

Consultation paper

Proposed approach to Specific Direction 3

Pausing the requirement for
a competitive procurement

December 2024

We welcome your views on this consultation. If you would like to provide comments, please send these to us by **5pm on 21 January 2025**.

You can email your comments to PSRNPA@psr.org.uk or write to us at:

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We will consider your comments when preparing our response to this consultation.

We will make all non-confidential responses to this consultation available for public inspection.

We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. If you want to claim commercial confidentiality over specific items in your response, you must identify those specific items which you claim to be commercially confidential. We may nonetheless be required to disclose all responses which include information marked as confidential in order to meet legal obligations, in particular if we are asked to disclose a confidential response under the Freedom of Information Act 2000. We will endeavour to consult you if we receive such a request. Any decision we make not to disclose a response can be reviewed by the Information Commissioner and the Information Rights Tribunal.

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www.psr.org.uk/publications/consultations/cp24-13-proposed-approach-to-specific-direction-3/

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1 Executive summary

- 1.1** The circumstances surrounding the New Payments Architecture (NPA) programme have significantly changed.¹ As a result, we are considering a new approach to the procurement of central infrastructure for Faster Payments. This document outlines our approach for consultation.
- 1.2** Through this approach, we are seeking to achieve the continued operation and resilience of Faster Payments, the appropriate regulatory oversight, and progress towards our intended outcomes for infrastructure. These are:
- better access
 - greater innovation
 - increased adaptability
 - reduced financial crime
 - improved competition, including alternatives to cards such as account-to-account retail payments.
- 1.3** The change in circumstances and the resulting delay mean that Pay.UK is no longer able to meet the deadline in our Specific Direction 3 (SD3)² that it must migrate all Faster Payments transactions to competitively procured infrastructure by 1 July 2026. This is outside Pay.UK's control.
- 1.4** Because of the delay, we recognise that the current Faster Payments central infrastructure will likely be operational for significantly longer than previously expected. Pay.UK's current Faster Payments contract was last renewed to broadly align with the current SD3 deadline. There is therefore a need for action to ensure continuity of service. Pay.UK will need to extend these contracts to achieve this.
- 1.5** We asked Pay.UK to consider what enhancements or upgrades can be delivered within the current Faster Payments central infrastructure. Pay.UK has provided a proposal which includes enhancements which have the potential to allow progress towards our key outcomes.
- 1.6** Pay.UK's proposal provides us with some reassurance that enhancing current infrastructure can help progress towards our desired outcomes and the direction provided in the recently published National Payments Vision (the Vision).³ Pay.UK announced its cancellation of the NPA procurement following the publication of the Vision and our response.⁴ It will proceed

1 In our March 2024 letter, we referenced these circumstances as '...regulatory processes being ongoing, the uncertainty and delay created by the government announcing its intention to consider the NPA's role as part of the National Payments Vision and Pay.UK's subsequent decision to pause the NPA programme.' PSR, [Letter to Pay.UK on NPA work programme](#) (March 2024). In addition, since then, the National Payments Vision has been published and Pay.UK has cancelled the NPA procurement.

2 [Specific Direction 3](#) (July 2018)

3 [National Payments Vision](#) (November 2024)

4 '...in light of the Vision's direction on payments infrastructure, it is now our intention to consult on changing our obligations on Pay.UK in relation to the New Payments Architecture.' PSR, [The PSR's response to the National Payments Vision](#) (November 2024)

with its new approach to enhancing Faster Payments and delivering next generation infrastructure.

- 1.7** We will continue to monitor closely as Pay.UK develops its proposed approach, particularly in relation to account-to-account retail payments. We propose to impose a non-objection decision point on Pay.UK before it agrees to any new, or extended, contract for the provision of Faster Payments central infrastructure services. In addition, we propose to review our regulatory approach in response to this changed position. We expect to add additional principles to those already included for Pay.UK and its central infrastructure provider in our 2021 Regulatory Framework. These will address the enhanced monopoly risks regarding price, quality, and innovation, due to the absence of competitive procurement for the foreseeable future.
- 1.8** Due to the delay associated with the changed circumstances, Pay.UK's new proposed approach, and the direction provided in the Vision, we propose to vary SD3 to remove the current migration deadline and consult on replacing it with an express reference to our ability to notify Pay.UK of a new deadline, to be used if it becomes appropriate. Any new deadline would not be before 1 July 2036, and we will take account of certain criteria before deciding to notify Pay.UK of a new deadline. This approach should enable Pay.UK to develop its proposed approach further, and to make steps towards delivering our desired outcomes. This is predicated on mitigations such as regulatory non-objection points at appropriate times and taking a regulatory approach which reflects the current situation.

