



STUDY GROUP ON FINANCIAL MARKET REGULATION

NEASF

8TH MEETING REPORT

Opening remarks

On November 8, 2019, the eighth meeting of the Center for Advanced Studies on the Regulation of the National Financial System (NEASF) was held by the Center for Research in Law and Economics (CPDE) at Fundação Getulio Vargas' Rio de Janeiro Law School (FGV Direito Rio).

The main objective of NEASF is to help improve the regulation of the national financial system through research and analyses to diagnose bottlenecks and identify opportunities to enhance Brazil's financial sector. NEASF is made up of multiple stakeholders, including representatives of academia, the markets and government. Through debates and roundtable discussions, its members discuss important topics related to national financial system regulations, contributing to a broader understanding of the sector, trends, risks, potential regulatory gaps and their implications.

The subject chosen for the eighth meeting was "Technology, Selection and Adaptation in the Payments Market."

1. Open Banking in Brazil: First steps

The first session discussed open banking in Brazil. It was shown that digital transformations caused by open banking will affect the national financial system and in particular the payments system in the coming years. Aspects such as its definition, objectives, scope, regulatory issues and potential implementation challenges were discussed.

In order to understand the role of regulation and innovation in the payments market, a history of the Central Bank's work in this area was presented, emphasizing the institutional project to modernize retail payments that took place in 2002. This project culminated in the enactment of Law 12,865 of 2013, which regulates payment arrangements and institutions. As a result of the dematerialization of financial assets, in 2017 the Central Bank began to study financial asset registration regulations and procedures. As a result, in 2019 the Central Bank issued new rules to regulate the standardization, registration and use of receivables through payment mechanisms in Brazil.

In relation to 2018, participants discussed the need to create a regulatory framework regarding cybersecurity policy, the use of data in the cloud and the outsourcing of processing to fintechs, in order to ensure legal certainty within the financial system. In 2019, the agenda was dominated by two subjects: open banking and the structuring of "regulatory sandboxes."

Initially, open banking was conceptualized as the mandatory sharing of data, products and services, through the opening up and integration of institutions' platforms and infrastructure. The first session's participants highlighted that the main element of open banking is standardization, meaning the creation of a technological layer that facilitates access to and the exchange of customers' details, products and services between institutions, through an application programming interface (API).¹ In this regard, it was said that the function of open banking is to create a new open channel for access and interaction with financial institutions, encompassing bank branches, automatic teller machines and internet banking.

Thus, since the internet allows information to flow from one place to another, the current challenge in implementing open banking is to define standards for platforms and financial market infrastructure to connect. Participants mentioned the construction of communication channels and the importance of defining robust security mechanisms to permit the sharing of financial data.

¹ An application programming interface (API) is a set of technical specifications for computing that allows software programs or application platforms to be integrated and communicate data between them.

With regard to the consequences of the adoption of open banking in Brazil, participants highlighted the reduction in opportunity cost for financial institutions' customers, the definition of data ownership and decrease in distribution costs. It was mentioned that the opportunity cost for people to change financial service provider will fall as it becomes easier for institutions to share information. This is because it is currently expensive for financial service customers to leave an institution with which they have had a relationship for a long time, as this institution holds a lot of information about their financial life.²

Another highlighted point was recognition of customers as the owners of their data shared in open banking. Thus, customers' details and information regarding their payment transactions belongs to the customers of financial institutions. Therefore, the role of open banking is to implement the right to transfer this data between financial institutions and guarantee that customers have the right to decide on the transfer and use of their own data.

During the session, it was said that another possible positive consequence for customers is a reduction in the cost of distributing financial services. It was said that currently, the institution that provides a financial service and customer interface enjoys exclusivity. In other words, if a customer wants to access a financial service, the only way to access his or her capital is through the interface of the institution with which they have a relationship. Open banking will permit access

to financial services through other platforms, and not necessarily those owned by financial institutions, compiling customers' financial information.

As for possible transformations in relation to the functioning of the financial markets, it was said that one important component in setting interest rates is risk, and access to information affects an institution's ability to assess risk. Therefore, greater openness and access to more information through open banking will allow institutions, including new entrants, to make more accurate credit assessments. It was also said that facilitated access and price comparisons between institutions will boost competition in the national financial system by demanding improvements to the quality of products and services offered to customers. In addition, open banking will open up new possibilities for innovations in the market.

