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1. Facebook's Libra: Game changer or non-starter?

Facebook has made a big splash with the announcement of its grand payment scheme "Libra". The Libra is a new currency backed by investments in bank deposits and government securities denominated in a number of different currencies. It will be issued by the members of the Libra Association. In its announcement, Facebook particularly stresses two things: the use of blockchain and the potential benefits of the Libra for the unbanked in developing countries. However, most observers agree that the proposed system has nothing to do with blockchain. Benefits for unbanked are also doubtful since unbanked cash users will find it difficult to obtain Libra. As far as countries with advanced payment systems are concerned, it is doubtful whether Facebook's Libra will be widely used. Since it is not denominated in common currencies, it will be cumbersome to use.

2. Facebook's Libra: E-Money or not?

Apparently the Libra poses a big problem to the regulators. The new blockchain-based stable coin seems to go beyond the existing regulatory frameworks for prudential supervision and oversight. Is there really a lack - at least in the EU - of a supervisory regime for the announced buccaneer Libra? Based on the available documents, however, Libra fulfils all the criteria for e-money. At least in the EU, the Libra would fit into the existing regulatory landscape.

3. The 1 million euro Wirecard-Aldi deal

Wirecard and the German food discounter Aldi signed recently a MOU, whereby Wirecard takes over the acquiring business for the card payments of the international brands. In the German press, the press release was partly enriched with adventurous figures. The message behind the deal is decisive: Wirecard is attacking the established acquirers in the German card presence business.

Letter to the Editor of Giuseppe Di Ruocco (PAYONE GmbH) to "SEPA for Cards"

Facebook's Libra: Game changer or non-starter?

(mk) Facebook has made a big splash with the announcement of its grand payment scheme "Libra". The aim is nothing short of "to enable a simple global currency and financial infrastructure that empowers billions of people".[1]

The plan consists of the following elements (Libra White Paper, p. 3):

- the Libra itself which is a new currency backed by investments in bank deposits and government securities denominated in a number of different currencies,
- the Libra Association - the governance body setting the rules, which issues Libra and invests the proceeds (as "validator nodes" members also provide the backbone of the infrastructure), and
- the "Libra Blockchain", which defines the way Libra are accounted for and the way transactions are carried out.

Facebook does not want to run the "Libra-show" on its own. It has created the Libra Association (based in Geneva, Switzerland) as the main decision body and reserve manager. "Founding Members" are (sorted by industry) (p. 4):

- Payments: Mastercard, PayPal, PayU (Naspers' fintech arm), Stripe, Visa
- Technology and marketplaces: Booking Holdings, eBay, Facebook/Calibra, Farfetch, Lyft,
- Mercado Pago, Spotify AB, Uber Technologies, Inc.
- Telecommunications: Iliad, Vodafone Group
- Blockchain: Anchorage, Bison Trails, Coinbase, Inc., Xapo Holdings Limited
- Venture Capital: Andreessen Horowitz, Breakthrough Initiatives, Ribbit Capital, Thrive Capital, Union Square Ventures
- Nonprofit and multilateral organizations, and academic institutions: Creative Destruction Lab, Kiva, Mercy Corps, Women's World Banking

Facebook expects to have about 100 members by the second half of 2020 when it hopes to go live with the new scheme. For the moment, Facebook is the main driver behind the scheme. But eventually, it wants to be just one of the members via Calibra, a newly founded subsidiary.

The association's membership will also provide the backbone of the network. As "validator nodes" they will be in charge of keeping track of Libra balances and validating transactions.

Our Comment:

Given that barely a month has passed since Facebook announced its new project, the size of the echo is truly stunning. Central bankers, ministers of finance and Nobel laureates in economics have come up with their views, not to speak of hundreds of lesser mortals who also felt inclined to make their views public. So, how can we resist providing our own irrelevant views?

Unfortunately, we have to admit that we agree with most of the published comments - and these have been critical of Facebook's proposal.[2]

The critique already starts with technicalities. Facebook stresses that Libra is based on blockchain. However, on close inspection, this boils down to distributed databases that have to be synchronised and the use of encryption. That is hardly something that differentiates Libra from the standard payment system.[3]

Leaving the technicalities behind, what's it all about? In its press release announcing the launch of Libra, Facebook puts particular stress on its ambition to assist the unbanked:

How are they supposed to buy Libra balances? The unbanked are using cash.

"For many people around the world, even basic financial services are still out of reach: almost half of the adults in the world don't have an active bank account and those numbers are worse in developing countries and even worse for women. The cost of that exclusion is high — approximately 70% of small businesses in developing countries lack access to credit and $25 billion is lost by migrants every year through remittance fees. This is the challenge we're hoping to address with Calibra, a new digital wallet that you'll be able to use to save, send and spend Libra."[4]

That sounds wonderful. But for the moment this is just marketing slang. Apart from suspicions that a listed stock company might not only have altruistic motives,[5] there are very practical problems that put a question mark over such statements. Neither in its announcement nor in its White Paper does Facebook address the crucial problem that the unbanked are just that - "unbanked".

