

A new regulatory framework for payment systems in the UK



November 2014

Foreword

Payment systems are the means by which people and institutions move money. They are vital to the smooth running of the UK economy. They underpin our day-to-day lives from high value payments between firms, to receiving your pension into your bank account.

The way we spend, move and manage our money is changing radically driven by consumer demand, innovative business models and new technology.

As the first Managing Director of the Payment Systems Regulator, my aim is to ensure UK payment systems are truly world class. We will do this by pursuing our three objectives: to promote competition, to promote innovation, and to ensure that payment systems are developed and operated in the interests of service-users.

We intend to open up the payments industry, making it easier for a wider range of parties to access payment systems, and compete and innovate around them. We propose to take control of the industry strategy-developing and setting process to increase the pace of change. And we will ensure the voice of service-users is more appropriately represented throughout decision-making processes.

The package of proposals published here is designed to achieve our objectives and is based on our strong competition and regulatory powers. It is critical that we work with industry, but we also expect to see changes in industry behaviour.

To ensure our proposals are proportionate and evidence-based, we have engaged extensively with a broad range of interested parties, holding over 170 meetings with 75 organisations in the last six months.

I hope this level of engagement continues throughout the consultation period and I welcome your feedback to the questions raised in this consultation.

Hannah Nixon



Managing Director
Payment Systems Regulator

We are asking for comments on this Consultation Paper by 5pm, Monday, 12 January 2015.

You can send your comments and responses to our consultation questions by email to PSRconsultations@psr.org.uk.

You can also respond in writing to the address below (although we ask all respondents to also provide electronic Word and PDF versions of their response).

Payment Systems Regulator
Consultation response team
25 The North Colonnade
Canary Wharf
London E14 5HS

We will publish all non-confidential responses to our Consultation Paper along with our final Policy Statement.

We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. Stakeholders who wish to claim commercial confidentiality over specific items in their response should make sure to fill in the cover sheet accordingly, and to identify those specific items which they claim to be commercially confidential by **highlighting them in yellow**.

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 in handling such a request. Any decision we make not to disclose a response is reviewable by the Information Commissioner and the Information Rights Tribunal.

You can download this Consultation Paper from our website: www.psr.org.uk

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Executive summary

Payment systems form a vital part of the UK's financial system. Payment systems underpin the services that enable funds to be transferred between people and institutions. They enable you to pay a deposit on a house, withdraw money from a cash machine, receive your salary into your bank account, pay by cheque, transfer money to friends and family via your smartphone and buy your lunchtime sandwich with your contactless payment card. Last year these payment systems processed some 21 billion transactions, worth more than £75 trillion.

The major payment systems in the UK are generally owned and controlled by the banks, which have developed them in an incremental manner, often on a collaborative basis. While this has led to relatively resilient payment systems, it has also led to a degree of inertia and concerns regarding ownership as well as competition and the pace of innovation, at least in the case of the interbank payment systems.

With the way people spend and transfer money evolving rapidly as technology changes, this approach is no longer fit for purpose. Our vision is for the UK to have world class payment systems. To achieve this, payment systems must:

- be **responsive** to, and focused on, the changing needs of service-users
- promote **innovation**, both technological and commercial, to meet future challenges
- enable **effective competition** between providers of payment services
- be **efficient, provide value**, and be easy and cost-effective to use and operate
- be **reliable**, secure, stable and predictable

We are consulting on a package of proposals designed to pursue this vision and drive real change in industry behaviour and focus. Our package will speed up the delivery of necessary innovation. It will build on the areas of strength in the sector while reducing barriers to competition and innovation that have arisen in others areas. Most importantly, it will bring an increased focus on the interests of service-users.

In developing our proposals, we have consulted extensively with a wide range of interested parties, including consumer representatives, payment system users, payment system operators (Operators), payment service providers (PSPs), providers of other related services and service-users. We would like to thank all those who have contributed to our thinking so far and we welcome further input in response to this Consultation Paper.

Background

The Payment Systems Regulator (PSR) was incorporated in April 2014 and will become fully operational in April 2015. The PSR is a subsidiary of the Financial Conduct Authority (FCA), but it is an independent economic regulator, with its own objectives and governance.

In setting up the Payment Systems Regulator, the Government highlighted four aims for UK payment systems:

- UK payment networks that operate for the benefit of all users including consumers
- a UK payments industry that promotes and develops new and existing payment networks
- UK payment networks that facilitate competition by permitting open access to participants or potential participants on reasonable commercial terms

and

- UK payment systems that are stable, reliable and efficient.

The Government's assessment was that there were problems in each of the first three of these areas, and that the best way to tackle these was to create a payment systems regulator. The Government noted particular areas of concern, including ownership, innovation and access to payment systems.

We consider that our package of proposals and regulatory framework includes significant actions that will deliver on these areas of concern identified by the Government. Taken together, we believe that our regulatory package will address the underlying issues and concerns that led the Government to setting us up. However, should our proposals fail to do this, we will review matters and we will consider further use of our competition and regulatory powers to take action as appropriate.

This Consultation Paper sets out the regulatory framework and policies that we propose to adopt in time for our full operational launch. It provides a high-level, accessible summary of our framework and policies. Those wanting greater detail should refer to the Supporting Papers.

What this consultation covers and who it is for

In this Consultation Paper we set out:

- our assessment of the key challenges the industry is facing
- our proposed regulatory framework including our policy proposals, regulatory approach, and how we will implement and enforce our requirements

This consultation is relevant to Operators, banks, building societies and other PSPs, service-users of UK payment systems including businesses, trade bodies, consumer groups and Infrastructure Providers. This consultation will also be relevant to other parties interested in UK payment systems, such as those offering or looking to offer innovative or other services using payment systems in the UK.

The Annexes to this Consultation Paper includes our Glossary, which explains the terms and expressions used; the proposed directions that give effect to our proposals; a Consultation Paper response sheet; a full list of consultation questions; and a detailed table of contents for the Consultation Paper and the Supporting Papers.

Who we will regulate

HM Treasury (the Treasury) will designate the systems that we will regulate. These will be the largest and most important payment systems which, if they were to fail or to be disrupted, would cause serious consequences for their users. The Treasury issued its consultation *Designation of payment systems for regulation by the Payment Systems Regulator* on 14 October 2014. It has proposed designating the main interbank payment systems, namely Bacs, CHAPS, Faster Payments Service (FPS), LINK, Cheque and Credit Clearing (C&CC) and Northern Ireland Cheque Clearing (NICC) and the two largest card payment systems in the UK, MasterCard and Visa. The Treasury is expected to reach its decision well in advance of our full operational launch in April 2015.

For each designated system, all the participants in that payment system will fall under our remit. Participants in a payment system include the Operator that manages or operates that system, the PSPs using that system, and the Infrastructure Providers to the payment system.

Our objectives

We have three statutory objectives. These are:

- to promote effective **competition** in the markets for payment systems and for services provided by those systems, including between Operators, PSPs and also Infrastructure Providers, in the interests of service-users
- to promote the development of and **innovation** in payment systems, in particular the infrastructure used to operate payment systems, in the interests of service-users
- to ensure that payment systems are operated and developed in a way that considers and promotes the **interests of service-users**

Our aim is to ensure payment systems and the regulatory framework operate in the best interests of service-users and the wider UK economy – promoting rather than constraining innovation and competition.

Our regulatory framework

In designing our regulatory framework, we have particularly considered the effectiveness of competition and innovation within the industry, and whether they work in the best interests of service-users. We have taken account of the specific characteristics of payment systems in the UK, the differences between payment systems, and the full range of our regulatory and competition powers.

It is clear to us that the ownership and control of payment systems, both at Operator and Infrastructure Provider level, have a significant impact on the effectiveness of competition and innovation, and also give rise to a number of stakeholder concerns.