Participants discussed the possible paradigm shift in the provision of banking services, involving a transition from the traditional model of banking as a service (BaaS) to a new model in which financial services are provided through electronic platforms, which may or may not be developed by financial institutions (banking as a platform, BaaP).³ Furthermore, some financial institutions, in line with innovation trends in the financial markets, have started to offer services delivered by other providers through their in-person or electronic service channels.

² Regarding the importance of the past information of financial institutions' customers, see: PINHEIRO, A. M. R. C. or CASTELAR, Armando; MOURA, Alkimar. Segmentação e uso de informação nos mercados de crédito brasileiros. Available at: <<https://web.bndes.gov.br/bib/jspui/>>. Accessed on December 26, 2019.

³ In this emerging model for offering financial services, in theory, users will be able to access a certain electronic platform to hire services that have typically been provided by financial institutions or fintechs. Thus, the gateway to financial services will shift from traditional checking accounts to this electronic platform.

Regarding the process of regulating open banking in Brazil, the participants discussed the fact that the Central Bank is currently defining the regulatory framework, rules and technology to be used. They emphasized the selection of technology, given its potential for determining the success of open banking in Brazil. Depending on the technology used, each open banking request could in theory cost a fraction of a centavo or it could cost a lot more, thereby making it impossible for the market to develop. Likewise, technological solutions already exist to guarantee data security. Thus, while regulatory decisions on rules and the role to be played by each institution are important, the choice of technology is fundamental for the implementation of open banking in Brazil.

Although discussions about technology selection are still ongoing, the participants stressed that the challenges of open banking have technological solutions that already exist and are used in the market. Technology has the potential to permit data security, customer privacy and the efficient distribution of responsibilities across the functions of information storage and management at institutions involved in open banking, through records of what happens in the infrastructure.

It was also emphasized that one of the objectives of open banking is to promote better financial products and services, improving the efficiency of the national financial system. Open banking will also

enable the ending of asymmetries and the transformation of two inputs – customers' personal data and records of financial transactions – into commodities.⁴ The meeting's participants said that competition will tend to increase through the creation of new models for providing financial services following the "commoditization" of this information. It is believed that the establishment of a secure, simple and timely environment for the sharing of financial data, products and services will cause financial agents and customers to engage in the creation of open banking.

Another point highlighted was the customization of financial products or services, meaning the possibility of offering financial products or services that consider the characteristics, suitability and needs of each customer, based on analysis of data shared in open banking. It was also said that even if customers use several providers, they will be able to organize all the information about their financial products and services in a simple manner, in a single environment.

With regard to the scope of open banking, it was highlighted that the models adopted by other countries generally have three levels: the first concerns information about services provided and the structure of fees charged, without including customers' details; the second also encompasses information about customers' accounts, including transactional information; and the third involves transfers of funds in themselves.

⁴ In other words, sets of information about customers will be stored in a standardized way and it will circulate among different financial service providers.

Regarding the degree of regulatory intervention, participants noted five points: (1) partnerships formed by financial market players, to enable cooperation between them and further their goals; (2) standardization of APIs⁵; (3) the regulatory framework for the system's governance; (4) the establishment of minimum criteria for hiring third party service providers that are not subject to Central Bank regulations; and (5) the need for regulatory intervention. In the United States, for example, no regulations about open banking have been enacted, so private institutions have been allowed to make their own arrangements. The Chinese government has implemented open banking regulations, except in Hong Kong,⁶ where conditions for open banking to be adopted were determined together with market players and financial institutions were left to form partnerships as they see fit. In Brazil, the regulations will define the scope of mandatory rules, to whom the mandatory rules apply, responsibilities and control mechanisms.

As for the scope of data to be shared in open banking, participants mentioned the Central Bank's role in establishing four levels of information inclusion, based on the sensitivity of each item of information.⁷ The first level contains detailed data and information about institutions' products and services. The second level has data related to customers' records, such as their identification details and qualifications. On the third level, the data is related to customers' transactions and other past financial information. The fourth level contains services,

starting with payment and credit services. It was said that there will be a set of rules defining what will happen in each phase, and the market, through self-regulation, will then establish the standards to be used.