Next steps

- 1.9** We are seeking views by 21 January 2025 on:
- our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline
 - the proposed criteria that we will take into account when deciding on a new SD3 migration deadline
 - our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one
 - the drafting of SD3b (varying SD3) including removing reporting requirements and expanding reference to the NPA to include new infrastructure and upgrades that would not otherwise be covered by the definition of NPA⁵
 - potential enhancements to our Regulatory Framework in light of the changed circumstances.
- 1.10** We plan to publish our decision in Spring 2025, once we have considered the views we receive. As part of that decision paper, we will include a timeline for consulting on and then finalising the enhanced Regulatory Framework, which we expect to happen in 2025.

⁵ SD3 defines the NPA as the "proposed new architecture for certain regulated payment systems, known as the simplified payments platform, as set out in the [Payment Strategy] Forum's November 2016 document, '[A Payments Strategy for the 21st Century](#)'"

2 Introduction

This chapter sets out:

- the background to the NPA programme
 - the reasons for changing our policy approach
 - the scope of our proposed changes
-

Background

- 2.1** In 2016, we published the final findings of our market review⁶ into the ownership and competitiveness of the infrastructure that supports three major UK interbank payment systems: Bacs, Faster Payments, and LINK. We found no effective competition for the provision of UK payments infrastructure for these three systems. Therefore, in 2017, we gave Specific Directions (SD) SD2, SD3, and SD4 to the operators of Bacs, Faster Payments and LINK respectively. These directions required the operators to migrate all transactions over those systems to competitively procured infrastructure by specified deadlines.
- 2.2** In 2017, the Payments Strategy Forum published its blueprint for a New Payments Architecture (NPA) and proposed the creation of a new operator to deliver it. This operator became Pay.UK. Pay.UK's approach to complying with SD3 was to competitively procure the central infrastructure for the NPA.
- 2.3** In 2021, our monitoring of Pay.UK's work and analysis of information it provided relating to delivery risk, identified unacceptably high risks that its NPA programme would not provide value for money and could delay or prevent the delivery of the benefits we expected from the NPA. We therefore consulted on altering SD2 and SD3 to require Pay.UK to phase the development of the NPA by narrowing the scope of the central infrastructure services contract to focus on Faster Payments in the first instance. After considering the views we received, we removed the deadline for Bacs in SD2 and replaced it with an ability to notify the operator of a deadline. We have not yet exercised this ability. In parallel, SD3's migration deadline of 30 June 2023 was extended to 1 July 2026. We implemented these changes by giving SD2a and SD3a.

6 PSR, [Final Report: Market review into the ownership and competitiveness of infrastructure provision](#) (July 2016)

2.4 In 2022, Pay.UK published a request for proposal for the provision of central infrastructure for the NPA. In 2023, for assurance purposes, it submitted information to us on how the NPA programme would support our outcomes. These are:

- better access
- greater innovation
- increased adaptability
- reduced financial crime
- improved competition, including alternatives to cards such as account-to-account retail payments.

2.5 In August 2023, we agreed that the information provided sufficient assurance about the NPA programme at that point in time. We advised that we did not object to Pay.UK continuing with its programme plans.⁷

Reasons for changing our approach

2.6 The Future of Payments Review (also known as the Garner Review) was published in November 2023. It reported that it 'heard significant concerns relating to NPA delivery' and that 'now is an appropriate time to consider a reset in the relationships [between regulators and industry] and a new approach to working together.' It also recommended the creation of a National Payments Vision. The government's response to this review set out that the Vision would consider priorities for UK payments and the role of the NPA. In the meantime, Pay.UK paused the NPA programme.

2.7 In March 2024, we wrote to Pay.UK recognising the changed circumstances surrounding the NPA programme as being: 'regulatory processes being ongoing, the uncertainty and delay created by the government announcing its intention to consider the NPA's role as part of the National Payments Vision and Pay.UK's subsequent decision to pause the NPA programme'. Our letter acknowledged that, due to the delay imposed by these recent events, the current Faster Payments central infrastructure would likely need to be operational for significantly longer than originally expected. We asked Pay.UK to consider what enhancements or upgrades can be delivered within the current Faster Payments central infrastructure in order to further our desired outcomes (see paragraph 2.4).

2.8 In June 2024, Pay.UK responded with a proposal including enhancements which have the potential to advance our outcomes. It proposes a modular approach considering the market for potential technology vendors at each stage. The approach covers both Faster Payments and Bacs, but importantly Pay.UK has recognised that it should prioritise Faster Payments first. We expect a Bacs Strategy to follow. This approach aligns with our outcomes as it is Faster Payments that benefits relating to access, innovation and an alternative to cards can be realised. The Bank of England's September 2024 'direction of travel' non-objection decision demonstrated its support for Pay.UK's short-term proposals on Faster Payments and Bacs from a resilience and financial stability perspective.