How are they supposed to buy Libra balances? The unbanked are using cash. So, Facebook has to provide them with a way to convert cash into Libra – not a small feat. It is instructive to look at m-pesa – a successful mobile payment system that did indeed reach the unbanked. M-pesa has been widely praised. But it is often overlooked that the success of m-pesa was based on its huge network of small shops that are selling prepaid airtime.[6]

Under these conditions, it was not a big thing to move towards the provision of mobile money. However, Facebook is completely lacking such an infrastructure. Therefore, the main potential customer base is likely to be found in the developed world where most of the potential customers are "banked".

Looking beyond countries in which financial inclusion is a big issue, Facebook and its collaborators face the huge task of winning customers who already have access to bank accounts, credit cards, payment accounts such as PayPal, instant payments (in an increasing number of countries), etc., etc. This will be an uphill battle because the Libra has one important drawback: it is not denominated in the standard monetary unit. This has set regulators' alarm bells ringing and triggered applause from champions of private money. But the introduction of a new monetary unit is a tricky issue.

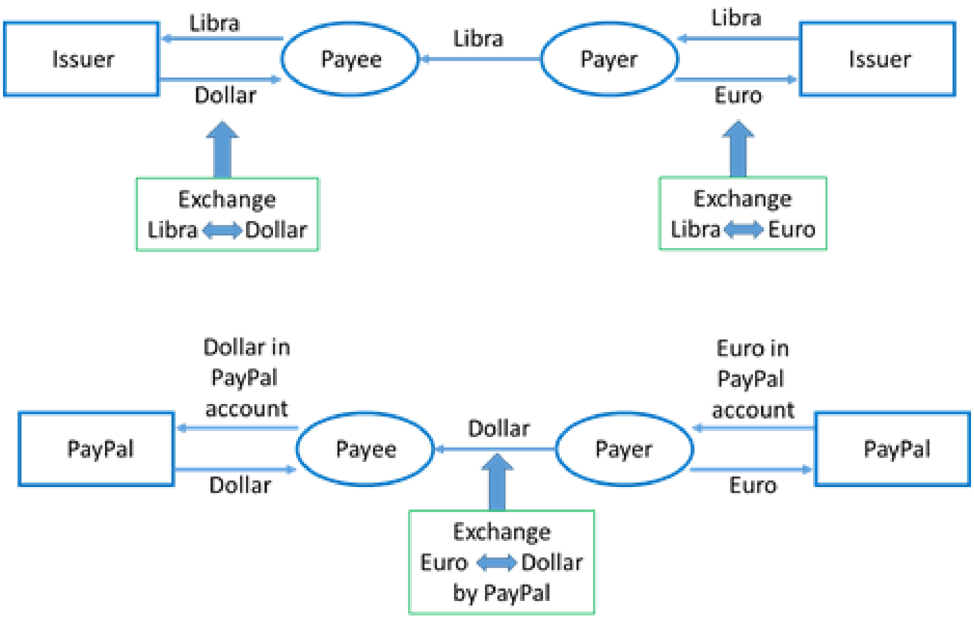
The Libra has one important drawback: it is not denominated in the standard monetary unit.

The question Facebook has to ponder is the following:

Why should, say, a euro area consumer who earns most of her income in euro convert euro into libra and then pay a merchant with libra who has to convert libra back into euro because most of her expenditures (wages, taxes, rent, electricity, ...) are also denominated in euro?

If you live in the euro world, coping with non-euro payment flows is a nuisance factor – as anyone with occasional non-euro travel expenses can testify.[7] Even when it comes to making a currency transfers,

Figure 1 X-border payments: Libra vs. PayPal



say from Belgium to the US, it is not the case that the use of Libra makes life easier. The use of other payment instruments, such as for instance PayPal, seems easier (see Figure 1).