Regarding open banking participants, the mandatory participation of prudential conglomerates in segments S1 and S2 – considered to be donor institutions – was emphasized, as well as the need for them to have a standardized interface to report data to recipient institutions (the other institutions authorized to operate by the Central Bank). If a recipient institution wishes to take part in open banking by using a donor's interface, automatically, due to reciprocity, it must also be ready to share the information it holds.

Accordingly, the regulatory scope of open banking will be limited to institutions that are subject to the Central Bank's regulatory authority, as it is impracticable for the Central Bank to oblige an institution regulated by it to provide information to third parties that are not regulated by it. It was said that institutions authorized to operate by the Central Bank may enter into partnerships with unregulated third parties, but the regulations will define minimum criteria for the existence of these partnership contracts, with the aim of protecting the liquidity of the financial system and financial service customers.

Other points discussed were the legal regime to be adopted in open banking, self-regulation and the limits of the regulator's action in

⁵ APIs need to be standardized to make data sharing easier and more secure for all participants in open banking.

⁶ Despite being a special administrative region of China, Hong Kong has its own system of government and economy, allowing the implementation of open banking to be different there from in the rest of Chinese territory.

⁷ According to parts I to IV of item 5 of Central Bank Announcement 33,455 of 2019, these levels include: (i) data related to products and services offered by participating institutions (location of service points, product characteristics, contractual terms and conditions, and financial costs, among other things); (ii) customers' registration details (including name, parents' names and address); (iii) customers' transactional data (related to deposits, credit operations, and other products and services bought by customers, among other things); and (iv) payment services (including payment initiation, transfers of funds and payments for products and services).

structuring and implementing the system. Thus, it was understood that regulation will be responsible for delimiting some principles that will guide open banking. Therefore, regulation will set general parameters while self-regulation will standardize issues to be decided by financial system agents, such as technological standards, the security mechanism to be adopted by each institution and customer experience standards. Regarding the governance of self-regulation, it was said that this will be guided by norms, assisted and overseen by the Central Bank. In other words, the Central Bank will be entitled to participate and veto decisions made by participants.

It was said that the plan was to hold a public consultation by the end of 2019,⁸ issue regulations in the first half of 2020 and begin implementation work in the second half of 2020. It was stressed that the implementation of open banking is a process, which depends on the acceptance of society and customers, so the regulator and the market has will have to engage people in financial education.

Finally, the session's participants discussed the possibilities of establishing profitable relationships in open banking. The Law of Conservation of Attractive Profits⁹ was mentioned, as well as the possibility of making profits by offering platforms that are integrated with the client market. Therefore, there are opportunities to be exploited and institutions whose interface ensures the best customer experience will tend to win in this more com-

petitive market. It was said that models for providing banking services as a service (BaaS) and as a platform (BaaP) may coexist in harmony, depending on each financial institution's strategy. It was also said that established financial institutions and new players (fintechs) could seek higher profits from infrastructure with a broader customer base.

Considering the current ease of capturing data, the importance of old data to the financial industry was questioned, since current data tends to be better for comparing prices. It was argued that, for established institutions that have historically had access to information, access to new financial information may be trivial, but for entrants, open banking represents a significant change in terms of access to data and concrete comparison of prices, products and services, which could even reduce the cost of credit.

The meeting's participants also discussed points of resistance perceived by the financial sector. In this regard, it was noted that the Central Bank's approach is to liaise with financial institutions and other agents it is responsible for regulating in order to discuss the scope of open banking to be adopted in Brazil and to reduce these points of resistance.

From the perspective of technology, challenges involved in defining the regulatory standards to be adopted were discussed, given the risk that the solutions presented could quickly become outdated. Thus, it

⁸ On November 28, 2019, the Brazilian Central Bank announced Public Consultation 73, about the adoption of open banking in Brazil. For more information, see: <<https://www3.bcb.gov.br/audpub/DetailharAudienciaPage?2&pk=322>>. Access on December 6, 2019.