⁷ PSR, [Letter to Pay.UK on result of latest New Payments Architecture assurance point](#) (August 2023)

- 2.9** Pay.UK's proposal provides us with some reassurance that enhancements on current infrastructure can help deliver our desired outcomes. However, this is an area we will continue to monitor closely as Pay.UK develops its proposed approach. This is particularly the case in relation to enhancements which support account-to-account for retail payments. In addition, we propose to impose a non-objection decision point on Pay.UK before it agrees to any new, or extended, contract for the provision of Faster Payments central infrastructure services, and to review our regulatory approach in response to this changed position.
- 2.10** Subsequently, the Vision was published in November 2024. It emphasised the importance of innovation, security and competition as key pillars for the payments ecosystem, underpinned by strong foundations – including an effective regulatory framework and resilient infrastructure to support innovation. It also calls for 'a more agile and flexible approach to delivering the UK's infrastructure needs.' Our proposed approach to SD3, alongside Pay.UK's approach to infrastructure renewal, aims to meet the Vision's call for resilient infrastructure as well as enabling enhancements which support our ambition for competition and innovation outcomes. Further, the Vision explicitly calls out the government's desire for seamless account-to-account payments to be developed for retail. This aligns with our own desired outcomes. We will continue to engage with Pay.UK to ensure that already identified enhancements, such as changes to help address existing constraints around 'Certainty of Fate' for payments sent via Faster Payments, are made to the existing infrastructure in the near term (2025), to support our and the Government's desire in this area.
- 2.11** Pay.UK announced its cancellation of the NPA procurement shortly after the publication of the Vision and our response,⁸ which announced our intention to 'consult on changing our obligations on Pay.UK in relation to the New Payments Architecture.' It will proceed with its approach to upgrading infrastructure as submitted to, and reviewed by, the PSR and the Bank of England.
- 2.12** In summary, the delay associated with the changed circumstances (regulatory approvals remaining outstanding, the government's consideration of the NPA in the NPV, and the resulting pause of the NPA programme), means Pay.UK cannot meet its SD3 obligation and it is appropriate for us to change our approach to SD3. In addition, Pay.UK's proposed new approach for enhancing and upgrading the current Faster Payments central infrastructure and the direction provided in the Vision mean we consider that our proposed approach we are consulting on is proportionate and effective in:
- progressing our outcomes
 - supporting the Vision's aspirations
 - addressing concerns expressed by industry (as per the Garner Review).
- 2.13** This is so long as robust mitigations are in place. These include regulatory non-objection decision points at appropriate times and a regulatory approach which reflects the current situation.

8 PSR, [The PSR's response to the National Payments Vision](#) (November 2024)

Summary of our proposal

- 2.14** We propose to remove the migration deadline for competitive procurement in SD3 and replace it with express reference to our ability to notify Pay.UK of a new deadline. We would notify Pay.UK of this new deadline in writing if it becomes appropriate to do so. Any new deadline for migration to competitively procured infrastructure would not be before 1 July 2036. We are also consulting on the criteria we will take account of before deciding to notify Pay.UK of a new deadline.
- 2.15** We also propose to require Pay.UK to seek our non-objection before extending the existing Faster Payments central infrastructure contract or entering into a new one.
- 2.16** We recognise that the absence of competitive tension generated by a tender process and exacerbated by long term contracts for central infrastructure, increases the risks associated with monopoly supply. In addition, the horizontal and vertical risks that we initially identified in our 2016 market review remain (see paragraph 2.1.) We will therefore assess the appropriate regulatory approach to these changed circumstances, including our understanding that Pay.UK will work with the current supplier to deliver infrastructure upgrades. Our approach will likely build on the principles of our 2021 Regulatory Framework with appropriate enhancements that reflect the material change in approach to procuring services (see Chapter 4).
- 2.17** However, we still expect Pay.UK's proposals for enhancing and modernising infrastructure to advance our desired outcomes, with a clear timetable for implementation which reflects their urgency. This includes enhanced fraud fighting capabilities and enabling new account-to-account propositions. We expect Pay.UK, as a responsible operator, to have regard to the importance of competition when designing its supplier arrangements generally. Pay.UK can still voluntarily procure services competitively but, until a new deadline is set, it is not an obligation under SD3.
- 2.18** The deadline to respond to this consultation is 5pm on 21 January 2025.
- 2.19** Following this consultation, by Spring 2025, we intend to publish our policy statement that will contain our decision on SD3, alongside a final version of the direction we would give to Pay.UK. We also intend to publish a consultation on our enhanced Regulatory Framework in 2025.