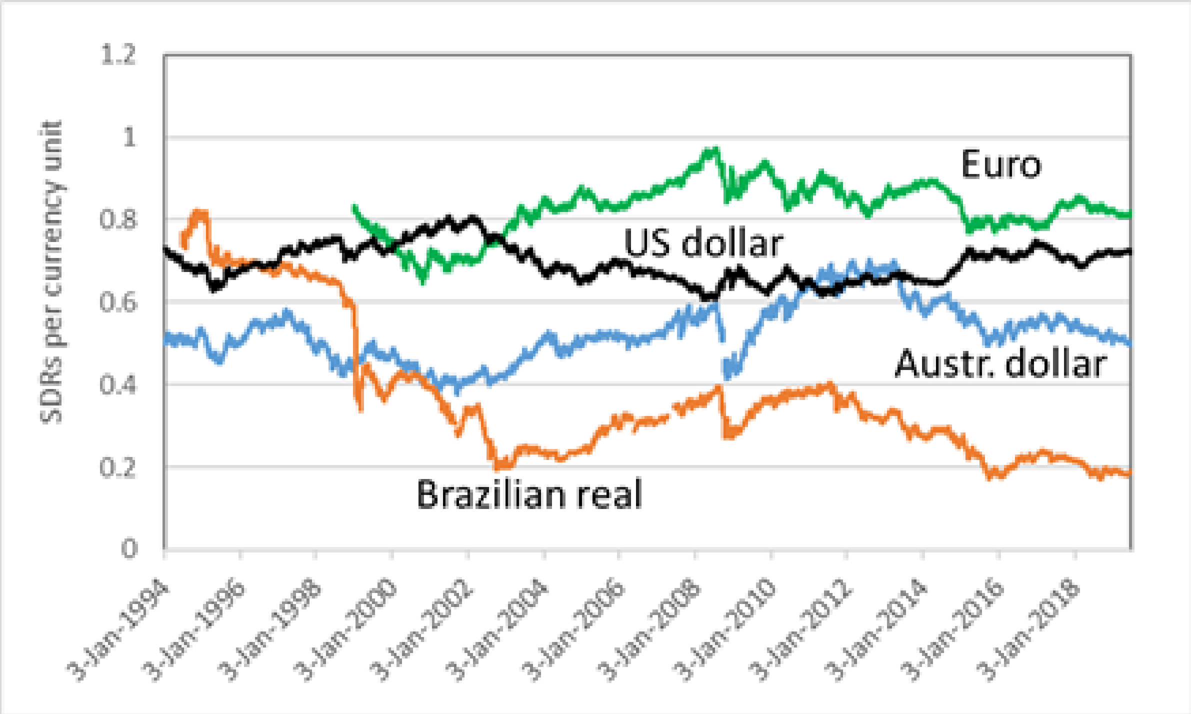
One might argue that Facebook has enough market power to force customers to price goods offered via Facebook in Libra. But such a move would not go down well - neither with customers nor with anti-trust authorities.

Facebook wants to assure potential Libra users by saying that "*the reserve assets are being chosen to minimize volatility*" (Libra white Paper, p. 7). However, as far as the advanced economies are concerned, these have managed to achieve substantial internal stability of the monetary unit. Any mix of currencies is likely to be much less stable when measured in internal purchasing power. The IMF's international unit of account, the "SDR" (special drawing right), is a case in point.[8] Over time, there have been substantial changes in its value relative to individual currencies such as the US dollar or the euro.

Any user of Libra would have to cope with such changes. On top, any PSP offering to exchange Libra against national currency would have to cope as well. In all likelihood, there would be spread between buying and selling prices (bid-ask spread). For users this would imply costs of exchanges from national currency into Libra (and vice versa).

All the blockchain talk seems to be pure marketing.

Figure 2 The value of a currency basket: the example of the SDR



SDR: Special drawing rights. Composition of the SDR:
U.S. Dollar: 41.73%, Euro: 30.93%, Chinese Yuan: 10.92%, Japanese Yen: 8.33%, Pound Sterling: 8.09%.
Source: International Monetary Fund

In Facebook's Libra White Paper there is a lot of talk of blockchain. But most commentators seem to agree that Facebook's proposal has nothing to do with blockchain. All the blockchain talk seems to be pure marketing. Indeed, by claiming to use blockchain Facebook has had one remarkable success. The proposed scheme is often compared to Bitcoin and to "stablecoins".

It is seen as innovative and potentially "disruptive". On top of this, the blockchain story-line has had the effect that basically no one discusses Facebook's most serious competitor: PayPal. PayPal is not "blockchain" and therefore old-fashioned, not worth mentioning.
The ECB's Benoit Coeuré has dubbed Libra the "*elephant entering the sandbox*". Well, Facebook surely is an elephant. But whether Libra will become an elephant in the world of payments remains an open question. It is not an open question, however, that PayPal has evolved into a payment elephant. PayPal does not offer any hip talk about blockchain. But it works. It is highly convenient and it is usable x-border.

It is reaching out to the POS and with Xoom it is just now improving its x-border facilities. It will not be easy to convince customers that Libra is the better payment solution. But for the Moment Facebook has won the PR contest.

Apart from established payment providers, regulators may also make life difficult for Facebook's ambitions. So far, most statements of regulators have ranged between alarmed and hostile, with the noticeable exception of the Bank of England's Mark Carney.[9] It is understandable that regulators are alarmed. But they should try to learn from the past.

Twenty years ago there was an e-money frenzy, markets were gung-ho and regulators were highly worried. Many important institutions published lengthy reports on e-money. For instance, while the forerunner of the ECB, the European Monetary Institute was busy preparing monetary union, what was the first report it published? A report on e-money! Today, with the benefit of hindsight, we can say “What a waste of resources.” Regulators should take this into account. There may be more pressing issues to deal with. True, Facebook is big, really big. But not every blip that is uttered by Facebook merits the devotion of a huge amount of regulators’ resources.

