit;
- impose only such restrictions as are indispensable to the attainment of the objectives, and
- permit sufficient competition, with users in principle retaining the choice of payment medium: cash, guaranteed or traveller's cheques, and various types of payment card.

It would seem important to ensure that, according to Treaty rules, the contracts concluded between organizations or card-issuers and traders or service providers do not contain any exclusive operation clauses which require a trader or provider of services to use only the system governed by the contract.

18. As regards costs and the rates of remuneration for the services involved, a distinction must be made between services to cardholders and those to traders or providers of services who accept electronic payment at their points of sale. The technical cooperation needed between card issuers in order to ensure the interoperability of systems must leave the various card organisations free to decide their commissions for these services, in the light of their costs and their own policies in this regard.

- 18.1 Where traders or providers of services are concerned, the code of conduct which the Commission is currently drawing up (see point 21.2) will establish the principle that the conditions relating to the services which the bodies managing card systems offer, to traders and providers of services must be sufficiently transparent.
- 18.2 As far as individuals are concerned, the bodies concerned will have to lay down the appropriate clearing mechanisms (e.g. agreement on an "interchange fee") in cases where cardholders pay the issuing agency for services received but use their cards for transactions where the installations were provided by agencies belonging to another system and/or established in another Member State and in respect of which a different system of payment may apply.

It is important that the organizations managing the card systems and the credit institutions involved avoid any discrimination and, in particular, any unwarranted differentiation between transactions in the home market and those which involve the use of cards issued in another Member State.

They should also ensure transparency of prices for the services they supply to individuals in this field.

VII. Complementary legislative aspects: supervision and contractual relationships

19. The technological security of the new payment media has already been mentioned (see point 7.3). In a wider sense, security also depends on the reliability of the institutions participating in systems and calls for a discussion of the **supervision** of the institutions which issue cards and/or manage card systems.
- 19.1 In at least one Member State, these institutions, whether they are banks or not, are similar to credit institutions (see France's Bank Act, Loi 84-86 of 24 January 1986); in another, they are subject to supervision mainly as regards consumer protection (see Denmark's Act No 284 on Payment Cards of 6 June 1984). These aspects should be examined with a view to producing appropriate solutions of equivalent effect in Community terms, which may give rise to proposals for measures pursuant to Articles 66 and 57 of the EEC Treaty coordinating supervision.

19.2 In this context, it will also be necessary to examine the problems associated with the clearing of transactions, notably procedures and any guarantees that may be required of those who take part in such procedures.

20. **Other legislative aspects** (public law) may arise as this initiative is implemented.

20.1 For instance, in many Member States, the protection of data processed electronically is guaranteed in law. In some Member States, the transmission abroad of such data is subject to authorization (see Article 24 of France's Data-processing, Files and Freedoms Act No 78-17 of 6 January 1978, LIFL). Where payment cards are concerned, it could prove necessary to ensure that the data essential to the implementation of the transactions covered by this initiative can flow freely across borders. A study should be done of this problem, the solution to which will depend, inter alia, on the application of Article 12 of the Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data, concluded in the Council of Europe on 28 January 1981 (European Treaties series No 108; see also Commission recommendation of 29 January 1981, OJ No L 246, p. 31).

20.2 Moreover, as regards the common system of value added tax, Article 13B(d) of the Sixth Directive (77/388/EEC) of 17 May 1977 will have to be applied in such a way that operations relating to payment cards are exempt (see First Report from the Commission to the Council on the application of the common system of value added tax, COM(83) 426 final of 14 September 1983, p. 49 and Article 1(4) of the proposal for a 19th VAT Directive, COM(84) 648 final of 22 November 1984).

21. The use of the new payment media gives rise to two types of **contractual relationship**; that between card-issuing agencies and cardholders, and that between the same agencies and the traders or providers of services who accept payment via cards for transactions involving a terminal at their points of sale.

21.1 As regards the first of these relationships, the Commission began work some time ago on drawing up proposals for harmonizing the legal provisions governing relations between issuers and holders of cards ("consumers") which, in fact, can have an incidence also on the relationship between these consumers and retailers accepting electronic payments. Thus the Commission will pursue the new impetus given to consumer protection policy given by the Council's resolution of 6 May 1986, which announces (at para. 34 and in point 10 of its calendar of actions proposed) for 1987 a proposal on electronic funds transfer. The questions being studied under this heading include liability in the event of a card being lost or stolen, or of a mistake being made, or fraud committed, in connection with a transaction, the irrevocable nature of a payment, and the mutual obligations of card issuer and holder.