When designing our regulatory framework to be a proportionate and effective means to further our objectives and achieve our vision, we have been particularly mindful of the risk of unintended consequences. Where ownership and control is the source of a concern, we have carefully considered the underlying issues and the best means to address them. This is particularly the case for not-for-profit Operators for which control of their rulebook is the key asset. In the case of Infrastructure Providers, different issues arise given their for-profit status. We believe our regulatory framework includes significant action which will deliver against the Government's aims and concerns relating to ownership, innovation and access set out earlier.

Our framework contains the following elements:

- A new proposed approach to industry **strategy development** to drive industry collaboration and deliver **innovation**.
- Specific proposals to address key concerns relating to **ownership, governance and control of, and access to, payment systems**.
- **Principles that set some high-level behavioural standards for industry participants** and underpin our proposals and also our future engagement with stakeholders.
- Detailed proposals relating to **monitoring, enforcement and dispute resolution**.
- **Market reviews** into the provision of Indirect Access to payment systems, and into the ownership and competitiveness of infrastructure provision.

In delivering this regulatory framework, we will apply our powers in a proportionate and appropriate way. We expect a 'no surprises' culture from industry participants. For our part, we will be deliberate, transparent and predictable in our actions, describing the outcomes we want and the timeframes and deadlines for achieving them.

As an economic regulator, our focus will be on making markets work well and our decisions will be underpinned by evidence.

We will review the impact of our policies against our objectives. Should we find that the outcomes we desire are not being achieved, we will take appropriate action, including using our divestment power.

We will also work with the FCA, the Prudential Regulation Authority (PRA), the Competition and Markets Authority (CMA), and other regulators. The FCA oversees market integrity, competition and conduct across the wider financial services industry. The FCA has already

announced that we will coordinate with them on work relating to Account Number Portability (ANP). The CMA announced on 6 November 2014 that it is launching its in-depth market investigation into the personal current account and small and medium-sized enterprises retail banking sectors – we will coordinate with the CMA on this. We will also work with the Bank of England, which oversees UK payment systems to ensure financial stability as well as managing the Real Time Gross Settlement system and operating settlement accounts. In addition, we have worked with Ofcom on a joint paper on innovation in UK payments.

Next steps

Our proposals are outlined in the table below, and our questions are included in the Supporting Papers (which provide details on our proposals) and in the Annex to this Consultation Paper. We welcome your comments by 12 January 2015 on our proposals as well as our planned future work.

We will consider your comments and expect to publish our final policies in a Policy Statement to be published by the end of March 2015, in readiness for our operational launch on 1 April 2015.

Our policy proposals

<p>1. Industry strategy (Supporting Paper 2)</p>	<p>We will take control of the strategy development and setting process to enable the UK to have world class payment systems – we will set up a new Payments Strategy Forum with broad representation of industry and service-users</p> <p>We will launch a market review into the ownership and competitiveness of infrastructure provision commencing by April 2015</p>
<p>2. Ownership, governance and control of payment systems (Supporting Paper 3)</p>	<p>We will open up governance and control of payment systems by involving additional players in more transparent decision making:</p> <ul style="list-style-type: none"> • all Operators will be required to ensure service-users are appropriately represented in decision-making • conflicts of interest will need to be addressed so that individuals are not simultaneously a director of an Interbank Operator and of a Central Infrastructure Provider to the same payment system • all Operators will be required to publish board minutes and votes <p>Operators will be required to report to us on compliance with our service-user direction annually</p>
<p>3. Direct access to payment systems (Supporting Paper 4)</p>	<p>Operators (of Bacs, C&CC, CHAPS and FPS) must have objective, risk-based, and publicly disclosed Access Requirements, which permit fair and open access</p> <p>LINK, MasterCard and Visa, which are already subject to an access rule under Article 28 of the European Payment Services Directive, must publicly disclose their Access Requirements</p> <p>All Operators must report to us on compliance with the relevant access rule applicable to them annually</p>
<p>4. Indirect access to interbank systems (Supporting Paper 4)</p>	<p>Sponsor Banks must publish information on the sponsor services they offer (including access criteria and processes)</p> <p>Industry will develop a PSR-approved Code of Conduct</p> <p>We will launch a market review into Indirect Access, commencing by April 2015</p>
<p>5. Interchange fees (Supporting Paper 5)</p>	<p>We will engage with relevant authorities on the proposed EU Interchange Regulation. If implementation is delayed we will consider taking action in the UK</p>
<p>6. Regulatory tools (Supporting Paper 6)</p>	<p>We will introduce Principles on our expectations of industry behaviour. Industry will work with us on a ‘no surprises’ basis, discussing significant developments with us in advance and on an ongoing basis</p> <p>We will issue Powers and Processes Guidance setting out our enforcement and complaints procedures, Guidance on our statutory Objectives, Penalties Guidance and our Administrative Priority Framework</p>

Note: NICC is exempted from our access and governance directions because of the limited scope of its activities

Overview

A.

Consultation Paper and process

1. This Consultation Paper sets out our proposals for a new regulatory framework for payment systems in the UK. Our package of proposals is designed to promote competition and innovation in payment systems and ensure that payment systems operate in the interest of service-users.
2. This Consultation Paper is intended to give stakeholders an understanding of our proposed approach and policies as well as background on the Payment Systems Regulator (PSR), the industry we will regulate and some of its key challenges.
3. There are several Supporting Papers to this Consultation Paper, which are available on our Consultation Paper web page. They contain more detail on our analysis and proposals, and set out our consultation questions in context.
4. This Overview is organised as follows:

- **Part A:** Consultation Paper and process
- **Part B:** The PSR, our vision and regulatory approach
- **Part C:** The industry, structure and challenges

The following parts outline our proposed approach:

- **Part D:** Payments industry strategy and areas for collaboration
 - **Part E:** Ownership, governance and control of payment systems
 - **Part F:** Access to payment systems
 - **Part G:** Interchange fees
 - **Part H:** Holding industry to account
 - **Part I:** How we will handle disputes
 - **Part J:** Next steps
5. Expressions and acronyms we use are defined as appropriate in this Consultation Paper and in our *Glossary*. Where expressions are capitalised in the text (e.g. 'Operator'), a more detailed definition is included in our *Glossary*, which is included as Annex 1 to our Consultation Paper.

6. A complete set of the consultation questions, the proposed directions that give effect to our policies, and a detailed table of contents for this Consultation Paper and for the Supporting Papers are included as Annexes to this Consultation Paper.
7. Our Equality Impact Assessment is provided in the Annex to *Supporting Paper 1: The PSR and UK payments industry*.
8. We commissioned several reports to give us further insight in specific areas. The full reports are available on our website (and are referenced in the detailed table of contents).

Consultation process

9. This Consultation Paper follows the March 2014 *Call for Inputs*. In response to this we received over 80 responses from stakeholders.¹ These responses outlined a number of areas of concern which we have explored further in a wide ranging stakeholder engagement programme held over the seven months since April 2014. This has included workshops, questionnaires and interviews.
10. The infographic below summarises our engagement with stakeholders since April 2014.
11. Our Consultation Principles set out our approach to how we will carry out public consultations, including our intention to act transparently and engage with our stakeholders to seek feedback on our proposals (see Annex 1 to *Supporting Paper 1: The PSR and UK payments industry*).
12. We will continue our stakeholder engagement throughout this consultation process with events, meetings and also interaction with our Statutory Panel (the Panel).² The Panel will have an independent chair and will include representatives nominated by service-users and participants in the payment systems industry.
13. This Consultation Paper and the Supporting Papers are designed to set out our proposals and request your feedback. Each Supporting Paper includes questions on a number of issues on which we would particularly like to receive views. We have included references to our Supporting Papers and questions in the relevant sections of this Consultation Paper.
14. We will issue our final Policy Statement, having considered this feedback. The Policy Statement will set out our final policies, processes and priorities for when we become operational in April 2015.

¹ See our 'Sources of evidence' document, which is included as Annex 4 to *Supporting Paper 1: The PSR and UK payments industry*. This lists all the respondents to our *Call for Inputs*.