Regulators may also make life difficult for Facebook’s ambitions.

What does this all imply for PSPs? Obviously, if Libra becomes a success, PSPs on the merchant side of the market will wish to offer Libra acceptance to their customers. But given the number of urgent projects, such as strong customer authentication, at the present moment we do not see any reason to devote large funds and management attention to Libra. Is this likely to change? The cautious answer is “Maybe.” The less cautious answer is “No. Libra is a non-starter.”

Facebook's Libra: E-Money or not?

(hg) Rarely has an idea caused such a worldwide stir as the Libra announcement in June 2019. In the meantime, the hype has subsided somewhat. An initial assessment shows that the reactions - not only from public authorities - were predominantly critical and negative. There is even a collection of signatures from the citizens' movement "Finanzwende" (Finance Watch Germany) for a petition against the Libra.[10] Libra's humanitarian goal "*to create more access to better, cheaper, and open financial services- no matter who you are, where you live, what you do, or how much you have*" (White Paper, p. 12) was seen more as a PR slogan and therefore regarded sceptically.

To sum up, the critical topics are as follows: data protection & privacy because of the linking of payment data & Facebook, competition law aspects because of the economic power of the founding members of the Libra Association, undermining of Anti-Money Laundering and Counter Terrorist Financing (AML/CTF) efforts, destabilization of the international monetary system and suppression of fiat currencies and last but not least the alleged lack of a regulatory framework for the supervision of the new currency.

In this article, we would like to take a closer look at the latter topic. At an ECON meeting (Committee on Economic and Monetary Affairs) of the European Parliament on 5 September, Jose Manuel Campa, Chairperson of the European Banking Authority (EBA), said that there was a regulatory gap for crypto assets at EU level. According to Campa, there is a "big gap"[11] between the 2nd E-Money Directive (EMD2) and the Markets in Financial Instruments Directive (MiFID II). The Libra would fall into this gap. Is there really a lack - at least in the EU - of a supervisory regime for the announced buccaneer Libra?.

Our Comment:

Regulating new phenomena is not always easy. We see it with the e-scooter. The road traffic regulations do not provide for this new means of transport. Is the e-scooter a pedestrian on wheels or an e-bike without a saddle? The similarity to the bicycle is evident and so the problem has usually been solved. In the case of an asset, money or payment system based on Distributed Ledger Technology (DLT), the answer seems to be more difficult.

To make matters worse, in the case of the Libra payment system, the monetary values are not denominated in a state currency unit (fiat-money), such as the euro or the dollar, but have an independent designation (Libra or Libra coin), the value of which, however, is based on a basket of fiat currencies. The fact that this money will not be issued by a central bank, but by a private institution (Libra Association) has added further heat to the debate and obscured the view of many politicians.

Trump twittered in reaction to the Libra: "*We have only*

The money supply has already been largely privatised.

The sticking point with the Libra is the systemic connection of the privately issued money to the money issued by the central bank.

one real currency in the USA, and it is stronger than ever, both dependable and reliable. It is by far the most dominant currency anywhere in the world, and it will always stay that way. It is called the United States Dollar!"[12] German Finance Minister Scholz said, somewhat less pathetically: "*the issue of a currency does not belong in the hands of a private company, because it is a core element of state sovereignty*" and "t*he euro is and remains the only legal tender in the euro zone*".[13]

The Libra plan obviously leads to the fear that our money will be privatised. Is this fear justified? In our monetary system, most of the money is no longer issued by a state-authorised monopoly (central bank), but in fact by banks in the form of scriptural money. Banks are private institutions. This means that the money supply has already been largely privatised. As a consequence most of the money is not legal tender. It's not the dollar money supply or the euro money supply that is legal tender, but only the small amount of cash denominated in euros compared with scriptural money (mostly deposits).

Whether this monetary order is optimal or not has recently been discussed worldwide (keyword "sovereign money"), but it is another topic.[14] The sticking point with the Libra is therefore not the private money issue per se, but the systemic connection of the privately issued money to the money issued by the central bank and the integration of the issuer as an institution regulated by financial supervisors. These are precisely the issues that must be resolved with the Libra in order to guarantee the status quo of today's monetary order.

Both issues are technology-neutral. It does not matter whether the complementary currency Libra exists as virtual currency (VC), as scriptural money, as e-money or even in material form (e.g. as cash). Only the applicable regulations might differ – and might even include prohibitions. With conventional crypto currencies, such as Bitcoin & Co, integration into the existing monetary system has so far failed. Domestication is difficult, simply because Bitcoin & Co often have no issuer. Similar to a gold nugget in the California gold rush, a Bitcoin can be laboriously dug out ("mining") and the finder can use it as a means of payment or sell it for fiat money. It only has a commercial value, but no systemic link to central bank money, nor is there an issuer that can be placed under supervision.