This work will continue in the wider context of this initiative and will lead to a proposal for a Directive laying down solutions to these problems, which the Commission will forward to the Council before the end of 1987. The Commission will also examine if certain other aspects need to be included in such a proposal. Other possible related questions could concern electronic payment systems functioning without cards (see point 5 of the annex to this communication).

The Commission will also seek to ensure in this context the necessary balance between the various interests at stake, in particular with regard to the protection of the consumer and the technological developments, as well as the rapid application of the technologies concerned, in this field.

21.2 The second type of relationship, i.e. that between traders or providers of services who accept electronic payments via a terminal at their points of sale and card issuers will be covered by a Community code of conduct. As well as containing a few general conditions relating to the conclusion of contracts, the code will lay down certain basic principles concerning the use of payment cards, such as:

- the freedom of traders and providers of services to choose, purchase or hire their equipment;
- at each cash desk there should be a single terminal which can accept all cards;
- charges to be transparent and freely negotiated;
- payments to be irrevocable;
- data to be protected, security essential;
- systems to be accessible;
- competition rules to be complied with.

The Commission will publish a recommendation containing a proposal for such a code of conduct in the first quarter of 1987.

VIII Plan of action: Timetable

22. The interoperability of payment cards must be achieved by the time the internal market is completed, i.e. by the end of 1992. However, as this communication points out, interoperability presupposes the implementation of a variety of measures: it can only come about in stages, through agreements based on the principle of reciprocity among bodies managing card systems. This initiative is designed to flank such agreements with appropriate measures, while protecting the principle of healthy competition in this sector.
23. Certain conditions of card interoperability are already present.
 - 23.1 The removal of any barriers to cross-frontier payments is provided for in the Treaty (see point 15) and the Commission will ensure that the relevant provisions are applied.
 - 23.2 Similarly, the Treaty's competition rules will be applied, in accordance with the principles stated in point 17, as reciprocity agreements between card systems materialize, without a specific time limit being set.
24. Other measures to be taken in this field will assume a factual or operational rather than a legal or legislative character. It is largely up to the operators in this sector and, in particular to the bodies issuing cards and managing the transactions carried out with them to achieve the desired level of interoperability; this initiative is designed to flank those efforts. Accordingly, the Commission will contact the institutions, bodies and authorities concerned, with a view to:
 - promoting the consistent application of existing standards for magnetic cards (see point 10);
 - determining agreed procedures for hybrid cards and helping to pave the way for interaccessible cash dispensers (see points 12 and 14.1);

- determining, notably through contact with the CEPT, agreed procedures for the interconnection of networks (see point 13);
- examining the problems arising from the use of the ECU and in connection with charges for services to individuals (see points 16 and 18.2).

The Commission will make these contacts in the first half of 1987, thus continuing the consultations with all parties concerned which it started in October 1986. The Commission may issue recommendations on the above aspects before the end of 1987.

25. As regards the technology of microcircuit cards, the Commission, in the light of the statements in point 11, will:

- will work out, over the first semester of 1987, the proposal for a regulation of the Council providing a framework for the pre-normative work to be carried out in this field in view of the framework programme for community action in the area of research and technological development;
- entrust the competent technical bodies with work aiming at the preparation standards or common technical specifications which should be in line with existing international standards;
- prepare, if necessary, a Directive on consolidating standardization efforts in this field in cases in which essential requirements (safety, confidentiality) would be at stake or in cases in which statutory barriers would exist in one or several Member States.

26. Lastly, the Commission will examine the complementary legislative aspects set out in Chapter VII, notably with a view to proposing, where appropriate, coordination measures, as referred to in point 19 above. More particularly, the Commission will:

- publish, at the end of the first half of 1987, a code of conduct relating to electronic payments via a terminal installed at the points of sale of traders or providers of services (see point 21.2);
- put forward, before the end of 1977, a Directive on the relationship between issuers and holders of payment cards (see point 21.1).