² Under section 103 FSBA we have a general duty to set up one or more panels made up of participants in payment systems and service-users.



Engagement programme

2014



Launch event

ATTENDEES	112
ORGANISATIONS	67



Infrastructure workshop

ATTENDEES	66
ORGANISATIONS	36



Access workshop

ATTENDEES	66
ORGANISATIONS	42



Governance workshop

ATTENDEES	60
ORGANISATIONS	42



Access to interbank payment systems questionnaire

RECIPIENTS	534
RESPONSES	152



Access to card payment systems questionnaire

RECIPIENTS	108
RESPONSES	33



Innovation workshop

ATTENDEES	122
ORGANISATIONS	96



Call for inputs

RESPONSES	85
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Regulatory approach workshop

ATTENDEES	68
ORGANISATIONS	55




Governance questionnaire

RECIPIENTS	31
RESPONSES	11



Roundtables

NUMBER OF ROUNDTABLES	7
NUMBER OF UNIQUE ORGANISATIONS	134



Stakeholder meetings

NUMBER OF MEETINGS	172
NUMBER OF UNIQUE ORGANISATIONS	75

2015

B.

The PSR, our vision and regulatory approach

15. This section outlines the background to the PSR, our objectives and powers, and our vision for the industry to provide world class payment systems. It also outlines our regulatory approach for achieving this vision, in particular that we will be an evidence-based and proportionate regulator focused on making payments work well for service-users. In addition, we introduce the broad areas of our regulatory approach, which we discuss in more detail later in the Overview.

The PSR

16. The PSR was incorporated as a subsidiary of the FCA on 1 April 2014. It was created under the Financial Services (Banking Reform) Act 2013 (FSBRA), following the Treasury's consultation *Opening up UK Payments* in March 2013.³ We will become fully operational on 1 April 2015.
17. The establishment of the PSR follows a number of reviews into payment systems in the UK. The 2000 *Cruickshank Report* expressed concerns about payment systems in the UK regarding inefficiencies, lack of competition and governance issues. This led to the Office of Fair Trading conducting a market study in 2003 and chairing the Payment Systems Task Force. In recent years, concerns have continued to be raised, among others by the Independent Commission on Banking, the Treasury Select Committee, the Parliamentary Commission on Banking Standards and the Treasury.
18. These events have ultimately led to the establishment of the PSR as an independent economic regulator to address the concerns they identified. With this in mind, the PSR has been given three statutory objectives as follows:
- to promote **effective competition** in the markets for payment systems and for services provided by those systems, including between Operators, PSPs and Infrastructure Providers, in the interests of service-users
 - to promote the development of and **innovation** in payment systems, in particular the infrastructure used to operate payment systems, in the interests of service-users, and
 - to ensure that payment systems are operated and developed in a way that considers and promotes the **interests of service-users**.
19. To realise these objectives, we have been given a range of strong regulatory and competition powers, enabling us, among others, to:
- give directions on actions and standards
 - impose requirements regarding system rules

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221903/consult_opening_up_uk_payments.pdf

- require that payment systems give access to PSPs
 - amend agreements relating to payment systems
 - act where we see anti-competitive practices, alongside the Competition and Markets Authority (CMA)
20. *Supporting Paper 1: The PSR and UK payments industry* sets out in more detail our objectives and our legal and regulatory framework.

Our vision

21. Since being established, we have set out to understand the concerns the earlier reviews into payment systems identified, but also the growing challenges and opportunities that industry developments bring. This has guided us in developing our vision of the UK having world class payment systems. This means payment systems that:
- are **responsive** to, and focused on the changing needs of service-users
 - promote **innovation**, both technological and commercial, to meet future challenges
 - enable **effective competition** between providers of payment services
 - are **efficient, provide value** and are easy and cost-effective to use and operate
 - **are reliable**, secure, stable and predictable

Our regulatory approach

22. We have designed our proposed regulatory framework to enable us to realise our vision. Having consulted extensively with stakeholders and considered the full range of our regulatory and competition powers, we have designed our framework to be a proportionate and effective means to further our objectives and to take account of the specific characteristics of payment systems in the UK.
23. This framework contains several elements:
- A new proposed approach to industry **strategy development to drive industry collaboration and deliver innovation** (see **Part D**)
 - Specific proposals to address key stakeholder concerns relating to **ownership, governance and control of, and access to, payment systems** (see **Part E** and **Part F**)
 - **Principles that set some high-level behavioural standards for industry participants** and underpin our package of proposals and also our future engagement with stakeholders (see **Part H**)
 - Detailed proposals relating to **monitoring, enforcement and dispute resolution** (see **Part H** and **Part I**)

- **Market reviews** into the provision of Indirect Access to payment systems (see **Part F**) and the ownership and competitiveness of infrastructure provision (see **Part D**).
24. In delivering this framework, we will apply our powers in a **proportionate** and appropriate way. We will focus our regulatory action on furthering our objectives, taking into account our regulatory principles and proposed Administrative Priority Framework, which helps us decide whether taking action would be consistent with our administrative priorities (for more details, see Part D to *Supporting Paper 6: Regulatory tools* and *Annex 2* to that *Supporting Paper*). We will keep payments markets under review and consider issues raised by stakeholders. Where we identify specific concerns, we will ask stakeholders for their views and supporting evidence.⁴
 25. We expect a **'no surprises'** culture in which industry participants engage meaningfully with us and keep us informed of anticipated developments before they are implemented. This includes expecting industry participants to cooperate with us by responding fully, accurately and promptly to any information requests we issue.
 26. We will be **deliberate, transparent and predictable**, describing the outcomes we want and the deadlines for achieving them. While in some instances we will stipulate how these outcomes should be achieved, generally speaking we will expect industry to develop solutions and to decide how to implement them. To support this, we will issue directions and requirements focused on areas of concern, and we will issue guidance and set priorities where possible and appropriate. Where we can appropriately do so, we will look to issue our directions in the form of general high-level, legally-binding principles, rather than issuing prescriptive rules.
 27. We will **focus on our impact and monitor** the extent to which this regulatory framework realises our expected outcomes and will consider further action where progress is too slow. We will act using our regulatory and competition powers as appropriate where we find examples of behaviour or encounter actions that may prevent or slow down the advancement of our objectives. We will also monitor progress to ensure our directions remain fit for purpose in light of changes in the market, law and regulation.
 28. *Supporting Paper 1: The PSR and UK payments industry* sets out in more detail our proposed regulatory approach. Question **SP1-Q1** asks for feedback on this.

⁴ The Annex to *Supporting Paper 1: The PSR and UK payments industry* contains our 'Sources of evidence' document, which sets out the main evidence we have relied upon in developing our policies and drafting this Consultation Paper and Supporting Papers. The relevant legal provisions referenced in this Consultation Paper and Supporting Papers are also included for convenience in the Annex to *Supporting Paper 1: The PSR and UK payments industry*.

C.

The industry, structure and challenges

29. The payment systems industry has a number of unique characteristics and challenges. It has evolved through a mixture of collaboration, particularly in interbank systems, and competition, in particular among card systems as well as among PSPs of all payment systems. While this has produced systems that are relatively resilient, the pace of innovation has been impeded.
30. This section outlines our assessment of some of these characteristics and the challenges to which they give rise. It also explains why our regulatory framework has been specifically tailored for the payments industry and, in particular, why our initial policy proposals are focused on industry strategy development, the ownership, governance and control of, and access to, payment systems.

