

Meeting between Wirecard and Commissioner OETTINGER

At 13.00 on 19th January 2015

I. Scene setter

For interlocutors:

[bio in Annex I]

Wirecard,

For DG CONNECT: F1 ext.

For the Cabinet: Markus Schulte

Estimated duration : 30 min (13.00-13.30)

Agenda:

1. Presentation of Wirecard
2. Online payments as a part of the EU digital single market
3. Wirecard proposals for consumer protection standards in the EU.

[Detailed agenda and company profile attached]

II. Objective(s): discussion on EU payment services market

Line to Take:

- Online and mobile payments are of key importance to a fully functioning Digital Single Market. They can strengthen e-commerce and m-commerce by providing more secure and cheaper alternatives to dominant payment instruments – the credit cards, and more choice for consumers and merchants.
- EU has the largest retail payments market in the world. According to the European Central Bank, the total amount of transactions amounts to 240.24 trillion euros in 2011.
- We could imagine that many of them will take place through online or mobile intermediaries in the future. Especially, that according to the worldwide statistics, mobile payments are the fastest growing payment method with around 40% of annual growth rate.¹
- It is important for EU legislation to evolve alongside market developments. The payment market has been a buoyant one lately and the EU legislative and supervisory framework was in need of modernisation.
- In July 2013 the Commission proposed the revision of the Payments Services Directive [PSD2] and a regulation on Interchange fees [IF Regulation]

¹ Source Garner Inc. 2013

- The PSD2 widens the scope of the EU licensing regime by covering new services and players (third-party payment service providers) enabling their access to payment accounts.
- This new rule will have a crucial impact on transactions in the Digital Single Market.
- Provisions on access to bank account will give innovative payment intermediaries in the online and mobile area a solid regulatory underpinning. They will ensure that new online and mobile payment services meet common regulatory requirements and will have a spill over effect on consumer trust and take up.
- PSD2 also narrows the telecom exemption by limiting it mainly to micro-payments for digital services.
- IF regulation caps fees for consumer debit and credit cards of 0.2% and 0.3% of transaction value respectively, up to a maximum of 5 eurocent. It also envisages the possibility for retailers to accept only consumer cards.
- Both files were voted on in Plenary on 3 April 2014, but the accompanying legislative resolution was not voted on so as to allow for possible adoption in single reading.
- The Commission has actively and constructively participated in the Council discussions under the Italian Presidency. A Council General Approach was reached on the Interchange fees regulation on 6 November and a political agreement was reached at Trilogue on 17 December 2014. A Council General Approach on the revised Payment Services Directive was reached on 5 December 2014 and trilogues will commence in the coming weeks.
- Besides recent regulatory developments, the Commission continues to monitor the payment services market in EU. We see that the market is very dynamic, new solutions in online and mobile payments come up every day from a variety of different players: new online intermediaries, OTT's, telecoms, banks etc.
- We are therefore interested to hear Wirecard's views on this topic.

III. Background

PAYMENT SERVICES DIRECTIVE

On 24 July 2013, the Commission adopted a Directive of the European Parliament and of the Council on Payments Services in the internal market (PSD2). The aim of the PSD2 is to update and complement the legislative framework defined by the current Payment Services Directive (2007/64/EC), Regulation EC/924/2009 on cross-border payments and Regulation EU/260/2012 setting an end-date for the migration of credits transfers and direct debits in euro to SEPA formats.

The PSD2 widens the scope of the PSD by covering new services and players (third-party payment service providers) enabling their access to payment accounts. PSD2 narrows the telecom exemption by limiting it mainly to micro-payments for digital services, and includes certain transactions with third countries when only one of the payment service providers is located within the EU ("one-leg transactions"), improving transparency for outgoing money remittances. It also enhances prudential rules as well as security measures, and tasks the European Banking Authority (EBA) to develop concrete security standards and maintain a list of authorised and registered payment institutions.

The proposal is part of a set of legislative measures on payment services, which also includes a proposal for a Regulation on interchange fees for card-based payment transactions (IF-Reg). There is an interaction between both texts with respect to surcharging of payment instruments (Article 55 PSD2). The Council agreed a General Approach on the IF Reg on 5 November and a political agreement was reached at Trilogue on 19 December 2014.

In the Parliament, MEP Diogo Feio (EPP-PT) (ECON) was appointed rapporteur for PSD2. The report was adopted unanimously (36 in favour, 0 against) on 20 February 2014 in ECON and voted by the plenary on 3 April 2014. However, the accompanying legislative resolution has not been voted, which still allows for a first reading arrangement with the Council.