The only ones that are visible besides the user are the VC trading platforms and the providers of custodian wallets. As a result of the new EU Anti-Money-Laundering Directive (AMLD5 - 2018/843 of May 30 2018), these market participants are now obliged to comply with money laundering laws. The existing supervisory and monetary policy instruments do not apply if these issuer-less crypto assets are designed and used as means of payment. The only last resort that remains is the prohibition of use.

In contrast to Bitcoin, however, Libra has a clear issuer: the Libra Association. "*The association is the only party able to create (mint) and destroy (burn) Libra*" (p. 8 of the White Paper). This of course makes things much easier for the regulators.

Does the libra, like many other crypto currencies, now fall into this new category of virtual currencies? The legal definition of a virtual currency is (Art. 3 AMLD):

"a digital representation of value that is not issued or guaranteed by a central bank or a public authority, is not necessarily attached to a legally established currency and does not possess a legal status of currency or money, but is accepted by natural or legal persons as a means of exchange and which can be transferred, stored and traded electronically."

The legislator has deliberately opted for a very broad definition here. It is obviously a catch-all circumstance: all non-material, privately issued monetary and value units that do not fall under the already regulated scriptural money (commercial bank money) and e-money are virtual currencies. According to Recital 10 (5AMLD), it is unclear whether at least the money function as means of exchange is mandatory. Accordingly, crypto assets that are not conceived as means of exchange can even fall under the term "VC".

The Libra fulfils all the criteria defining a VC. Does it therefore fall into the VC category? A VC only exists if the value unit does not fall into the category of e-money according to the second E-money Directive (EMD2 of 2009). Therefore, for reasons of legal systematics, one should first check whether the Libra qualifies as e-money before the VC as definition comes into question.

Is Libra e-money?

So far the Libra is only described in the White Paper and its sub-papers. The legal framework between the parties is still missing, e.g. between the Libra Association as issuer, its resellers and its users.

On the basis of the information contained in the White Paper and its annexes, Libra fulfils all the criteria of the definition of e-money set out in EMD2 (Art. 2). See table .1.

Only if it turns out that the Libra would not be e-money does the classification as VC come into consideration. This alternative is, for example, examined unsystematically in an analysis of the scientific services of the German parliament without, however, first checking the e-money qualification.[18]

Table 1

Legal definition of e-money according Art. 2	Quotes from White Paper (including sub-papers) and Testimony of David Marcus (Hearing US Senate[15])	Comments	
electronically, including magnetically, stored	"*It is built on a secure, scalable, and reliable blockchain*" (p. 3); *"able to scale billions of accounts"* (p. 5).	Libra is registered at decentralized accounts, stored on distributed ledger technology (DLT). This kind of storage is included in the legal definition of e-money.[16]	✓
monetary value	"*The unit of currency is called "Libra"*" (p. 3).	There is no obligation that e-money is denominated in the currency of the deposited amount (e.g. Euro). The monetary value may be denominated and stored in a fantasy currency (e.g. "miles").	✓
as represented by a claim on the issuer	"*Since authorized resellers will always be able to sell Libra coins to the reserve at a price equal to the value of the basket, the Libra Reserve acts as a "buyer of last resort"*" (p. 8).	The guarantee of value by the issuer and the right for redemption constitute a claim on the issuer.[17]	✓
which is issued on receipt of funds	"*Coins are only minted when authorized resellers have purchased those coins from the association with fiat assets to fully back the new coins*" (p. 8)		✓
for the purpose of making payment transactions as defined in point 5 of Article 4 of Directive 2007/64/EC,	"*a simple global currency*"; *"to help people and business hold and transfer Libra for everyday use"* (p. 3); "*Libra is a payment tool, not an investment*"; *"Libra is like cash. People will use it to send money to family members in other countries, for example, or to make purchases"* (Marcus, p. 2)		✓
and which is accepted by a natural or legal person other than the electronic money issuer	"*Libra will need to be accepted in many places*" (p. 3)		✓

Due to the technological basis of blockchain technology, the regulatory view focuses on VC (including crypto-assets) or financial instrument (MiFID II). However, the underlying technology does not play a role in the regulatory classification. In some EU member states, competent authorities (e.g. UK and Malta) have already rightly classified "prepaid" crypto-assets, which are to be used as means of payment, as e-money.[19]

The Libra meets the criteria of the electronic money definition.

So far, the e-money classification of the Libra has been analysed in detail only by a few.[20] Yves Mersch (Member of the Executive Board of the ECB) stated recently: "Libra does not appear to qualify as e-money, as it does not embody a claim of its holders against the Libra Association".[21] Unfortunately, he did not state the reasons underlying his judgement. The same applies to the Dutch financial market regulation expert Simon Lelieveldt, who denies the classification of Libra as e-money because Libra should not be a "monetary value".[22] Unfortunately, there is no justification here either.