Payment systems

31. Payment systems form a vital part of the UK's financial system – they underpin the services that enable funds to be transferred between people and institutions. They enable you to pay a deposit on a house, withdraw money from a cash machine, pay by direct debit, write a cheque, receive your salary directly into your bank account and transfer money to friends and family via your smartphone. Last year these payment systems processed more than 21 billion transactions, worth more than £75 trillion.
32. In essence, payment systems enable the transfers of funds. For our purposes, they do not include systems for settling securities or those operated by recognised clearing houses or arrangements for the physical movement of cash.
33. Payment systems underpin the delivery of payment services. Payment systems are effectively a set of rules that govern transfers of funds between PSPs. It is PSPs that offer payment services to individuals, firms and other organisations including Government, (which is the largest user of payment systems by volume of transactions).
34. A further critical element of payment systems is the provision of payment systems infrastructure – essentially the hardware, software, secure telecommunications networks and operating environments that are used to manage and operate payment systems, and therefore support the clearing and/or settlement of transfers of funds.

Who we will regulate

35. We will regulate payment systems that have been designated by the Treasury, and all of those systems' participants. We can only use our regulatory powers in relation to designated payment systems, whereas our competition powers are available with respect to all payment systems. On 14 October 2014, the Treasury published its consultation *Designation*

of payment systems for regulation by the Payment Systems Regulator⁵ in which it proposed designating the following payment systems:⁶

- Bacs
- CHAPS
- LINK
- MasterCard
- C&CC (Cheque & Credit Clearing)
- Faster Payments Service (FPS)
- Northern Ireland Cheque Clearing (NICC)
- Visa

36. **Interbank payment systems** were developed to enable payments to be made between PSPs and service-users. Each payment system supports a different kind of payment service, for example:

- **Bacs** is the interbank system that processes payments through two principal electronic payment schemes: Direct Debit, which is used for example by individuals to pay bills, and Bacs Direct Credit, used among others by businesses to pay employee salaries and wages. BPSL (Bacs Payment Schemes Ltd) is the Operator of the Bacs payment system.
- **C&CC (Cheque & Credit Clearing)** is the interbank payment system in England, Scotland and Wales that processes cheques and other paper instruments. C&CCCL (Cheque and Credit Clearing Company Ltd) is the Operator of the C&CC payment system.
- **CHAPS** is the UK's real-time, high-value sterling interbank payment system, where payments are settled over the Bank's Real Time Gross Settlement (RTGS) system. CHAPS processes both wholesale (e.g. international payments) and retail payments (e.g. house purchases). CHAPS Co (CHAPS Clearing Company Ltd) is the Operator of the CHAPS payment system.
- **FPS (Faster Payments Service)** is the interbank payment system that provides near real-time payments as well as Standing Orders. Virtually all internet and telephone banking payments in the UK are now processed via FPS. It is also used by PSPs to process other services. FPSL (Faster Payments Scheme Ltd) is the Operator of the FPS payment system.
- **LINK** is the interbank payment system that enables end-users to take cash out of their bank accounts (amongst other activities) using the LINK network of ATMs in the UK. LINK Scheme is the Operator of the LINK payment system.
- **NICC (Northern Ireland Cheque Clearing)** is the interbank payment system in Northern Ireland that processes cheques and other paper instruments. BBCCL (Belfast Bankers' Clearing Company Ltd) is the Operator of the NICC payment system.

⁵ <https://www.gov.uk/government/consultations/designation-of-payment-systems-for-regulation-by-the-payment-systems-regulator/designation-of-payment-systems-for-regulation-by-the-payment-systems-regulator>

⁶ The Bank of England is not to be regarded as a participant of any kind in any payment system in accordance with s.42(8) FSBRA

37. For each of these systems, we will regulate the Operators of these systems along with their Infrastructure Providers and the PSPs (such as credit institutions, Payments Institutions (PIs) and Electronic Money Institutions (EMIs)) that provide services using these payment systems. We explain in more detail who these parties are in *Supporting Paper 1: The PSR and UK payments industry*.
38. **Card payment systems** enable individuals and organisations to make payments by card by providing a network which joins up:
- **cardholders** who use the cards as a way to make payments
 - **issuers** which make payment cards available to cardholders
 - **merchants** which are the retailers or service providers that accept card payments from cardholders
 - **acquirers** which process card payments on behalf of merchants
39. The card payment systems the Treasury is considering designating are:
- **MasterCard**, which is operated by MasterCard Inc.
 - **Visa**, which is operated collectively by Visa Europe and Visa UK Limited.
40. We will regulate all participants in card payment systems that have been designated by the Treasury, including the Operators of card payment systems, their Infrastructure Providers and PSPs (such as the card issuers and acquirers).

Industry bodies

41. The industry is represented and overseen by a wide range of bodies. These include industry bodies such as the Payments Council, the UK Cards Association and sector trade bodies, including (but not limited to) the British Bankers' Association, the Building Societies Association and the Electronic Money Association, which represent and provide services for their sector-specific members.
42. We expect the industry to determine for itself how best it should be represented. However, we expect our role as regulator to be to replace some functions currently performed by the Payments Council, particularly in relation to the process for setting industry strategy and performing quasi-regulatory functions such as those set out below under 'Reserved matters' in **Part E** of this Consultation Paper. We discuss these issues further in **Part D** and **Part E**.

Industry structure and challenges

43. Payment systems are characterised by network effects, two-sided markets, and commonly involve different PSPs in transactions, which means a level of collaboration might be required to set up payment systems and to introduce new services or develop existing services provided by payment systems.
44. This collaboration enables the flow of payments between different PSPs. It can allow many PSPs, including banks, building societies and small PSPs, to compete in the provision of payment

services. This collaboration produces a number of benefits, for example agreed security and resilience standards for systems.

45. However, PSPs with Direct Access to payment systems (Direct PSPs) are also, in most cases, the owners of the Operators of those systems, which creates a number of vertical relationships in the industry. A number of interbank payment systems have evolved as collaborative networks, run as not-for-profit entities, controlled and owned by the larger PSPs (the large banks and building societies). In addition, a group of PSPs also own VocaLink, a key Infrastructure Provider to several of the main Interbank Operators. This group of PSPs are also the largest users of these payment systems.
46. Because of these relationships and their not-for-profit structure, most Interbank Operators set charges only to recover costs.⁷ Under different ownership, the Operators and Infrastructure Providers may have a greater incentive to maximise profits by raising prices. This is an important factor we have been mindful of when considering how to use our powers and, in particular, in assessing whether to use our power to require the divestment of an interest in an Operator.
47. Nevertheless, these vertical relationships give rise to concerns about the exercise of control and influence over payment systems. The rulebooks of many of the payment systems are determined jointly by boards of directors appointed by the owners, the larger Direct PSPs. Since these banks compete with each other and with other PSPs, this may lead to distortions.
48. The larger Direct PSPs in the interbank payment systems may have the ability to exercise a significant degree of control and influence to design the rules of payment systems for their own benefit, and against the interests of their competitors or new entrants. As such, we currently believe that addressing ownership issues by focusing on the governance and control of payment systems is an appropriate way of dealing with the issues arising from vertical relationships in payment systems.
49. Although collaboration may be necessary, there is some competition between individual card payment systems, and there may be between card and interbank payment systems, but less so between interbank payment systems. Each interbank payment system provides distinct services that do not currently appear to overlap significantly.
50. The PSPs that own payment systems are also their largest users. They compete with each other, and with other PSPs, in the provision of payment services to end-users. At the PSP level, competition can produce real benefits to service-users, including end-users, not only in the provision of services provided by payment systems, but also wider retail banking services.
51. However, the incentive for an individual PSP to support collective innovation via an Operator may be weak, since their competitors are also likely to benefit from any such innovation. Some argue that the slow pace of innovation stems from the ownership structure of interbank payment systems.
52. At the infrastructure level, we believe there may be the potential for effective competition. However, there are benefits arising from the current structure of the industry, for example, the owners of the Infrastructure Providers are also the largest users of payment systems, and therefore have an incentive to keep costs down. We will assess further the ownership of, and competition in, the provision of payment systems infrastructure. In doing so, we will consider the expected outcomes that might arise for service-users under different possible future infrastructure models and ownership structures.

⁷ We note that for some interbank payment systems, PSPs also have to pay transaction charges to VocaLink, the Infrastructure Provider to those systems.