3 Our proposal: pausing the requirement for a competitive procurement under SD3

This chapter sets out:

- our proposal to remove the current 1 July 2026 deadline from SD3, replacing it with an express reference to our ability to notify Pay.UK of a new migration deadline
 - that we would notify Pay.UK of a new deadline in writing if appropriate, and that it would not be before 1 July 2036
 - the criteria that we would take into account before deciding to notify Pay.UK of any new deadline for SD3
 - our reasons for recommending this approach, and the alternative options that we have considered
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Our proposed approach to SD3

Summary

- 3.1** We propose to give a new Specific Direction (SD3b) to vary SD3.⁹ This will remove the deadline by which all Faster Payments transactions must be processed over infrastructure provided under a competitively procured contract. We are also consulting on replacing it with express reference to our ability to notify Pay.UK of a new deadline. Pay.UK can still voluntarily procure services competitively, but it is not obliged to do so under SD3 until a new deadline is set.
- 3.2** We propose to include an explicit ‘not-before’ date, to provide certainty that a new deadline for a completed migration to competitively procured infrastructure will not be before 1 July 2036.
- 3.3** We recognise that Pay.UK, as the operator for Faster Payments, will need sufficient lead time to meet any new deadline. We would take account of such lead time when setting any deadline.
- 3.4** We propose to consider certain intend to include criteria that we would take into account before deciding to notify Pay.UK of a new deadline. These would help us determine whether competitive procurement is appropriate and achievable by a certain deadline.

⁹ The [consolidated version of Specific Direction 3](#) sets out what it would look like if varied in accordance with the draft SD3b.

3.5 Additionally, given the implications of this changed approach, we propose to require Pay.UK to seek our non-objection before extending the existing Faster Payments central infrastructure contract or entering into a new one (other than to comply with any deadline for a competitive procurement we may have notified under SD3). This includes the ability for us to attach conditions to our non-objection decision. Alongside the enhancements to the 2021 Regulatory Framework, this recognises the monopoly risks arising from a Faster Payments contract extension(s) which has not been subject to a competitive procurement and ensures our regulatory interests have been appropriately taken into account (see paragraph 2.4) We can also request further non-objection decision points should we consider it necessary.

Not-before date

3.6 The current SD3 deadline for migration in this cycle is not feasible for the reasons set out in Chapter 2.

3.7 We propose including a 'not-before' date to provide certainty regarding the earliest date that we might set as a new deadline to complete migration to competitively procured infrastructure, if it becomes appropriate.

3.8 We propose that the future deadline for a completed migration can be set to fall on or after 1 July 2036, if it becomes appropriate to set a date, but not before. This would be ten years from the current SD3 deadline of 1 July 2026.

3.9 We would be able to notify Pay.UK of a new deadline before the 'not-before' date, provided the deadline itself falls on or after 1 July 2036. Before deciding whether to set a new deadline, we would take into account relevant information such as the criteria proposed in paragraph 3.13. These criteria will help us determine if setting a new deadline is appropriate, and if a given date on or after 1 July 2036 is achievable as a deadline.

3.10 We need to allow sufficient lead-in time for Pay.UK to reach any new deadline. The period between our notification of any new deadline and its successful completion needs to allow for design, procurement, vendor selection, implementation and full migration. The appropriate lead in time will be determined as part of the decision to notify Pay.UK of a new deadline for completed migration.

3.11 Removing the deadline for at least 10 years from the current deadline should provide sufficient time to allow for the benefit of any investment in the current system to be realised. It also provides regulatory certainty.

3.12 This is consistent with the current approach within SD3 which follows the principle set in our 2016 Market Review of central infrastructure procurements being held on 10-year cycles. This review found that 10-year cycles between procurements delivered value for supplier and procurer, while maintaining the benefits of a competitive procurement.

Criteria to take into account before notification of a new deadline

- 3.13** When deciding whether to set a new migration deadline, or what that deadline should be, we will consider relevant information. The criteria that we consider likely to be key are:
- the needs of end users, and the economic, technological and commercial landscape
 - the state of the supplier market
- 3.14** Understanding these criteria, amongst other relevant information, will allow us to determine the possibility and suitability for competitive procurement.