Scope and terminology

1. The payment medium concerned by this initiative involves the use of a card. The Commission is aware that other electronic payment media may be developed in the relatively near future. For instance, "home banking" (which uses videotex) may expand to the extent that it warrants Community action similar to that described here and possibly deriving from it. For the moment, however, the development of payment cards in practice is particularly significant and they are therefore the only medium covered by this action.

2. Since it is payment media which are involved, cards which serve other purposes are not included, e.g. pass-cards or hospital treatment cards. The Commission will no doubt be prepared to examine these other uses for which micro cards are suitable, in the near future.

3. From the technical point of view, the payment cards covered by this Community action are those with magnetic strips and those containing a microcircuit (memory cards).

Cards which are simply made of plastic and make it possible to identify the holder by traditional means (e.g. embossing and a signature) have been excluded: the problems highlighted in this initiative (standardization, interconnection of networks, etc) do not apply to such cards, or at least not in the same terms.

4. As regard card functions, the Community measures envisaged relate to credit and debit cards. In practice, it may be possible to use a card for more than one function.

4.1 A credit card is one which allows the holder to use a credit line for the purchase of goods and services up to a predetermined limit (fixed by agreement between the issuer and the card holder).

4.2 A debit card gives access to the holders' bank account in which, transactions made using the card (typically note withdrawals from an automatic teller machine or payments via a point-of-sale terminal) are entered immediately or (in the case of off-line transmission) after a very short period.

4.3 A cheque card provides the backing for a payment made by the conventional means of a cheque. Cheque cards, as a category, are not included here, since they are unaffected by the technological problems and security aspects (standardization, networks) which this initiative is intended to deal with; however, cheque cards which have a magnetic stripe and can be used as debit cards are within the scope of this initiative.

4.4 A "company specific" card is a card issued by a commercial firm (distributive companies, large stores, oil companies, transport companies, car rental firms). It is similar to a credit card, except that the trader or person providing services to whom the card is presented is at the same time the issuer who grants the credit; consequently the card cannot normally be presented in payment to another trader or provider of services (hence the term "company-specific").

Because of the importance of these cards and the fact that, although company-specific, they can have a transnational and banking dimension (some commercial firms link up with a credit institution, which makes it possible to use these instruments as a debit card) they resemble the cards covered by this initiative; they come within its scope where magnetic or microcircuit technology is used and debits to an account are involved.

5. One must bear in mind, with this definition of the initiative's scope, that certain measures, although forming part of the initiative, may have wider implications. For instance, provisions relating to consumer protection may well cover a number of transactions other than those in which payment cards are involved.

5.1 Lastly, as regards the equipment which the individual can operate with his card, this communication deals in particular with cash dispensers (CDs), automated teller machines (ATMs) - as a rule these combine a CD function with other banking functions such as taking cash deposits, issuing statements or initiating a transfer - and terminals at the point of sale of goods or services (EFTPOS - electronic funds transfer at the point of sale). For the purposes of this communication, the expression "card-readers" refers to the equipment incorporated in CDs, ATMs or EFTPOS terminals which allow the cardholder to interface with the system concerned.

Effect on small and medium sized enterprises

1. Administrative obligations for enterprises resulting from the application of the legislation.

Due to its character as a simple communication, this initiative will have no direct effect on SME's.

2. Advantages and disadvantages for businesses.

As electronic payment systems develop, it will be appropriate to examine the part played by industrial SME's in the production of cards, card reading machines and associated equipment. The development of electronic payments will also occur as a follow up to the Commission's initiative.

With regard to commercial and service industry SME's, it is possible that they might be confronted both by the need to equip themselves with terminals in order to remain competitive with regard to the large distribution networks and to bear the costs of payment operations (Commission rates) under conditions too favourable to the card issuers. For this reason the Commission proposes to submit a code of conduct on the commercial use of electronic payments to the relevant consultative committees.

On the other hand, the handling of payment operations will be made easier and, in particular accelerated for all economic agents, including SME's.

3. Has there been a prior consultation with the social partners?

Consultations have taken place with federations representing the banking sector (Committee of credit organisations), commerce (Committee on Commerce and Distribution) and consumers (Consumers Consultative Committee).

4. Is there a less burdensome alternative?

No; in any case the communication is non-binding.