53. Collaboration to date has generally resulted in the development of relatively robust and resilient systems. However, collaboration and vertical relationships have also, over time, had the effect of limiting competitive pressure in the industry, which may have hampered innovation and limited the representation of service-users and challengers in industry development.
54. The ability of these collaborative arrangements to address the needs of service-users and challengers is exacerbated by the speed of technological change broadening the demands of end-users.
55. This pace of technological change has given rise to a considerable degree of innovation at the payment service level. A study published jointly by Ofcom and the PSR (*Innovation in UK consumer electronic payments*⁸) identifies many examples of innovation in payments by both communications and financial firms. These include the development of digital wallets by mobile operators, handset manufacturers and online platform providers often in agreements with card networks. Mobile players are also seeking to enter payments markets through contactless-enabled point-of-sale devices. For example, Vodafone launched its SmartPass mobile payments application in the UK in summer 2014, while EE's partnership with Barclaycard to provide Quicktap (a contactless wallet) was launched in 2012, and the Cash on Tap application was launched in 2013 to enable customers with a contactless-enabled Android phone to pre-load funds from a credit/debit card. The financial services industry led the development of Paym and Zapp, and firms such as PayPal are providing merchants with the ability to incorporate payments into new in-store experiences which use smartphones to improve merchant-consumer interaction.
56. These innovations in payments are found at the consumer-facing end. However, innovation within payment systems, at the Operator and infrastructure levels, appears to have been at a slower pace with change often driven by external (sometimes political) pressure. This slower pace of change within payment systems may impede the further development of new innovative products for consumers.
57. All the above factors have resulted in questions about the ability of payment systems to adapt, and whether existing governance and ownership structures continue to be fit-for-purpose. In addition, collaboration between PSPs may cause problems:
- PSPs may not have adequate incentives to support collective innovation in the industry (see **Part D** below).
 - Large Direct PSPs may have the ability and incentive to operate payment systems in their own interests rather than to the benefit of all Direct PSPs in the payment system (see **Part E** below).
 - Operators may set Access Requirements that limit access to payment systems (see **Part F** below).
58. Our regulatory framework and policy proposals outlined in this Consultation Paper aim at striking the right balance between competition and collaboration within the industry and with a positive outcome for innovation. We have also carefully considered issues of ownership, concluding that, at the present time, we can best address this through changes to the governance and control of systems.

⁸ See this joint study which is an Annex to *Supporting Paper 2: Payments industry strategy and areas for collaboration*.

59. We believe that these measures are a proportionate response to the issues discussed above. The rest of this Overview outlines our specific proposals in more detail beginning with industry strategy development and setting. We believe that these measures will speed up the delivery of necessary innovation. Our proposals will build on the areas of strength in the sector, while reducing barriers to competition and innovation that have arisen in other areas. Most importantly, they will bring an increased focus on the interests of service-users.
60. *Supporting Paper 1: The PSR and UK payments industry* sets out in more detail the industry structure and challenges.

D.

Payments industry strategy and areas for collaboration

61. Realising our vision of having world class payment systems will require effective industry-wide strategy development, setting, co-ordination and planning. Our view is that while industry has collaborated effectively in some respects, it has had difficulty in agreeing strategy and driving forward change. This has slowed the pace of innovation in UK payments systems.
62. To address this, we will drive the process for the development of industry strategy. We plan to launch a new Forum open to a wide range of industry stakeholders and service-users. This Forum will discuss, develop, determine and agree strategic priorities for the long-term development of payment systems in the UK. We intend the Forum to drive innovation, enable new and improved services, and help realise our vision of world class payment systems.
63. To support industry collaboration, we believe it is important for UK payments infrastructure to be able to support new developments and innovations. We will review the ownership structures of, and competition in, the provision of payment systems infrastructure to ensure it can support our vision of world class payment systems. We have begun our Pre-Launch scoping work in preparation for the full launch of our market review into this, formally commencing by April 2015.

Industry collaboration

64. A number of organisations exist to facilitate payments industry collaboration in the UK. These include the Operators who coordinate with their Direct PSPs (and other stakeholders) to develop their respective payment systems. It also includes industry bodies, such as the Payments Council, which often take responsibility for coordinating activities between PSPs and/or between Operators when change is required that extends beyond an individual payment system or that affects a range of PSPs or other stakeholders.
65. Recent examples of this kind of collaborative activity include the development of the Current Account Switch Service (CASS – a service that makes it easier for customers to switch their current account) and Paym (a service that enables person-to-person payments to be made using mobile phone numbers as a proxy for sort codes and account numbers).
66. Through previous industry reviews and consultations, and our recent engagement, a number of other infrastructure-related themes have emerged as important to the functioning and development of payment systems, for example messaging standards and ANP.
67. However, in order to initiate and coordinate these activities, an effective overarching strategy is required.

68. Clear strategies can help stakeholders to allocate resources and investment and set out timetables for implementation of change. This is particularly important for payment systems where development can involve multiple parties, significant associated costs and long lead times.
69. A range of views received from stakeholders has indicated that the current process for developing collaborative industry strategy has encountered difficulties. There are several factors that impact on the pace of innovation, as well as the payment industry's ability to develop collaborative industry strategy:
- Within the network of payment systems, major innovations need widespread adoption and collective investment, which requires broad agreement.
 - Existing industry participants may not have a commercial incentive to undertake collective investments where this could benefit competitors that also participate in the system.
 - Interests of participants will not always align and, within current governance arrangements, the consensus model creates the risk that collaborative initiatives can be blocked, or slowed.
 - Several infrastructure-related developments are usually being considered by the industry at the same time. We are aware that these may be interrelated and may require a more collaborative approach to ensure efficient and effective implementation.
70. The role of collaboration in facilitating payment system participants working together on operational matters is also important. This includes the delivery or implementation of system changes which result from strategic developments, regulations or government initiatives.
71. All of these factors contribute to the overall complexity of payment systems in the UK and may create concerns for any PSPs or service-users that want to use payment systems or the services provided by payment systems. While divergent priorities are inevitable within industry, a balance must be sought between accommodating the needs of individual participants and being able to agree shared strategy effectively to drive forward collaborative change.
72. We have heard from a range of stakeholders that they have concerns regarding:
- The capacity of industry to plan ahead while meeting multiple external demands, such as change resulting from UK or European legislation.
 - Their ability to input into or influence decisions relating to the development of strategy by the Payments Council and by individual Operators.
 - The effectiveness of the Payments Council's and Interbank Operators' decision-making processes, which can create difficulties for progressing joint industry initiatives.
73. It also appears that collaborative change in the payments industry is only delivered after long periods of discussion or following external pressure, rather than as a result of a proactive strategy. The ability of the industry to respond to, or in some cases pre-empt, external requirements would be strengthened by effective strategic planning.
74. Having considered these matters, stakeholder views and our objectives, we are making the proposals set out below.