Other proposed changes to SD3

- 3.15** We propose to amend SD3 to add a requirement for Pay.UK to seek our non-objection before entering into a new contract or extending their current one with Vocalink – other than to comply with any deadline for a competitive procurement we may have placed on them under SD3. We expect Pay.UK to approach these contract negotiations with a clear understanding of the monopoly risks involved. This requirement will allow us to maintain an oversight role in the process to address these risks. We propose to include the ability for us to attach conditions to our non-objection decision where necessary. This would allow us to consider Pay.UK's mitigation of the monopoly risks arising from any Faster Payments contract extension, and help us ensure our regulatory interests are appropriately considered (see paragraph 2.4).
- 3.16** We propose to remove the current reporting requirements in SD3. These require Pay.UK to report quarterly on its progress with the competitive procurement. This change reflects that there would be no live deadline for competitive procurement. We do not propose to include any specific reporting requirements if we notify Pay.UK of a new deadline. We consider that monitoring Pay.UK's compliance is best done under our general monitoring of its work. This will allow for issues to be identified, and considered, as a result of ongoing engagement rather than with quarterly reports. Our General Direction 1¹⁰ requires participants and regulated persons to have an open and cooperative relationship with us and to notify us of anything of which we would reasonably expect notice. Further, we can issue notices requiring information or documents to be provided to us.
- 3.17** SD3 defines the NPA by reference to the Payment Strategy Forum's 2016 document *A Payments Strategy for the 21st Century*.¹¹ We recognise the risk that this is now out of date, particularly given the changed circumstances. We propose to vary SD3 to make clear that a reference to the NPA includes any upgrades and new infrastructure that might not be covered by the 2016 definition of that term. This would mean, for example, that these upgrades and new infrastructure would be expressly relevant to issues around our ability to non-object to a new or extended central infrastructure contract. Similarly, to avoid outdated references, we propose making clear that the requirement to consider the Forum's work under paragraph 2.5 of SD3 only applies as relevant.

10 [General Direction 1](#) (March 2020)

11 PSR, [A Payments Strategy for the 21st Century: Putting the needs of users first](#) (November 2016)

Summary of proposed changes to SD3

- Replace the 1 July 2026 deadline with express reference to our ability to notify Pay.UK of a new date, which will not be before 1 July 2036
- Include an explicit provision for us to take account of relevant information when deciding to set a new deadline
- Require Pay.UK to seek our non-objection in order to extend their current contract or enter into a new contract
- Include the ability for us to attach conditions to any non-objection decision
- Remove Pay.UK's reporting requirement
- Expand the 2016 definition of the NPA

Alternative options

3.18 This section summarises two main alternative options that we have considered, and the reasons why we have not progressed them.

Revoking the competitive procurement requirement in SD3

3.19 We could revoke the competitive procurement requirement in SD3 as a legal obligation completely. Potentially, we could restrict Pay.UK's discretion to renew long term contracts. This would be a significant policy change deviating from the recommendations in the 2016 Market Review, that we currently do not consider justifiable. The Review identified that competitive procurement for central infrastructure 'is likely to benefit service-users by introducing the potential for more efficient and innovative service offerings than are available under the current arrangements.'¹² We remain committed to competitive procurement in the long-term, so it is appropriate to retain the potential for competition if market conditions allow it.

Extend the SD3 deadline

3.20 We could set a new migration deadline sufficiently far in the future for Pay.UK and Vocalink to agree an extension with enhancements to the current contract.

3.21 Mechanisms such as Sections 4 and 5 of SD3 could allow us to do this, provided we determined the test around 'implementation' or 'exceptional circumstances' was met.

12 PSR, [Final Report: Market review into the ownership and competitiveness of infrastructure provision](#) (July 2016) page 6, paragraph 1.18

3.22 However, even if either of those tests are met, this option limits our flexibility in the face of evolving circumstances. Compared to our proposed approach, it would allow us less ability to address our desired outcomes and the need for monopoly regulation. We would have to set a new deadline without clarity on the deliverability of Pay.UK's proposals on Faster Payments or sufficient certainty that competitive procurement will be feasible at a precise date in the future. Therefore, this approach risks creating an obligation which Pay.UK cannot meet. It is also less transparent than making the changes to the direction itself.

Other considerations

3.23 We are required to comply with the Public Sector Equality Duty under section 149 of the Equality Act 2010. We do not consider that the proposals in this paper and draft SD3b, will affect the matters we have had regard to in accordance with our duty.

3.24 As required under section 62 of the Financial Services (Banking Reform) Act 2013, we have considered whether it would be more appropriate to proceed under the Competition Act 1998 rather than to give the proposed SD3b. When we gave SD3 we considered it was the best way to address the issues affecting competition we had identified. We consider that maintaining the regulatory framework established by SD3, but adapting it for the changed circumstances, is the most effective way to achieve our ambitions for Faster Payments central infrastructure. We propose, therefore, to vary SD3 by giving SD3b.