⁹ According to Christensen and Raynor (2003), the Law of Conservation of Attractive Profits states that there is a necessary juxtaposition of modular and interdependent interfaces and "commoditization" and "de-commoditization" processes, to optimize the performance of things that are not yet good enough. This law establishes that when modularity and "commoditization" cause attractive profits to disappear in a given part of the supply chain, the opportunity to make attractive profits from other products generally arises in another part of the supply chain.

was stressed that the regulations could define principles, requirements and tools, but they should avoid formulating solutions that may only be useful at the time they are enacted. It was argued that regulations ought to be neutral in relation to the stage of technological advancement at the time of their adoption and self-regulation should make decisions related to customers' consent, authentication and confirmation in open banking.

It was said that in Latin America's digital payments market,¹⁰ the level of payment transaction rejections due to the inability of one of the ecosystem's participants to authenticate the transaction is approximately 33%, and out of approved transactions, there are also fraud attempts. The challenges of how technologies will resolve authentication and security issues are fundamental, as at the moment, their costs are already being paid by the end users of the payment system. It was also stressed that data leakage usually results from acts by service providers outside the financial system. In this regard, it was said that customer authentication will be at the discretion of the institution donating the financial data, which will use the same security policy approved by the Central Bank. It is possible that regulations will establish definitions regarding the activities carried out by each financial agent in open

banking, in order to facilitate the identification of the agent that will have civil liability for any harm caused.

The Central Bank's role in the governance of open banking self-regulation was questioned. For example, who would have the legitimacy to participate in and coordinate the self-regulatory process? Thus, it was said that the governance of this process should be addressed in regulations, including governance structure. Given concerns about problems that customers may experience in the ecosystem, it was emphasized that self-regulation will define standard mechanisms for resolving customers' demands, including among open banking participants.

The session's participants also discussed the following open banking-related subjects: (1) the importance of customers' experience in the payments system; (2) free pricing of fees by institutions that provide financial services; and (3) the possibility of adopting economic incentives for: (a) financial agents to seek to optimize the system; and (b) the holders of financial data (customers) to authorize its sharing with financial institutions in open banking.

¹⁰ The digital payments market may be defined as encompassing any transactions that not performed at the point of sale (remote transactions), whether through electronic means (e-commerce) or mobile devices (m-commerce). These transactions contrast with face-to-face transactions. For more information about the digital payments market in Brazil, see Policy Paper 02/2019, published by NEASF: "An overview on the Brazilian digital payment system," available at: https://diretorio.fgv.br/sites/diretorio.fgv.br/files/u4091/direito_rio_policy_paper_7_neasf.v2.pdf. Accessed on January 8, 2020.

2. The Payments Market in the vision of financial institutions

The second session addressed the topic of the payments market in the vision of financial institutions. To begin with, a timeline of the last decade in the Brazilian payments markets was constructed, divided into three phases.

The first phase, called “construction,” was characterized by investments in infrastructure with high entry costs, such as electronic card acceptance equipment, placing Brazil in second place in the ranking of countries with the most points of sale and pin pads. As a result, the country reached approximately 44 devices per 1,000 inhabitants and around 9 million point of sale clients. Through investment in technology and security, roughly 98% of cards had a chip by 2016, while 2% had a magnetic strip – a complete reversal of the ratio seen 10 years earlier. In the first phase, vertical market integration, instability in the domestic economy and light regulation of the payments market were all notable.

The second phase, named “consolidation,” began in 2010, with the end of exclusivity between payment arrangements and acquirers. A regulatory framework was established by Law 12,865 of October 9, 2013, which enabled: (i) lower costs of market entry; (ii) competition between multiple players; and (iii) easier access to cardholders

and commercial establishments. During the session, it was emphasized that from 2009 to 2018, the merchant discount rate (MDR¹¹) for credit cards fell from 2.68% to 2.39% and the MDR for debit cards from 1.61% to 1.29% (approximate numbers).

The second session’s participants discussed how many card issuers, acquirers, payment coordination institutions, fintechs and payment services providers there are at the present moment, i.e. the end of the second phase of payments market development (“consolidation”). Innovation and security continue to be key terms for the market’s development, especially with regard to product portfolios, new technologies and the emergence of new models for the provision of financial services, as well as authentication solutions and chip-and-PIN technology¹². The essential participation of regulatory bodies, enabling Brazil to reach its current level of competition in the payments market, was noted.

