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## Press Release

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### NEW SCHEME FOR CREDIT CARD MERCHANT FEES

#### **BACKGROUND**

Merchant fees on credit card transactions have been charged based on a sector-basis since the merchant fee scheme was first introduced in 1978. However, the sector-based fee scheme has been under criticism that the criterion is unclear and unreasonable. With the widening gap in merchant fees between large retailers and small merchants, it has been continuously argued whether the fee scheme is fair and appropriate.

In an effort to overhaul the fee structure, the FSC made revision to the Credit Finance Business Act in March 2012, providing the legal grounds for revising the credit card merchant fee scheme for the first time since 1978.

#### **NEW SCHEME FOR CHARGING MERCHANT FEES**

Since then, a task force made up of market participants and the academia came up with the following new scheme.

Credit card companies shall charge reasonable fee rates to each individual merchant, following the basic principles and standards proposed by the FSC.

Large retailers<sup>1</sup> are prohibited from asking credit card companies unfairly low fee rates, taking advantage of their dominant power. They are also forbidden from asking any kind of compensation in return for paying merchant fees to credit card companies.

For small merchants with annual revenue of up to KRW 200 million, the preferential fee rate of 1.5% will be charged, compared with the current rate of 1.8%.

#### **EXPECTED OUTCOMES**

As the sector-based merchant fee scheme is changed to an individual merchant-based fee schemes, we expect merchant fees will be charged in a fair and reasonable manner.

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<sup>1</sup> Merchants with annual card sales revenue of more than KRW 100 billion



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Under the new rules, 96% out of 2.2 million merchants in total will be charged lower fee rates. The gap in merchant fees between large and small merchants will be reduced from the current 3%p to 1%p.

As fee rates charged to small merchants are significantly cut, 68% out of 2.2 million merchants will benefit from lower rates.

Card companies will refrain from excessively issuing credit cards and expanding businesses.

#### UPCOMING SCHEDULE

- Legislative notice of revision of the Enforcement Decree and Supervisory Regulation of the Credit Finance Business Act and Best Practice Guidelines by July 2012
- Preparatory work for implementation of new rules by December 2012
- Preferential rates for small merchants will be introduced in September on a voluntary basis.

Emkay Kim  
Foreign Press Spokesperson  
Foreign Press Relations  
Financial Services Commission

Tel: +82-2-2156-9582  
Fax: +82-2-2156-9589  
E-mail: [emkaykim@korea.kr](mailto:emkaykim@korea.kr)

Soomi Kim  
Foreign Press Spokesperson  
Public Affairs Office  
Financial Supervisory Service

Tel: +82-2-3145-5803  
Fax: +82-2-3145-5808  
E-mail: [soomi.kim@fss.or.kr](mailto:soomi.kim@fss.or.kr)