Our proposals on payments industry strategy and areas for collaboration

75. **We will drive the process for the development of industry strategy. We propose to design and launch a new Forum open to a wide range of industry and service-user stakeholders.** This Forum will discuss, develop, determine and agree strategic priorities for the long-term development of payment systems in those areas where industry collaboration is necessary or desirable. We intend the Forum to drive innovation, enable new and improved services, and help realise our vision of having world class payment systems.
76. We propose to launch the Forum as soon as possible. A working group will be set up to assist in its design. To ensure the Forum launches with the right drive and focus, we propose to provide the secretariat for the Forum at its start, and we will appoint the independent chair for the Forum. We will set out some guiding principles under which the Forum should operate. The creation of the Forum will enable wide participation of stakeholders in the identification, assessment and development of strategic priorities for payment systems and their corresponding services. We think all Operators should be engaged in strategic discussions for the industry, not least to ensure that their individual strategic priorities can inform industry strategy and vice versa. We also consider that UK payments strategy needs input from the cards sector given the significant and growing share of payments that are made using cards in the UK.
77. We expect the Forum to increase participation in discussions, which should **promote innovation** by opening up new opportunities for joint working between industry and service-users.
78. We will participate in the Forum. This will give us visibility on the Forum's operation and effectiveness. Through our participation, we will be able to guide the Forum, advise as appropriate, and act if necessary. Action may include the use of any of our regulatory or competition powers as appropriate and proportionate to unblock obstacles to us realising our vision and advancing our objectives. It is our lead in establishing the Forum and our presence on it that we believe will enable the Forum to succeed in leading industry strategy to a degree that has not been possible for previous industry bodies.
79. Through previous industry reviews and consultations, and our recent industry engagement, a number of infrastructure-related themes have emerged as important to the functioning and development of payment systems (e.g. ANP, cheque imaging and messaging standards). Our proposed Payments Strategy Forum may provide the best forum to discuss the outcomes, development and implementation of the various infrastructure-related themes.
80. The Bank and other relevant regulators should be able to participate in the Forum. We believe that the creation of the Forum can also benefit initiatives led by other regulators, such as the FCA's Project Innovate, which is looking to help technology firms and other companies innovate in financial services markets. Many of these innovators are focussed on payments markets.
81. **We will launch a market review into the ownership of, and competition in, the provision of infrastructure.** To support industry collaboration we believe it is important for UK payments infrastructure to be able to support new developments and innovations at all levels, including both the system and service levels. The review will evaluate what the expected outcomes might be for all service-users from infrastructure-related developments, as well as under different possible infrastructure models and different ownership structures that may emerge. **We have begun our Pre-Launch scoping work in preparation for the full launch of our market review, which will formally commence by April 2015.**

82. **We will also initiate a wider programme of infrastructure-related work in 2015.** Our wider programme of infrastructure work will enable us to keep technology and infrastructure developments under review. This will ensure that the Forum outputs are aligned with our objectives. We can then determine whether and when it may be necessary for us to take any further action.
83. In addition to collaborative activity that develops strategy for the payments industry, participants sometimes also need to collaborate on various operational matters. In the interbank space, we understand that the Payments Council currently facilitates much of this activity. We are aware that the banking and payments industry is working on proposals for the future of the Payments Council.
84. Our intention at this time is to continue to engage with industry and the other relevant authorities to ensure that any industry proposals on establishing a future industry body are consistent with our objectives and approach.
85. *Supporting Paper 2: Payments industry strategy and areas for collaboration* sets out in more detail our analysis of the concerns relating to payments industry strategy and areas for collaboration, including infrastructure-related themes, and outlines our proposed approach to setting up a Payments Strategy Forum. Questions **SP2-Q1**, **SP2-Q2**, **SP2-Q3** and **SP2-Q4** ask for feedback on our proposed approach.

E.

Ownership, governance and control of payment systems

86. Stakeholders have raised concerns about the ownership, governance and control of payment systems, their degree of openness and the representation of service-users.
87. To address these concerns we will change the way these systems are controlled and governed, and how decisions are made. This is particularly relevant for not-for-profit interbank systems the owners of which have the ability to control and influence the payment systems' rulebooks. To achieve this, our proposals include the following:
- All Operators will be required to ensure the interests of service-users are appropriately represented in decision-making processes at board level.
 - Interbank Operators will need to ensure that individuals are not simultaneously a director of an Interbank Operator and of a Central Infrastructure Provider to that payment system.
 - All Operators will be required to publish board minutes and votes in a timely manner, including a statement of how independent directors have exercised their discretion in relation to public interest matters.
 - Operators will be required to report annually on how they have complied with our directions.
88. We expect our proposals to change the dynamics of and voting on Operator boards and how control over payment systems is exercised. We will evaluate both how Operators implement our proposals and also, once implemented, their impact on the control of payment systems. If our proposals do not produce the results we intend, we will take further action, including using our divestment power if appropriate.
89. Where we find examples of behaviour or encounter actions that may prevent or slow down the advancement of our objectives, we will step in and take action using our regulatory and competition powers as appropriate.
90. Feedback from a range of stakeholders has highlighted three areas of concern relevant to our objectives in relation to governance, control and ownership of payment systems:
- It is not clear to us that Interbank and Card Operators sufficiently take into account – or, in the case of Interbank Operators, have enough incentive to respond to – service-user needs. Further, the fact that a small number of banks and building societies may have the ability to exercise control over and influence Interbank Operators means that there need to be robust measures in place to prevent the payment systems being operated disproportionately in the

interests of these Direct PSPs and without sufficiently taking into account the interests of other service-users.

- Board directors at Interbank Operators face potential conflicts of interest which may limit effective competition and innovation in relevant payments-related markets.
- There is little transparency regarding how Operators' board decisions are adopted or how external interests, in particular those of service-users, are taken into account in decision-making.

91. In light of our objectives, we propose to adopt measures designed to open up the governance and control of payment systems.⁹
92. Should Operators take decisions that are contrary to our directions or to the interests of service-users, we have the ability and powers to step in and take action if needed. We discuss this in more detail in **Part I** on holding industry to account.
93. Given the limited scope of its activities, we do not consider it appropriate or proportionate to impose our proposed governance directions on NICC at this time.

Service-user representation

94. A longstanding issue relates to the degree of representation of those who do not have a right to appoint board directors to the boards of Interbank Operators, for example those PSPs with Indirect Access. These stakeholders and other service-users have raised concerns that they are not sufficiently represented, and that their views are not always heard or considered, in Operators' decision-making processes.
95. Similar concerns have been raised with us about Card Operators not taking sufficient account of their service-users' views, especially the views of merchants and acquirers.
96. To address these concerns, we propose to make a general direction requiring both Interbank and Card Operators to **ensure appropriate representation of the interests of service-users** in their board-level decision-making processes.
97. We propose that Interbank and Card Operators should be subject to annual reporting obligations to support this direction on representation of the interests of service-users (with the first report being due by 30 September 2015). We have also set out considerations that we expect Operators to take into account when reviewing their current arrangements for compliance with our proposed direction.¹⁰
98. Regardless of the specific solutions adopted by Operators, our intention is to ensure that the concerns of service-users are brought to the attention of the boards of the Interbank and Card Operators. This will also require service-users to be provided with sufficient and relevant information so that they can understand and input on a timely basis into decisions which may have consequences for them.

⁹ Part B of *Supporting Paper 3: Ownership, governance and control of payment systems* gives further background and details on the governance and control of payment systems.

¹⁰ *Supporting Paper 3: Ownership, governance and control of payment systems* includes a Guidance Checklist of items Operators may wish to consider when carrying out their governance review.

99. Part C of *Supporting Paper 3: Ownership, governance and control of payment systems* sets out in more detail our analysis of the concerns relating to the representation of the interests of service-users and outlines our proposed approach and direction. Questions **SP3-Q1** and **SP3-Q2** ask for feedback on our proposed approach.

Conflicts of interest

100. We have concerns that actual or potential conflicts of interest can have an adverse effect on competition and, in turn, on innovation and the interests of service-users. The industry structure for interbank payment systems in the UK is characterised by vertical relationships, involving the presence of the same participants at different levels in the supply chain – e.g. at Operator level, infrastructure level and PSP level. A number of PSPs also appoint directors to several if not all of the different interbank systems.
101. Three areas of high-level concerns in relation to conflicts of interest have been identified:
- Conflicts faced by executive and independent directors of Interbank Operators when they are not employed directly by the Interbank Operator on whose board they serve but, rather, by a third party such as the UK Payments Administration (UKPA).
 - Conflicts associated with situations where the interest of a director's employer and the interest of the Operator are not aligned.
 - Conflicts that arise where an individual is appointed to serve simultaneously as a director of an Interbank Operator as well as of an actual or potential Central Infrastructure Provider to that interbank payment system.
102. We consider that the existing mechanisms, for example the presence of independent directors, do not fully address the concerns expressed by stakeholders or our concerns about current governance arrangements.
103. We consider that it is inappropriate for executive and independent directors of Interbank Operators, specifically their Managing Directors, to be employed by UKPA (or another third party). Rather, we expect these individuals to be accountable to the board of the Interbank Operator for which they work, without a reporting line to UKPA, the Payments Council or another third party, and we will work with the industry to address this. We will also keep under review the need to issue a direction to address these concerns.
104. There is a concern that an industry director who is also an employee of a Direct PSP may not act in the best interests of the payment system as a whole, as there may be a conflicting incentive to act in ways that are beneficial specifically to their employer, rather than to the payment system and the Operator. As we explain in *Supporting Paper 3: Ownership, governance and control of payment systems*, given the various safeguards in place, we do not intend to address this concern directly at this time.
105. Given the potential for conflicts of interest to exist, it would seem inappropriate to us for an individual to simultaneously be a director of both an Interbank Operator and of an actual or potential Central Infrastructure Provider to that payment system.