The third phase, called “expansion,” which is yet to come, will be characterized by elements such as the consolidation of new players, competition between payment systems, fast technological evolution, cost reduction efforts, and disintermediation.¹³

¹¹ The merchant discount rate (MDR) is the percentage charged to commercial establishments by acquirers for processing payment transactions via credit and debit cards.

¹² Chips have replaced magnetic strips as a security mechanism for credit and debit cards, as they provide greater security in protecting data about transactions carried out. Unlike magnetic strips, chips encrypt the information stored in them.

¹³ Process through which one of the participants in a service provided over a network becomes unnecessary or is replaced by another participant.

The session also discussed the main events that have occurred every year in the payments market, focusing on those of legal and economic nature. The year 2009 was marked by the ending of existing exclusive contractual arrangements, culminating in a Cease and Desist Agreement between the Brazilian Antitrust Regulatory Agency (CADE) and payments market agents that had exclusive relations in the acquisition segment. Then, in 2010, acquirers started to capture and process payment transactions that had been exclusive until then. At the same time, in addition to contractual exclusivity, a lack of neutrality¹⁴ regarding network service providers was identified – a topic that was dealt with by a later set of regulations.

Law 12,865 of 2013 set out principles and concepts, such as interoperability,¹⁵ promotion of competition and non-discriminatory access. These principles served as the basis for all subsequent Central Bank regulations, which defined the concepts of payment arrangements, payment arrangement instigator, payment institutions, payment account and equity segregation by electronic money companies – all important points that supported the market's development.

The importance of Central Bank Circular 3,765 of 2015, which altered Central Bank Circular 3,682 of 2013,¹⁶ was highlighted, as it made some major changes in areas such as compensation and settlement in the scope of payment arrangements. At this moment, centralization in settlement chambers was determined. In turn, this centralization needed to be neutral and it could not involve any other type of service competing with those provided by payment arrangement participants. Central Bank Circular 3,765 of 2015 also introduced the concepts of home institution and payment arrangement participant, giving institutions greater security in their commercial relations. It also established an objective criterion for the application of part of the regulations regarding participation, in relation to closed payment arrangements, particularly the criterion for accumulating more than R\$20 billion in total value of transactions in the last 12 months (part III of article 15 of Central Bank Circular 3,682 of 2013). Clearer and more objective criteria were also determined in relation to interoperability, whether inside a payment arrangement or between different arrangements controlled by different institutions.¹⁷

¹⁴ This refers to the obligation of the payment arrangement instigator to not discriminate against institutions that participate in the payment arrangement. Thus, it is forbidden for the instigator to obtain an undue competitive advantage for itself, or for an arrangement participant, and to act with the objective of harming competition between participants in the arrangement.

¹⁵ Interoperability is the mechanism that uses compatible technologies to enable communication between systems, to ensure the flow of resources between different payment arrangements (interoperability in transactions between arrangements) or to ensure that different participants in the same arrangement interact in a non-discriminatory way (interoperability in a payment arrangement's internal transactions).

¹⁶ Central Bank Circular 3,765 of 2015 altered Central Bank Circular 3,682 of 2013, mainly including: (1) clearing and centralized settlement of electronic credit or debit orders between financial institutions and/or payment institutions that are participating in the same payment arrangement (articles 25 to 27); and (2) rules for interoperability between payment arrangements and between participants in the same arrangement (articles 28 to 30).

¹⁷ Such as which rules and procedures must be followed by participants, the prohibition of different treatment between payment transactions carried out, the attribution of equal rights and duties for all participants that provide the same activity in the scope of the payment arrangement, and the need to formalize a contract defining interoperability between different arrangements.

It was observed that during the first phase of regulation, the Central Bank restricted its action to structures and possible limitations that hindered the development of the payment system as a whole. In this regard, it was stressed in the session that the change in credit card billing dynamics would have improved cardholders' financial situation.¹⁸ Under the new model, implemented by CMN Resolution 4,549 of 2017, revolving credit can be used only once for a credit card balance. In other words, if there is a remaining balance the following month (after the subsequent invoice expires), this amount can be financed through a credit line for payment in installments, provided that the conditions are more advantageous for the customer.