The amended text seems to strike a good balance between the different proposed changes, and is less radical with regard to Third Party Payment Providers (TPPs) than the initial draft report and some of the proposed amendments.

Note that Antonio Tajani (EPP-IT) Vice President of the Parliament and former Vice President of the Commission is the new rapporteur of the PSD2 file.

SECURITY AND SHARING OF CREDENTIALS (MAINLY IN THE CONTEXT OF USING A THIRD PARTY PAYMENT SERVICE PROVIDER)

The Commission proposal introduces stricter security requirements for the initiation and processing of electronic payments, which apply to all payment service providers, including third party payment service providers (TPPs). As a main principle, payment service providers are obliged to apply strong customer authentication when a payer initiates an electronic payment transaction. Exemptions are possible (e.g. low value payment at the point of sale) or to this principle, to be defined by EBA, taking account of the risk involved, the value of transactions and the channels may be able to benefit from such exemption.

The objective is notably to ensure that e-commerce payments are safer.

The Commission has introduced further provisions with regard to the duties of the TPP and the account servicing payment service provider to ensure that the personalised security credentials are kept safe and secure and are not accessible to any third party. Like other payment service providers, they will be subject to harmonised rights and obligations and in particular security requirements. The envisaged rules address in particular conditions for access to account information and sharing of liability.

During the Council negotiations, the account information services have been added to the scope of PSD2. Account information service providers will have to respect similar security requirements. They will be subject to a lighter regulatory regime, proportionate to the level of risks related to their activity and will benefit from the passporting regime as consumers often have more than one bank account, including bank accounts located in different Member States.

The EP proposes to introduce additional provisions aiming at ensuring that, once the common and secure open standards of communication have been defined by the EBA and implemented by the account servicing payment service provider, the payment service user should be able to use the most secure, state of the art, technological solution in the initiation of e-payment transactions through TPPs. The EP also proposes to clarify that information on the availability of sufficient funds should consist in a simple 'yes' or 'no' answer and explicitly states that TPPs shall not be required to enter into contractual relationships with account servicing payment service providers in the context of payment initiation or account information services (AS PSPs).

The Council follows the same spirit as the EP; agrees that TPPs should have a place in the payments market, but that sufficient safeguards should be in place to protect the consumer and the account servicing payment service providers in case of non-authorized TPPs. Tasks EBA to draft the regulatory technical standards on the secure communication between TPPs, AS PSPs, consumers and merchants (specifying rules for secure communication interface and encryption used).

INTERCHANGE FEES REGULATION

The Interchange fees regulation aims to develop an EU-wide market for card payments as well as for online and mobile payments based on cards. Card markets remain artificially fragmented along national borders and IF levels show very high variation between Member States, completely unrelated to the development of the card payments market. Promote EU wide services, efficiency, innovation and fair, transparent conditions for card-based payments. Address problematic business rules of the existing card schemes in order to create a level playing field and allow for new market entries.

The proposal for a Regulation, adopted by the Commission on 24 July 2013, imposes a maximum per transaction interchange caps for most frequently used consumer cards as well as for online and mobile payments based on such cards. The proposed caps are max 0.2% of the transaction value for debit cards and max 0.3% of the transaction value for credit cards. These caps would apply both for cross-border and purely national transactions (after a transitional period). Commercial cards (i.e. cards issued for non-consumer purposes) and so-called three party card schemes (i.e. cards issued by American Express and Diners) remain out of scope of this part of the Regulation, considering the very limited size of this market in the EU.

A political agreement was reached on the file on 17 December 2014. The legal text still needs to be formally approved by the European Parliament and Council, which is expected in early 2015. The key elements of the agreement are the introduction of maximum fees for consumer debit and credit cards of 0.2% and 0.3% respectively up to a maximum of 5 eurocent, the possibility for retailers to accept only consumer cards, Commercial cards used only for business expenses would also be exempt from the new rules and enhanced transparency rules for all transactions. The final text stops short of mandating legal separation between processing and scheme as proposed by the Commission but still requires accounting, organisational and decision-making separation!

SINGLE EUROPEAN PAYMENTS AREA (SEPA)

The Single Euro Payments Area (SEPA) aims to create a true European Single Market for retail payments in euro, with domestic and cross-border payments in euro following the same rules and format.