4 Other considerations: Regulatory Framework

This chapter sets out:

- an overview of the current NPA Regulatory Framework, as published in December 2021
 - the implications of the changed circumstances
 - our initial thoughts on potential enhancements to the Regulatory Framework to better reflect the changed approach to the procurement of central infrastructure services
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4.1 As outlined in Chapter 2, in light of the changed circumstances, we are proposing to remove the deadline in SD3 by which Pay.UK must have migrated all Faster Payments transactions to competitively procured infrastructure, and to consult on a proposed new approach. Removing this deadline would enable Pay.UK to engage directly in negotiations with the incumbent central infrastructure provider, Vocalink, to extend the current Faster Payments contract. However, engaging directly with the incumbent provider significantly enhances monopoly, horizontal, and vertical risks (described further below). To address these risks, we intend to implement appropriate enhancements to the 2021 Regulatory Framework. This chapter outlines our initial views and invites feedback on the enhancements we consider likely to be best suited for an updated framework. These include, for example, the need for transparency and ‘benchmarking’ of Vocalink costs, profitability and performance. We will seek further input on more developed enhancements in 2025.

Summary of the 2021 Regulatory Framework

Purpose of the Framework

4.2 The NPA Regulatory Framework¹³ was designed to mitigate the risks to competition and innovation once the NPA becomes operational. Through a series of consultations between 2020 and 2021^{14,15}, we gathered stakeholder feedback on our risk assessment and the proposed measures to address them. We identified three types of risks:

- **Monopoly risks:** A central infrastructure provider might not have strong incentives to control costs and margins or improve services, leading to higher central infrastructure user prices and inferior service quality for central infrastructure users.
- **Horizontal competition risks:** If a central infrastructure provider (or an affiliate) has a significant interest in another payment system, it could try to give an unfair advantage to that payment system to the detriment of the NPA.

13 PSR, [Regulatory framework for the New Payments Architecture central infrastructure services](#) (December 2021)

14 PSR, [Competition and Innovation in the UK's New Payments Architecture: Call for input](#) (January 2020)

15 PSR, [Consultation on delivery and regulation of the New Payments Architecture](#) (February 2021)

- **Vertical competition risks:** If a central infrastructure provider (or an affiliate) has a significant interest in overlay services¹⁶, it could have an unfair advantage over other providers of similar services.

4.3 To address these risks, the Regulatory Framework established requirements for both Pay.UK and the central infrastructure provider. These requirements are outcome-based: Pay.UK or the central infrastructure provider must implement them using the processes specified in the Framework.

4.4 The Regulatory Framework set out our reporting and monitoring process expectations. These included requirements that both Pay.UK and the central infrastructure provider would require our approvals in advance for their respective initial compliance statements regarding their implementation of the Framework's outcome-based principles.

Our requirements of Pay.UK

4.5 In our 2021 consultation, we proposed five specific mitigations and two governance principles that would apply to Pay.UK. We subsequently consolidated these principles into a single set of six requirements for Pay.UK to ensure that central infrastructure provision effectively supports competition and innovation within the NPA.¹⁷

These six requirements are that Pay.UK must:

1. be the primary interface and decision-maker for central infrastructure provision
2. set central infrastructure user prices, and do so using a methodology that has regard to certain pricing principles¹⁸ and is subject to our non-objection
3. set the rules and standards for central infrastructure, and ensure that these facilitate competition and innovation
4. ensure that central infrastructure facilitates innovation and competition
5. ensure that a central infrastructure provider does not use or disclose to any other party, including its affiliates, information and data for anything other than central infrastructure provision
6. in a timely manner, make available to the market information and data concerning the provision of central infrastructure that would help facilitate competition or innovation

16 In the NPA context, an overlay service would be a service or solution that is not provided as part of the central infrastructure. There are two types of overlay services. Market overlays are delivered by third parties and use the central infrastructure or its data. Account overlays support end-users in initiating or receiving payments without using the central infrastructure or its data. PSR, [Consultation on delivery and regulation of the New Payments Architecture](#) (February 2021) Chapter 2

17 PSR, [Regulatory framework for the New Payments Architecture central infrastructure services](#) (December 2021) Chapter 3

18 The central infrastructure user prices should: broadly reflect incurred costs over the life of infrastructure; incentivise utilisation of the NPA; not distort competition in services to end users; be transparent and predictable; and adapt to changes in market conditions – including central infrastructure provider costs and competition. PSR, [Regulatory framework for the New Payments Architecture central infrastructure services](#) (December 2021) Chapter 4

4.6 Alongside these requirements, we specified that Pay.UK would be required to publish an initial compliance statement setting out how it intends to meet these obligations, followed by an annual compliance statement thereafter. It must inform us of any material decisions or changes to its operations that affect its compliance.

4.7 These requirements were designed to reduce the ability and incentive of a central infrastructure provider to distort competition in the NPA.

Our requirements of a central infrastructure provider

4.8 The Regulatory Framework also established requirements for a central infrastructure provider. These are designed to mitigate risks that it could favour itself or an affiliate to the detriment of the NPA. We determined that if a central infrastructure provider or an affiliate has a significant interest in another payment system or in overlay services, its central infrastructure functions must be operationally separate from other parts of its own or the affiliate's business.