The meeting's participants also discussed credit backed by receivable collateral from payment arrangements and the relationship between commercial establishments and financial institutions. It was said that in recent years, the multilateral system (Guarantee Control System or SCG) went through adaptations. Then, in 2018, CMN Resolution 4,707 made some temporary modifications in relation to receivables from payment arrangements. The definitive regulations were issued in 2019, through CMN Resolution 4,734 and Central Bank Circular 3,952, which will come into effect on August 3, 2020.¹⁹

The concepts introduced by these regulations define registration entities²⁰ as centralizing entities that will register all receivables that make up the receivables agenda sent by acquirers. The acquirer will send the registration entity the receivables agendas, containing information such as how a receivables unit²¹ is identified, how it is built and whether it is divisible, among other things. The concept of interoperability also stands out, as a set of electronic systems to permit communication between different registration entities in order to guarantee access and exchange of information between market participants.

It was said that registration entities are now working to build this model, and other entities have asked to participate in this. The concept of "lien" establishes the mechanism that will replace the home lock as a guarantee instrument for credit operations contracted by commercial establishments. Therefore, institutions, financial or otherwise, that use payment arrangement receivables as collateral for credit operations, may request a lien for these units, and the acquirer will be responsible for settling this operation in accordance with the established lien.

¹⁸ Until April 2, 2017, cardholders were allowed to only pay the minimum amount on their credit card bill, indefinitely, thereby creating the possibility of exponential debt growth.

¹⁹ For more information about the alterations made by CMN Resolution 4,734 of 2019 and Central Bank Circular 3,952 of 2019, see Policy Paper 01/2019 published by NEASF. Available at: <https://direitorio.fgv.br/sites/direitorio.fgv.br/files/u3781/policy_neasf_06.pdf>. Accessed on December 12, 2019.

²⁰ A registration entity is an organization authorized to function by the Central Bank that operates a system for registering financial assets (article 2, part VIII of CMN Resolution 4,734 of 2019).

²¹ A receivables unit is a financial asset composed of payment arrangement receivables, including receivables arising from pre-contracted prepayment operations, characterized by the same: (1) CNPJ or CPF number as the recipient end user; (2) payment arrangement identification; (3) identification of the acquiring or sub-acquiring institution; and (4) settlement date (article 2, part III of Central Bank Circular 3,952 of 2019).

Regarding the possible challenges of expansion in the third phase, the multiplicity of existing services was discussed. Some large players are already seeking to move this process forward, particularly in terms of closed payment arrangement models.²² Regulators' concern about risks related to electronic systems and credit liquidity due to the growing number of new entrants should guide their performance. There was also a discussion on disintermediation of arrangement institutors in two-sided markets (those composed of a payment arrangement institutor, cardholders, issuers, acquirers and commercial establishments) and the possibility of European financial institutions coming together to form an instant payment arrangement to compete with traditional payment arrangements.

Regarding the third phase (expansion), interoperability between agents in the payments market was also highlighted, particularly in light of the entry of big tech and internet companies. It was concluded that the exploratory scenario presented in the third phase is still marked by uncertainty about what will happen in the coming years.

The significance to the payments market of Bill 4,729 of 2019 was also mentioned. This bill presents a model for transferring resources received from paying end users and those sent to receiving end users, and it establishes that the resources received from paying end users by payment arrangement participants, intended to pay receiving end users, may not be classified as part of these participants' assets. The bill offers the legal certainty that industry participants need by ensuring the receipt of resources

by arrangement participants but without interfering negatively in market dynamics. Therefore, the sector is confident that this legislation will promote its growth.

The session also discussed difficulties in addressing the issue of interest in the courts, because to understand this subject, first of all one must understand what a financial institution is, as defined by Brazilian legislation. Thus, the need for the Brazilian judiciary to distinguish between financial institutions and payment institutions was discussed, as there seems to be a tendency to equate them for the specific purpose of charging interest.

The possibility of the payment accounts to surpass the current bank accounts as bank addresses was observed, in the context of Central Bank Circular 3,765 of 2015, given the existence of institutions that provide both bank accounts and payment accounts (digital accounts and wallets). It was highlighted that, currently, several years after Central Bank Circular 3,765 of 2015, there are still difficulties in the market, including to settle payment transactions in payment accounts. This is a subject of ongoing discussion within the sector.