Regulation (EU) No 260/2012 (also known as the SEPA Regulation) entered into force on 31 March 2012, giving market participants two years, until the 1st of February 2014, to adapt their payment processes to the SEPA requirements for SEPA credit transfers (SCT) and SEPA direct debit (SDD).

Despite the considerable efforts made during these two years by national authorities, Ministries of Finance and Central banks, it was very certain that the 100% compliance (or close to 100% figures) on the 1st of February 2014 would not have been reached.

For these reasons, the Commission adopted on 9 January a proposal to amend regulation 260/2012 in order to provide for a transition period of six months until 1st of August 2014 during which banks and other payment service providers would be able to continue processing payment orders even if users did not provide them in the right SEPA format.

This proposal was endorsed on 16 January by ECON, voted by the EP on 4 February, adopted by the Council on 18 February and published on 20 March.

The conclusions of a PWC study published in January by the Commission about the benefits of SEPA once fully embraced included the following points:

- Potential yearly savings of €21.9 billion due to price convergence and process efficiency;
- Reduction of up to 9 million bank accounts, resulting from more efficient corporate euro cash-management infrastructures;
- Up to €227 billion in credit lines and released liquidity
- Indirect additional benefits from, for example: adoption of e-invoicing, extended use of XML ISO20022, SEPA-cards framework, mobile payments, etc.

Although they will not benefit equally from SEPA, all stakeholders will see benefits, companies, banks and clearing houses will enjoy economic benefits, whereas consumers may benefit from improved consumer protection.

Author: [REDACTED] D3 DG Fisma [REDACTED]

ANTI-MONEY LAUNDERING DIRECTIVE

On 5 February 2013, the Commission adopted a proposal for a Fourth Anti-Money Laundering Directive (AMLD) which provides for measures on the prevention of the use of the financial system for the purpose of money laundering (ML) and the financing of terrorism (TF). As part of the AML package, the Commission also proposed a revised regulation on information accompanying transfers of funds (the Funds Transfer Regulation) to secure "due traceability" of these transfers.

This proposal aims at enhancing the effectiveness of the EU legislative framework and implementing international standards from the Financial Action Task Force (FATF) that were revised in 2012.

On 16 December 2014, EP and Council reached a political compromise as regards the AML Directive in trilogue (well as on the Funds Transfer Regulation".

The AMLD will provide for central registers on beneficial ownership information for companies that should be accessible to competent authorities, credit institutions and other obliged entities (e.g. lawyers) when they perform their Customer Due Diligence (CDD) requirements. The AMLD will also strengthen the provisions on enhanced CDD to be applied for business relationships with Politically Exposed Persons (PEPs).

These texts will be formally adopted by the co-legislators in the coming months (publication in OJ by mid-2015).

Author: [REDACTED] (JUST) [REDACTED]

IV. Attachments

Annex I



Annex II – Wirecard

1. Company profile, governance structure and business figures

Wirecard develops electronic payment solutions for all sales channels: offline, online, and offers fraud prevention solutions. Wirecard partners with retail, financial and telecom sectors (customers so far including Deutsche Telekom, Orange, Vodafone and O2/Telefónica and SFR). With regard to issuing own payment instruments in the form of cards or mobile payment solutions, Wirecard provides companies with an end-to-end infrastructure, including the requisite issuing licenses for card and account products

Wirecard conducts business operations in Europe and Asia. Wirecard AG is headquartered in Aschheim near Munich, Germany.

The Wirecard Group's business model is based mainly on **transaction-based fees** for the use of software or services. End-to-end solutions spanning the entire value chain are offered in our customers' own corporate designs as co-branded solutions (with card organizations), as well as under the Wirecard brand.

Wirecard holds a **bank license** in Germany and **e-money licence** in the UK and is supervised by Financial Services Authority

Basic data

Year established	1999
Market segment	Prime Standard
Index	TecDAX
Type of equity	No-par-value common bearer shares
Ticker symbol	WDI, Reuters WDIG.DE, Bloomberg WDI@GR
WKN	747206
ISIN	DE0007472060
Authorized capital, in number of shares	123.490,586
Group accounting category	Exempting consolidated financial statements acc. IAS / IFRS
End of financial year	December 31
Total capital stock as at December 31, 2013	EUR 123,491K
Beginning of stock market listing	October 25, 2000
Management Board	
Supervisory Board	