106. We propose to make a direction requiring Interbank Operators to **ensure that any individual acting as a director of that Operator must not simultaneously be a director of an actual or potential Central Infrastructure Provider to that same payment system.**
107. We also expect Interbank Operators **to review their conflicts of interest policies and mechanisms** in light of the concerns we express. In their review, we want Interbank Operators to consider whether aspects of their conflict of interest policies and mechanisms are sufficiently robust or could be managed better or more transparently.¹¹
108. Part D of *Supporting Paper 3: Ownership, governance and control of payment systems* sets out in more detail our analysis of the concerns relating to conflicts of interest and outlines our proposed approach, including our proposed direction. Questions **SP3-Q3, SP3-Q4** and **SP3-Q5** ask for feedback on our proposed approach.

Transparency

109. Concerns have been raised in relation to the general lack of transparency in decision-making at the board-level of Operators. A lack of transparency at the board level means it is hard to determine the extent to which the interests of service-users are taken into account or that the implications for service-users are not fully understood or are not sufficiently factored into decision-making.
110. We consider that a lack of transparency in itself reinforces the negative stakeholder perceptions around how Operators take decisions, and also makes it more difficult for stakeholders other than Direct PSPs that directly participate in decision-making to understand the rationale for decisions.
111. We consider that there is a need for greater transparency and clarity around decision-making within Operators. Consequently we propose to make a direction to **require the boards of all Operators to publish board minutes, including votes and a statement of how independent directors have exercised their discretion in relation to public interest matters**, in a timely manner, from 1 April 2015.
112. Part E of *Supporting Paper 3: Ownership, governance and control of payment systems* sets out in more detail our analysis of the concerns relating to transparency and clarity of decision-making and outlines our proposed approach, including our proposed direction. Questions **SP3-Q6** and **SP3-Q7** ask for feedback on our proposed approach.

Reserved matters

113. Reserved matters are a list of items which certain Interbank Operators had contractually submitted to oversight by the Payments Council (for example, approval of the managing director, approval of the annual business plan, various reporting obligations, etc.). Interbank Operators have questioned the continuing relevance of the **Payments Council's control over 'reserved matters'**, not least given our establishment and the addition of independent directors to the Operators' boards.

¹¹ *Supporting Paper 3: Ownership, governance and control of payment systems* includes a Guidance Checklist of items Operators may wish to consider when carrying out their governance review.

114. We agree with the views expressed by Interbank Operators, in particular that such arrangements are unnecessary, inappropriate and incompatible with our new regulatory framework.
115. We understand that the Payments Council and the relevant Operators are in the process of terminating or modifying the contracts which provide for these 'reserved matters', such that the Payments Council will no longer have powers over reserved matters by, at the latest, April 2015. For this reason, **we do not view it as necessary to exercise our powers in relation to this issue at this time**, although we will keep this under review (particularly if any relevant contracts between Interbank Operators and the Payments Council are not modified to terminate the provisions relating to reserved matters with effect from 1 April 2015 at the latest).
116. Part F of *Supporting Paper 3: Ownership, governance and control of payment systems* sets out in more detail our analysis of the concerns relating to the Payments Council's reserved matters and outlines our proposed approach. Question **SP3-Q8** asks for feedback on our proposed approach.

F.

Access to payment systems

117. Access to payment systems is essential to enable effective competition and innovation in payment systems and in the market for services provided by payment systems. Stakeholders have raised access as an area of key concern. For these reasons we are making a range of proposals to improve access.
118. We are proposing to require Operators to provide access on an objective, risk-based and open basis, and to annually report on compliance. We are also proposing a direction to improve the transparency of access-related information, and we will approve an industry Code of Conduct governing arrangements for Indirect Access provided by Sponsor Banks.
119. To understand better the market for Indirect Access, we have begun our Pre-Launch scoping work in preparation for the full launch of our market review into the provision of Indirect Access services, commencing by April 2015.

Direct Access to payment systems

120. PSPs can access a payment system through either Direct Access (where they have a direct relationship with the Operator) or Indirect Access (where a Direct PSP acts as their Sponsor Bank).¹²
121. PSPs with significant payment volumes usually prefer Direct Access. Smaller firms and non-banks typically rely on Sponsor Banks for their Indirect Access.
122. Many stakeholders have expressed concerns over the difficulties associated with gaining Direct Access to Bacs, C&CC CHAPS, and FPS. Operators have established a range of Access Requirements that PSPs must meet to be eligible for Direct Access. Access Requirements refers to rules (including criteria), terms or conditions (including fees and charges), policies or procedures governing access to, or participation in, a regulated payment system. As part of the Access Requirements, Operators set a number of access criteria, which may include:
- the need to hold a settlement account at the Bank
 - the PSP's regulatory status (e.g. whether they are an authorised credit institution, EMI or PI)
 - technical and operating requirements they must adhere to
 - fee requirements
 - other requirements such as legal and risk management requirements

¹² Part B of *Supporting Paper 4: Access to payment systems* gives further background and details on the access to payment systems in the UK and Access Requirements across payment systems.

123. Operators also decide on the processes that must be followed to gain Direct Access, such as on-boarding and periodic assurance reviews.
124. We have also been told that there is a general lack of detailed information available to support PSPs in obtaining and evaluating Direct Access to payment systems, including card systems.
125. Having considered these matters, stakeholder views and our objectives, we are making the proposals set out below.

Our proposals

126. For Direct Access, we want to ensure that the Access Requirements are objective, open and risk-based, and do not unnecessarily or disproportionately restrict PSPs from directly participating in payment systems. Where Direct Access is unnecessarily restricted or difficult to secure, it can act as a barrier to entry and expansion for new and emerging PSPs. We also want to ensure sufficient transparency to allow PSPs to effectively evaluate the most suitable route for them to access payment systems.
127. This means we have a strong interest in ensuring that the Direct Access arrangements function effectively.
128. **We propose to introduce an Access Package that includes an Access Rule and a Reporting Rule.**
129. We will introduce an **Access Rule** which requires the Operators of Bacs, C&CC, CHAPS and FPS¹³ to have objective, risk-based, and publicly disclosed Access Requirements, which permit fair and open access. This aligns with the requirements in CPSS-IOSCO Principle 18, which Bacs, CHAPS and FPS must have regard to, and which C&CC already informally has regard to.
130. Given the limited scope of its activities, we do not consider it appropriate or proportionate to impose our proposed Access Rule (or our Reporting Rule) on NICC at this time.
131. LINK, MasterCard and Visa are already subject to access obligations under Article 28 of the European Payment Services Directive (PSD). We expect to be the competent authority for Part 8 of the Payment Services Regulations 2009 (PSRs 2009), which are the UK regulations that implement Article 28 of the PSD. We will therefore not apply our Access Rule to LINK, MasterCard and Visa. We will, however, require them to start to publicly disclose their Access Requirements.
132. We will require Operators to be compliant with our proposed Access Rule by 30 June 2015.
133. **Our proposed Reporting Rule will require** all Operators to report to us on compliance with the access obligations applicable to them (either our Access Rule, or Article 28 PSD) by 30 June 2015, and to provide to us an annual report on compliance. We see benefits in terms of transparency and comparative regulatory compliance in obtaining a comprehensive view of how individual Operators have interpreted and applied their access obligations, which is why we are applying our Reporting Rule to all Operators.