Regarding the regulator's activities, improvements to retailers in the payments market were discussed. The limitation on interchange fees in debit card transactions (Central Bank Circular 3,887 of 2018) and the registration of receivables from payment arrangements as a guarantee of credit operations (CMN Resolution 4,734 of 2019) were mentioned.

²² In a closed payment arrangement, electronic money management or, cumulatively, account management, issuance and accreditation of payment instruments are controlled: (1) by only one payment institution or financial institution, which is owned by the same payment arrangement institutor; (2) by a payment institution or financial institution that controls the payment arrangement institutor or is controlled by it; or (3) by a payment institution or financial institution that has the same controlling shareholder as the payment arrangement institutor. An open payment arrangement is one in which access to all payment services (electronic money management, account management, issuance and accreditation of payment instruments) is free.

The session's participants also discussed the impact of the introduction of Libra²³ in international financial and payment markets. Libra is a kind of stablecoin, meaning a cryptocurrency whose volatility is controlled by Libra Networks II S.à.r.l.²⁴ Libra promises to be a means of payments based on a new decentralized blockchain network. Its value will be backed by liquid and low-risk financial assets designed for ordinary users. It was recalled that the announcement of the launch of this cryptocurrency triggered central bank warnings in numerous countries, since the creation of this digital currency (by the world's largest social network) could affect the monetary sovereignty of each state. The meeting's participants also discussed the legal and economic nature of Libra in Brazil, and whether it would be considered a foreign currency or a crypto asset without any legal classification.²⁵ Such issues warrant attention, since the emergence of a stablecoin like libra could cause the local currency to be replaced in domestic use, given its strong local reach.

The participants reflected on the impacts of CMN Resolution 4,549 of 2017 on the payments market, including the example of the transformation of users' consumption via credit cards. Customers were previously subjected to the application of compound interest on revolving credit and they can now pay back their debts in several credit card installments. The market has adopted these credit card installments, allowing purchases to be financed

over longer periods by the card issuer itself, and customers are shown the interest rate when they make purchases. On this point, the session's participants said that the idea behind this measure was to reduce the impact of rotating credit card interest. This will reduce the tendency of exponential growth in customers' debts and promote the adoption of less costly lines of credit.

Differences in the use of credit cards in Brazil compared to other countries were also mentioned. This instrument is mainly used here as a means of payment, since approximately 75% of cardholders pay their invoices in full, while in other countries the proportion is exactly the opposite – credit cards there are used as a financing instrument by customers, including revolving credit and installments.

Still regarding the credit card market, the possible consequences of limiting interchange fees were discussed, as well as the chance that this measure could cause a reduction in the prices of products charged to customers (in light of studies in countries that have adopted this limitation). Some potential losses were raised as a result of this measure, such as a loss of benefits to credit cardholders, the difficulty of offering credit cards without an annual fee and the low attractiveness of this business market to new entrants. The possibility of increasing the acquirers' collection rate was indicated as one of the possible advantages of such a limitation.²⁶

²³ For more information, see: <https://libra.org/en-US/wp-content/uploads/sites/23/2019/06/LibraWhitePaper_en_US.pdf>. Accessed on December 12, 2019.

²⁴ For more information, see the trade records of Libra Networks S.à r.l. in the Swiss Official Gazette of Commerce. Available at: <<https://www.shab.ch/shabforms/servlet/Search?EID=7&DOCID=1004624965>> Accessed on December 27, 2019.

²⁵ NEASF's third meeting discussed the legal and economic classification of cryptocurrencies. For more information, see: < https://diretorio.fgv.br/sites/diretorio.fgv.br/files/u2726/relatorio_neasf_v_final.pdf>. Accessed on December 10, 2019.

²⁶ For more information, see CARBÓ-VALVERDE, Santiago; CHAKRAVORTI, Sujit; RODRIGUES-FERNANDEZ, Francisco. The Costs and Benefits of Interchange Fee Regulation: An Empirical Investigation. Available at: <

Finally, regarding changes already under way in the Brazilian payments market, a change in the provision of financial services was noted, including the significant influence of new payment technologies. The session's participants discussed the possibility of instant payments replacing a large share of cash, debit and credit card payments, due to the speed and ease with which transactions are cleared and settled. (The average expected time for settlement of transactions in the instant payments ecosystem is 12 to 20 seconds.)



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