4.9 A central infrastructure provider that is subject to this requirement must demonstrate that its operational separation adheres to the following principles:¹⁹

- In providing central infrastructure, a central infrastructure provider does not unduly discriminate between participants and does not act in a way that gives other parts of its or an affiliate's business an unfair commercial advantage.
- Information received or derived by a central infrastructure provider from providing central infrastructure is not disclosed to or used by other parts of its or an affiliate's business.
- Provision of central infrastructure is not unduly influenced by a central infrastructure provider's or an affiliate's interest in providing services other than central infrastructure.

4.10 The central infrastructure provider will be required to submit an initial compliance statement of detailed proposals for implementing and monitoring our separation requirements. This should include any policy, handbook and relevant internal guidance documents that it intends to issue. It must also submit an annual report on its ongoing compliance with the separation requirements, including any compliance breaches and the remedial actions taken and planned. Both the initial compliance statement and the annual report will be subject to our non-objection.

4.11 Both these requirements and those imposed on Pay.UK were designed to reduce the ability and incentive for any central infrastructure provider to act in a way that distorts competition or limits innovation.

Impact on our regulatory approach

4.12 The 2021 Regulatory Framework was based on our assessment of the available information on the risks to competition and innovation arising from the behaviour of a central infrastructure provider. The key components of that Regulatory Framework, which we anticipated formalising in Specific Directions, were 'principles-based' requirements which we considered appropriate to the circumstances at the time.

¹⁹ PSR, [Regulatory framework for the New Payments Architecture central infrastructure services](#) (December 2021) Chapter 5

- 4.13** However, we were aware that we were publishing the Framework at an early stage of the NPA's development. The precise design of the NPA and the identity of the central infrastructure provider were among various unknown factors. We therefore acknowledged the possibility of future modifications. In our 2021 policy statement²⁰, we indicated that if we identified new risks or a change in circumstances, we would consider introducing different or further regulation.
- 4.14** Further to our proposal in this paper to remove the migration deadline under SD3, and following Pay.UK's cancellation of the current procurement process, we expect that Pay.UK will engage directly with the incumbent provider to extend the current contract. This lack of competitive procurement significantly enhances the monopoly, horizontal and vertical risks that we identified in our 2021 policy statement.
- 4.15** Given the changed circumstances and lack of competitive procurement at this time, we find it necessary to revisit the principles-based requirements outlined in the 2021 Regulatory Framework. The risks posed by the material change in approach to procuring services require us to adjust our response accordingly. Our regulatory approach would, therefore, likely build on the principles of the 2021 Regulatory Framework with appropriate enhancements.

Potential enhancements to the 2021 Regulatory Framework

- 4.16** This section sets out potential enhancements to the Regulatory Framework in light of the changed circumstances. Our objectives of promoting competition and innovation have not changed, but the monopoly, horizontal and vertical risks have changed in the absence of competitive procurement.
- 4.17** The rationale for the Regulatory Framework to address the long-identified monopoly, horizontal and vertical risks remains essentially intact. However, the context is now different: the competitive procurement for a central infrastructure provider that the Framework assumed and required is no longer currently achievable.
- 4.18** We expect that an updated Regulatory Framework will take the existing one as the starting point, with appropriate enhancements to reflect the changed circumstances. We will consider detailed proposals for these changes in light of Pay.UK's progress in achieving our desired outcomes and developing its technology and sourcing strategies during 2025. We will also consider how Pay.UK and the wider industry are working to achieve the objectives set out in the National Payments Vision, particularly around competition and innovation.
- 4.19** We expect to consult on an updated Regulatory Framework in 2025. This consultation will likely be accompanied by draft directions for implementing the Framework. We will issue these when Pay.UK's technology and sourcing strategies (among other factors) are sufficiently clear.

²⁰ PSR, [Regulatory framework for the New Payments Architecture central infrastructure services](#) (December 2021)