Shareholder structure

(Shareholders holding more than 3% of the voting rights)*

6.0 %	MB Beteiligungsgesellschaft mbH
94.0 %	Freefloat (in accordance with Deutsche Boerse regulations), of that
6.27 %	Jupiter Asset Management Ltd. (UK)
5.04%	The Capital Group Companies Inc. (US)
4.94 %	Alken Luxembourg S.A. (LU)
3.03 %	Standard Life Investment Limited (UK)

* Interests (rounded) according to last notification by investors (Section 26a WpHG)

2. Core sectors

The Wirecard Group's operating activities in its core business are structured according to three key target industries, and are addressed by means of cross-platform, industry-specific solutions and services, as well as various integration options:

- **Consumer goods** This includes merchants who sell physical products to their target group (B2C or B2B). This customer segment comprises companies of various dimensions, from e-commerce start-ups through to major international corporate groups. They include Internet pure players, multi-channel, teleshopping and/or purely bricks-and-mortar merchants. The industry segmentation is highly varied: from traditional industries such as clothing, shoes, sports equipment, books/DVDs, entertainment systems, computer/IT peripherals, furniture/fittings, tickets, cosmetics, and so on, through to multi-platform structures and marketplaces.
- **Digital goods** This sector comprises business models such as Internet portals, app software companies, career portals, Internet telephony and lotteries such as sports betting or poker.
- **Travel and mobility** The customer portfolio in this sector comprises airlines, hotel chains, travel portals, tour operators, travel agents, car rental companies, ferries and cruise lines, as well as transport and logistics companies.

WIRECARD PLATFORM

MULTI-CHANNEL PAYMENT GATEWAY

- More than 200 connections to banks, payment solutions and card networks
- Tokenization of sensitive payment data
- Adapters for industry software solutions
- Real-time reporting and business intelligence
- Subscription management
- Billing and Settlement Plan (BSP)
- Automated dispute management
- White-label user- and system-interfaces

- Global payment strategy advisory
- Multi-lingual helpdesk 24/7
- Case management and exception handling
- Payment guarantee

PAYMENT ACCEPTANCE SOLUTIONS

- Card acquiring processing
- Acquiring processing of alternative payment schemes
- Multi-currency processing and settlement
- Terminal software for payment and value added services
- Terminal management solutions

- Corporate banking services
- Acquiring services for Visa, MasterCard, JCB, American Express, Discover/Diners, UnionPay and alternative payment methods
- Consolidated settlement and treasury services
- Terminal network deployment and operation

RISK AND FRAUD MANAGEMENT

- Automated fraud pattern detection
- Address verification
- Credit rating agency gateway
- Device fingerprinting
- Real-time rule-engine
- Bespoke decision logic
- Score cards
- Hotlists (black/white/grey)

- Credit risk and fraud management advisory
- Case management and exception handling
- Anti-money-laundry monitoring

END-TO-END SOLUTIONS FOR ALL INDUSTRY VERTICALS

- Online/PoS/Mobile/Mail order/Telephone order (Moto)
- White-Label/Co-Branded/Wirecard-Branded

ISSUING SOLUTIONS

- Card issuing processing
- Multiple card types (credit, debit and prepaid cards)
- Multiple form factors: plastic, virtual, mobile, sticker, dual-interface
- MIFARE and CEPAS stored value cards
- Instant card creation
- SP-TSM* gateway

WALLET SOLUTIONS

- Multi-channel consumer enrolment and base-data management
- Zero-balance and pass-through accounts
- Credit facility management
- Multiple top-up and funding sources
- Mobile and Internet apps
- Peer-to-peer funds transfer (P2P)

PAYMENT INNOVATIONS

- International money remittance
- In-app payments
- Mobile card reader solutions
- Loyalty and couponing services
- Contextual advertising and cash-back
- Biometric and "mini ATM" solutions for emerging markets
- Industry solutions (e.g. public transport, taxi, airline, ...)
- NFC, BLE, QR ...

- Card program management
- Issuing licenses from Visa, MasterCard, JCB
- BIN sponsorship services
- Supplier selection and management
- Card personalization and data preparation
- PIN-management
- Hosted SP-TSM service

- Multi-lingual helpdesk 24/7
- Consumer banking services
- eMoney institution
- Managed know-your-customer (KYC) service
- Marketing and merchant enrolment support

- Management of multi-channel payment products for financial institutions and mobile operators
- Merchant and consumer acquisition for payment products with outbound callcenter

*Service Provider – Trusted Service Manager

- TECHNOLOGY
- SERVICES

Source: Wirecard Annual Corporate Report 2013