From a regulatory point of view, the Libra system is quite comparable with the PayPal payment system. Whether the accounts are managed centrally on a server at PayPal or decentrally on the basis of DLT at Libra is irrelevant for the regulatory assessment. With PayPal the accounts are held in a fiat currency, with Libra the account is held instead in a previously defined "average currency" (currency basket) of existing fiat currencies. Also the PayPal currency is a kind of "stablecoin", pegged 1 to 1 to the given currency (Euro, Dollar etc.) How would the Libra be judged if the accounts were not held in Libra but in a fiat currency? Is this difference really decisive from a regulatory point of view?

Conclusion: On the basis of the official documents on the Libra available to date, classification as e-money is obvious and there are so far no well-founded counterarguments.

Also the PayPal currency is a kind of "stablecoin"

Implications for Libra being seen as e-money

What would be the requirements for the Libra payment system, classified as e-money? You will find the main results see table 2.

Everything indicates that the Libra concept already meets the requirements or that the Libra Association is ready to meet the regulatory requirements of e-money. Only the choice of Switzerland as the seat of the Libra Association outside the EU will become a major obstacle, at least for the dissemination of the system in the EU.

Switzerland has not adopted EMD2. Under the following conditions, the issuance of e-money in Switzerland is not considered to constitute a deposit business which would be subject to licencing requirements.[23]

- the funds received are intended to be transferred
- to a means of payment or a payment system,
- they may only be used to purchase goods or services,
- the e-money balance per customer is limited to a
- maximum of CHF 3,000,
- there is no interest.

Under these conditions, the Libra Association could avoid the requirement of a license as a credit institution. In contrast to issuers in the rest of the EEA, however, e-money issuers in Switzerland do not have a

European passport. The problem could be solved by licensing the Libra Association in an EU member state. Facebook Payments International Ltd. has already been approved in Ireland as an e-money institution (EMI) since July 2018. It could also be conceivable for Libra resellers to be approved as EMIs in one or more member states.

The Libra-System would fit into the EU regulatory landscape for e-money. There is no sign that Libra wants to bypass prudential supervision and oversight.

On the contrary, "*The Libra Association will continue to work with regulators and policymakers to ensure that it complies with all applicable legal and regulatory requirements.*"[24]

It is so far incomprehensible why the EBA and the ECB are of the opinion that the existing regulatory framework for e-money would not be applicable. Is it right to speculate that the regulators would like to use the Libra as a pretext to extend or tighten the existing regulation?

Table 2

Requirements for e-money (EMD2	Quotes from White Paper (including sub-papers) and Testimony of David Marcus (Hearing US Senate)	
Licensing of the issuer as credit institution or as e-money-institution within the EEA	"*The Libra Association expects that it will be licensed, regulated, and subject to supervisory oversight. Because the Association is headquartered in Geneva, it will be supervised by the Swiss Financial Markets Supervisory Authority (FINMA).*" (Marcus p. 4)	?
Issuing at par value on the receipt of funds (Art. 11)	"*On the user side, for new Libra coins to be created, there must be an equivalent purchase of Libra for fiat and transfer of that fiat to the reserve.*" (The Libra Reserve, p. 1-2)	✓
Redemption at any moment and at par value of the monetary value of the electronic money held (Art. 11)	"*authorized resellers will always be able to sell Libra coins to the reserve at a price equal to the value of the basket*" (p.8)	✓
Safeguarding of received funds by the issuer in secure, low-risk assets (Art. 7)	"*The actual assets will be a collection of low-volatility assets, including bank deposits and government securities in currencies from stable and reputable central banks.*" (The Libra Reserve, p. 2)	✓
Full compliancy with EU AML/CTF-requirements	"*The Libra Association will continue to work with regulators and policymakers to ensure that it complies with all applicable legal and regulatory requirements.*" (Marcus, p. 4)	✓

The 1 million euro Wirecard-Aldi deal

(hg) On July 19, a press release issued by acquirer Wirecard led to a surprise in the payment industry. Wirecard and Aldi (North and South) signed a MOU (Memorandum of Understanding), whereby Wirecard takes over the acquiring business for the card payments of the international brands (credit and debit cards).

In addition, further cooperation between these companies is being examined. It is presumed that this news led to a 5.5% increase in the price of Wirecard shares on that day.

Our Comment:

On the German market, Wirecard has recently risen to become the third-largest acquirer. For 2017, its market share in this market is estimated at 19%. Concardis and Payone still occupy first and second place respectively. This ranking could change in the future as a result of the Aldi deal. So far, Wirecard has mainly been active as an acquirer in the e-commerce business. Wirecard continues to play an insignificant role in the card presence business (physical POS). The Aldi deal shows that Wirecard intends to expand in this market segment.