- 4.20** We are currently considering adding additional principles to those listed in the Framework to address the enhanced monopoly risks regarding price, quality and innovation. Such additional principles required for any extended or new central infrastructure contracts would likely include:
1. an additional requirement on Pay.UK to mitigate monopoly risks
 2. an additional requirement on the incumbent central infrastructure provider, Vocalink, to demonstrate efficient pricing and quality
 3. explicit requirements on Pay.UK and Vocalink to support innovation
- 4.21** Example wording for requirement 1 could be that Pay.UK must *'recognise and attempt to mitigate the monopoly risks, to both price and quality, that are inherent in the incumbent central infrastructure provider's position'*. Pay.UK would then have to provide us with an initial compliance statement setting out how it intends to comply with the requirements, followed by annual compliance statements. This would already be expected of Pay.UK with respect to the other six requirements (see paragraph 4.5).
- 4.22** Pay.UK would likely implement requirement 1 through procurement, contracting, supplier management and other measures. In addition to contractual mitigations and protections, this would be expected to result, for example, in significant transparency and benchmarking of the incumbent provider's costs, profitability and performance.
- 4.23** Example wording for the complementary requirement 2 could be that Vocalink must, in providing central infrastructure services, *'seek to ensure and demonstrate that it does so at economically efficient price and quality levels, reflecting the outcomes that might be expected if it were subject to competitive constraints.'* Vocalink would also then have to provide us with an initial compliance statement setting out how it intends to comply with the principles, followed by annual compliance statements. This would already be expected of Vocalink with respect to the other three requirements (see paragraph 4.9).
- 4.24** Regarding requirement 3, Pay.UK would already be subject to innovation requirements as contained in the list of six requirements from Chapter 3 of our December 2021 Regulatory Framework (see paragraph 4.5). It would also now have the additional requirement from point 1 above. We would now, therefore, expect to add an additional, explicit innovation principle just to the list of principles for Vocalink. This would be designed and specified in due course to fit effectively with industry developments further to the National Payments Vision and with Pay.UK's development of mechanisms for working with its participants and the wider sector in the changing circumstances regarding central infrastructure.
- 4.25** Furthermore, in addition to requirements 1 to 3 above, we would note that Chapter 5 of our December 2021 Regulatory Framework was written to cover generically any and all potential future central infrastructure providers. However, the changed circumstances mean that there may only be one such provider (the incumbent, Vocalink) for several more years.
- 4.26** Further to that December 2021 publication, we were engaged in extensive discussions with Vocalink in 2022 and 2023 regarding how it would plan to implement the requirements of Chapter 5 of our Regulatory Framework if it were to be successful in any bid to be a NPA central infrastructure provider.²¹ Due to the progress we made specifically with Vocalink at that time, it may no longer be necessary for us to refer explicitly to a generic list of 'generally

21 Just as we were also engaged both with Pay.UK (regarding the requirements in Chapters 3 and 4 of the Regulatory Framework) and with any other potential central infrastructure provider that also requested such discussions.

expected' elements of operational separation. We could instead (as in the Illustrative Directions²² published alongside our Regulatory Framework in 2021) rely on explicitly listing the principles with which Vocalink must comply.

- 4.27** Any potential changes in requirements should be reflected in the initial compliance statements from Pay.UK and Vocalink, and in their ongoing annual reports. This would allow both parties to develop their implementation processes in the most appropriate way based on the specific circumstances at the time, subject to our non-objection.

Next steps

- 4.28** We welcome views on the potential enhancements to the 2021 Regulatory Framework in light of the changed circumstances. We are still at an early stage of formulating these changes, and your comments will inform our assessment of potential mitigations to the increased monopoly risks.
- 4.29** We intend to publish a more detailed timetable for the consultation on the updated Regulatory Framework in a policy statement finalising our decision on SD3.

22 PSR, [Regulatory framework for the New Payments Architecture central infrastructure services: Annexes and illustrative directions](#) (December 2021) Annex 3b

5 Consultation and next steps

5.1 We welcome comments on varying SD3 and potential enhancements to the Regulatory Framework. We are particularly interested in views on the questions below.

Consultation questions

1. What are your views on our proposal to replace the current deadline in SD3 with an express reference to our ability to notify Pay.UK of a new deadline?
2. What are your views on our proposal to require Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one?
3. What are your views on the criteria we will take account of before deciding to notify Pay.UK of a new deadline?
4. What are your views on the drafting of SD3b (varying SD3) including the removal of reporting requirements and expanding the 2016 definition of the NPA?
5. What are your views on the potential enhancements to our Regulatory Framework in response to the changed circumstances?

Next steps

- 5.2** We are asking for feedback on the issues set out in this consultation by **5pm on 21 January 2025**. We continue to welcome feedback from all stakeholders and interested parties, not only those entities that we regulate.
- 5.3** You can provide feedback by emailing us at PSRNPA@psr.org.uk. Please provide your response in a Microsoft Word document format, or similar format, rather than as a PDF.
- 5.4** You can also write to us at:
- PSR NPA project team
Payment Systems Regulator
12 Endeavour Square
London
E20 1JN
- 5.5** We will make all non-confidential responses available for public inspection. If your submission includes confidential information, please also provide non-confidential version suitable for publication.
- 5.6** After the consultation closes, we will consider all the feedback we receive before publishing our final statement of policy in Spring 2025.
- 5.7** We are continuing to review our Regulatory Framework and any enhancements or amendments that could be required in future. Responses will inform our next stages. We plan to consult on and then finalise the enhancements in 2025. A timetable will be published alongside our decisions on SD3.

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