In the German press, the press release was partly enriched with adventurous figures. The most curious news came on July 20 from the renowned business newspaper Frankfurter Allgemeine Zeitung (FAZ): "*The business should generate far more than 100 million euros for the group*". The FAZ made the following calculation:

- Aldi-turnover: approx. 30 b. euro (2018)
- Thereof made by card payments: 12.45 b. euro (41.5% based on EHI-Retail Institute as average for German food discounter)
- Revenue range: 1.4 to 1.7% (average as indicated by Wirecard)
- Total revenues of the Aldi deal: 174 to 212 m. euro

With these figures, it was no wonder that the share price rose sharply. Let's take a closer look at the figures. The share of cards in food discounter is 41.5%, but this figure includes sales with the domestic systems "girocard" and "ELV". As Wirecard is not yet licensed as a network service provider for the domestic card scheme, these transactions will be not processed via Wirecard. The press release is clear and unequivocal: Wirecard will only become acquirer for card transactions with the international brands (Visa, Mastercard, V PAY, Maestro, etc.). According to EHI, this share is only 3.5% (instead of 41.5%). Transactions made with Amex cards must still be deducted from this amount.

Obviously, it is not only the "Financial Times" that is struggling with correct reporting on the Wirecard business.

The Aldi card turnover, which ends up at Wirecard as acquirer, is therefore approx. 1 b. euro. It can be assumed that the Aldi deal will be based on "Interchange + Scheme Fees + Acquirer Margin". Accordingly, the net-revenues for Wirecard are not 1.4 to 1.7%, but a maximum of 0.1% (acquirer margin). One can certainly assume that the purchase department of Aldi can calculate and negotiate well and has therefore probably negotiated a price below 0.1% with Wirecard. This reduces the Wirecard revenues calculated by the FAZ from EUR 174 to 212 million to a maximum of 1 million euro. Obviously, it is not only the "Financial Times" that is struggling with correct reporting on the Wirecard business.

The Aldi deal increases Wirecard's worldwide transaction volume (124.9 b. EUR in 2018[25]) by 0.8% (approx. 1 b. EUR). Does this justify a price increase of 5.5% of the Wirecard-stock? The message behind the deal is decisive: Wirecard is attacking the established acquirers in the German card presence business. They should dress warmly!

Letter to the editor

Re: SEPA for cards: rising from the dead (edition 5/2019)

Thank you for the review and apt comment regarding SEPA for cards in the last edition of your Report. From my point of view the article however lacks an idea of a market driven direct debit solution, which came up once during the discussion of interchange fee caps: an European SEPA-ELV.

The EMV chip, present on all of our European payment cards, already contains a data field that is reserved for the IBAN. In this field the account details for each (debit) card could be stored. The account data has been standardized throughout the EU. Notwithstanding this field has not yet been consistently filled throughout the SEPA region.

Why not? This field is even available for virtual cards contained in smart devices, which makes it usable across channels. The ELV service providers would be satisfied with a simple obligation for all European issuers to store the IBAN belonging to each (debit) card in the corresponding data field. This should be set at least for (debit) cards issued within the EU and would be sufficient to win an anchor point for an European payment alternative. In particular in this way, ELV (which has a proven track record in Germany) could be implemented as an EU-wide and cost-efficient alternative to the established card schemes. This includes different variations of ELV with or without an additional service to secure the transactions against payment defaults.

We expect the implementation of a pan-European SEPA-ELV service to have positive impact on the commercial competition as well. Once SEPA-ELV has been implemented the interchange fees and other scheme fees of established card schemes would have to be competitive with the market prices offered for ELV by payment service providers and by payment guarantee providers for the secured variant, which is expected to be advantageous for merchants and ultimately for consumers (when leading to lower prices).

Even the logo for an EU-wide rollout of ELV is already available:

SEPA
Direct Debit

The SEPA Direct Debit (SDD) scheme is the basis for ELV, already common and easy to use throughout the EU, based on the well matured SEPA Direct Debit Core Rulebook maintained and published by the European Payments Council.

So if one is still looking for quick results - why striving at SCT-INST without taking into account options already available? In regards to SCT-INST, we still have to find technically feasible and user-friendly solutions for the POS, which implies that there will potentially be a large number of different solutions in place. On top of this, there is the risk of a lack of interoperability between various individual concepts now in development. Moreover, all solutions are likely to be tied to smart devices. Even though payers in the EU have only recently taken the step to contactless payments, with respect to mobile phone usage for payments at the POS, payers are still skeptical.

On the basis of an European SEPA-ELV, it would be possible for every acceptance point / merchant to carry out the transaction via the much more cost-effective SDD, regardless of whether the payment is initiated with a smart device or by plastic-card. Also in conjunction with the application selection obligation (IF-VO) to opt for the more expensive branded card transaction.

At the German POS, ELV has been established even longer than the PIN-based counterpart ec-cash. With the will of the EU, it could be made available in the shortest possible time for all merchants within the EU. All that is required is the marginal obligation for issuing banks to 'occupy the IBAN field'.

ELV is also independent of the many standardization initiatives (EU) that have been running for years, e.g. for card payments. ELV is already covered by the SDD rulebook and hence a readily available scheme in Europe.

This SDD "highway" within the EU has been excellently paved. On a large scale (i.e. across countries), institutions such as PayPal already use this highway. ELV at the POS, on the other hand, is still confined to just one market: Germany – unfortunately and only due to the missing use of the already existing IBAN-field. Should we give ELV a chance to prove itself? We believe it's worth considering this available alternative as it has clear advantages for the EU market in comparison to mainly US-based payment schemes and operators especially from a commercial and technical point of view.

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Notes

1 An Introduction to Libra. White Paper From the Libra Association Members (https://libra.org/en-US/white-paper/?noredirect=1)
2 A useful list of the early comments can be found in: Beat Weber: Libra: A new competitor among international currencies?, SUERF Policy Note 85, July 2019.
3 See also Jemima Kelly: Facebook's Libra: blockchain, but without the blocks or chain, June 18, 2019 (https://ftalphaville.ft.com/2019/06/18/1560849057000/Facebook-s-Libra--blockchain--but-without-the-blocks-or-chain/)
4 Facebook: Coming in 2020: Calibra, June 18, 2019 (https://newsroom.fb.com/news/2019/06/coming-in-2020-calibra/)
5 For instance, Simon Lelieveldt has his doubts. See "Perspectives on (Ca-) Libra # 1: Getting rid of three smokescreens" (https://medium.com/@finhstamsterdam/perspectives-on-ca-libra-1-getting-rid-of-three-smokescreens-fb405a364625)
6 See Malte Krueger: Mobile Payments: The Second Wave, in: Górka, Jakub (ed.): Transforming Payment Systems in Europe, Palgrave Macmillan Studies in Banking and Financial Institutions, 2016, pp. 214-235.
7 In order to keep things simple, one might even consider using DCC, although it is expensive.
8 The SDR's value is based on a currency basket containing US Dollar, Euro, Chinese Yuan, Japanese Yen and Pound Sterling. See https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR
9 The Block: Bank of England's Mark Carney sees potential in Libra's "free and instant" payments but says regulators will not give it an "open door", June 19, 2019 (https://www.theblockcrypto.com/tiny/bank-of-englands-mark-carney-sees-potential-in-libras-free-and-instant-payments-but-says-regulators-will-not-give-it-an-open-door/)
10 https://www.finanzwende.de/kampagnen/no-libra-facebooks-waehrung-stoppen/?L=0
11 https://www.europarl.europa.eu/ep-live/en/committees/video?event=20190905-0900-COMMITTEE-ECON (about 10:52 AM)
12 https://www.coindesk.com/us-president-donald-trump-says-hes-not-a-fan-of-bitcoin
13 https://www.spiegel.de/netzwelt/web/libra-olaf-scholz-hat-grosse-bedenken-gegen-facebooks-digitalwaehrung-a-1277608.html
14 See „Vollgeld", virtual currencies and the idea of a cashless world, PaySys-Report No. 6 (August 2018)
15 Testimony of David Marcus, Head of Calibra, Facebook at the Hearing before the US Senate Committee Banking, Housing, and Urban Affairs on July 16 2019
16 See EBA, Report with advice for the European Commission on crypto-assets of 9 January 2019, p. 13.
17 In contrast to e-money, "*the main characterizing element of a crypto-asset is that it is not a claim on the either an issuer or a custodian.*" "*…it means that its value is supported only by the expectation that other users will willing to pay for it in the future, rather than by a future cash flow on which users can form their expectations*". ECB, Understanding the crypto-asset phenomenon, its risks and measurement issues, August 2019, Chapter 2.
18 See Wissenschaftliche Dienste des Deutschen Bundestages, Einzelfragen zur geplanten virtuellen „Währung Libra", 26 June 2019, WD 4-3000-090/19, p. 6-7.
19 See EBA, Report with advice for the European Commission on crypto-assets of 9 January 2019, p. 13 and HM treasury/FCA/Bank of England, Cryptoassets Tasksforce, Final Report of October 2018, p. 17.
20 For a more in-depth discussion about Libra and e-money, see https://paytechlaw.com/en/is-libra-e-money/
21 Yves Mersch, Money and private currencies; reflections on Libra, speech at the ESCB Legal Conference, Frankfurt, 2 September 2019.
22 https://moneyandpayments.simonl.org/2019/06/perspectives-on-ca-libra-1-first-we-get.html
23 See, FINMA, Rundschreiben 2008/3 Publikumseinlagen bei Nichtbanken (latest amendment of 26 June 2019)
24 Testimony of David Marcus, Head of Calibra, Facebook at the Hearing before the US Senate Committee Banking, Housing, and Urban Affairs on July 16 2019, p. 4
25 It is to be assumed that this transaction volume of 124.9 b. Euro relates to Wirecard's acquiring and issuing business. However, Wirecard's figures are contradictory, since in some reports Wirecard only allocates this volume to the acquiring business. See Presentation of the CEO Markus Braun at the Annual General Meeting 2019, p. 11 and 12; https://ir.wirecard.com/websites/wc/English/500/overview.html

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