¹³ i.e. those pan-GB Operators not already subject to Article 28 of the European Payment Services Directive (PSD).

134. Our proposed Access Rule introduces a principles-based framework for the provision of access to payment systems. Operators will need to satisfy themselves, and us, that their Access Requirements – both the criteria themselves and their application of those requirements – are compliant with our Access Package.
135. In evaluating whether Operators are complying with their access obligations (either our Access Rule, or Article 28 PSD), we will have regard to a number of general principles, including for example whether:
- the Access Requirements promote open access to enable different types of PSPs to access payment systems directly, where for example current requirements limit access to credit institutions only
 - the Access Requirements allow for a more risk-based, objective approach – we expect technical requirements for Direct Access to be no more onerous than is strictly necessary to manage the risks that an individual PSP presents to the payment system in question
 - the Access Requirements have been publicly disclosed in a manner, and with suitable content, to give prospective PSPs a meaningful opportunity to understand the access options available to them
136. Our proposal will align the regulatory access obligations (whether under our Access Rule or Article 28 PSD) within an enforceable legal framework against which we can take action if Operators are not compliant with the relevant regulatory obligations. It will provide a further basis for the exercise of our powers to grant access or vary terms of existing access if required.
137. In considering fair and open access, we also **expect Operators to develop suitable accreditation processes** to enable third-party service providers to develop new Technical Access options. We expect our Access Package, together with these developments, to lead to more PSPs being able to access payment systems directly in a more cost-effective manner.
138. Part C of *Supporting Paper 4: Access to payment systems* sets out in more detail our analysis of the concerns relating to Direct Access and outlines our proposed approach, including our proposed directions for an Access Rule and a Reporting Rule. Questions **SP4-Q1**, **SP4-Q2**, **SP4-Q3** and **SP4-Q4** ask for feedback on our proposed approach.

Indirect Access to payment systems

139. Direct PSPs that provide Indirect Access, known as Sponsor Banks, play a key role in enabling Indirect PSPs to offer payment services to end-users.
140. We expect that our Direct Access proposals (as set out above) will result in some current Indirect PSPs becoming Direct PSPs. However, a large number of PSPs will not want, or will not qualify for, Direct Access to payment systems. We therefore expect that there will be continuing demand for Indirect Access, with Indirect PSPs relying on the critical services and support provided by their Sponsor Banks.
141. We have a strong interest in ensuring that Indirect Access functions in a manner that promotes competition, innovation and is in the interest of service-users (including Indirect PSPs and end-users). For a large number of PSPs, Indirect Access provides an important (and, for those

ineligible for direct participation, the only) route to providing payments services. As a result, the provision of Indirect Access makes a key contribution to the supply of competitive and innovative payments services to end-users.

142. Our stakeholders have raised a number of concerns with us regarding the provision of Indirect Access, including:
- limited choice of Sponsor Bank
 - limited ability for Indirect PSPs to access and assess information regarding Sponsor Banks' Indirect Access propositions
 - Sponsor Banks are frequently downstream competitors to the Indirect PSPs they are providing Indirect Access to
 - uncertainty as to the continuity of supply of services and concerns around the contractual arrangements for Indirect Access services
 - a desire among Indirect PSPs for a greater range of Technical Access capabilities and/or options
143. Having considered these matters, stakeholder views and our objectives, we are making the proposals set out below.

Our proposals

144. We are making a number of proposals aimed at addressing the concerns we have identified above.
145. We want to expand the information available to Indirect PSPs and the ease with which it can be accessed and assessed. **We are proposing to make a direction requiring Sponsor Banks to publish certain access-related information.**
146. The information we expect to see Sponsor Banks publish includes (but is not limited to) an up-to-date description of their Indirect Access propositions (including the payment systems to which Indirect Access is offered), the key characteristics of that access, and any eligibility criteria Sponsor Banks may set for potential customers.
147. The information will be published on the Sponsor Banks' websites and will also be provided to us. We would expect to see Sponsor Banks comply with the direction by 1 April 2015, and regularly update the information published on an ongoing basis thereafter.
148. The industry is currently developing an Information Hub (with a target launch date of the end of 2014) to improve the disclosure and transparency of information for participants in payment systems. We are supportive of this development. We expect to see the industry successfully deliver the Information Hub. We believe that the Information Hub will enable greater visibility and access to information across all payment systems and Sponsor Banks, which will also better enable PSPs to make comparisons across both Direct and Indirect Access offerings, and between different Sponsor Banks.
149. We have concerns regarding the security of contractual arrangements (and the termination of those arrangements) that govern the supply of Indirect Access to PSPs. To help address these

concerns, **we expect to see Sponsor Banks work with us to develop a PSR-approved Code of Conduct which Sponsor Banks will then be expected to comply with.**

150. We expect the Code of Conduct to address our concerns regarding the security of contractual arrangements, as well as other related concerns identified by stakeholders with respect to Indirect Access, including that Indirect Access is provided by a downstream competitor, and improving the communication of important information from Sponsor Banks to Indirect PSPs.
151. If the Code of Conduct is not developed and complied with in a timely or effective manner, we will take further action, including considering drafting the Code of Conduct ourselves, and/or taking further action as necessary to ensure our concerns are addressed.
152. We expect that the Code of Conduct will set out a list of responsibilities to which Sponsor Banks publicly commit in the provision of Indirect Access to payment systems. We want to see the Code of Conduct in place by 30 June 2015, and we expect Sponsor Banks to comply with it from 30 September 2015.
153. Given concerns with the ability of PSPs to obtain Direct Access and concerns regarding wider supply of Indirect Access, a number of Indirect PSPs have highlighted demand for the development of Technical Access solutions that provide alternative access options. We are supportive of proposals to address this demand, as we believe they have the potential to reduce the cost and increase the quality of Technical Access.
154. To facilitate the development of Technical Access solutions, we will continue to **engage with the industry on the development of Technical Access solutions**. As set out above, we also expect Operators (as part of their compliance with their access obligations) to develop suitable accreditation processes to better enable third party service providers to provide Technical Access to PSPs.
155. In addition to these specific proposals, **we have begun Pre-Launch scoping work in preparation for the full launch of our market review into the supply of Indirect Access, which will formally commence by April 2015**. This market review will enable us to develop a deeper understanding of the economics of Indirect Access and to consider ways of improving the risk-reward balance Sponsor Banks face in supplying Indirect Access. In this review we also intend to evaluate the impact of our proposals for Indirect Access to determine whether we should take further steps to promote access to payment systems.
156. Part D of *Supporting Paper 4: Access to payment systems* sets out in more detail our analysis of the concerns relating to Indirect Access and outlines our proposed approach, including our proposed direction requiring Sponsor Banks to publish certain access-related information. Questions **SP4-Q5, SP4-Q6, SP4-Q7, SP4-Q8** and **SP4-Q9** ask for feedback on our proposed approach.

G.

Interchange fees

157. Interchange fees continue to be the subject of sustained competition law scrutiny, and may be subject to European regulation from 2015. We will follow these developments to determine the action we will take to ensure a timely and efficient outcome.
158. Interchange fees are fees paid to a cardholder's PSP (the issuer) by a merchant's PSP (the acquirer) for each transaction made at a merchant using a payment card within the four-party MasterCard and Visa systems.
159. Interchange fees have been the subject of sustained competition law and regulatory scrutiny at a European and global level for many years. The CMA has open investigations into MasterCard's and Visa's UK interchange fee arrangements.¹⁴ There is also a proposal for an EU Regulation – the Interchange Fee Regulation (IFR) – which would cap domestic and cross-border interchange fees. We expect this to be adopted in the coming months, with some or all of its provisions coming into force during 2015. We expect to become the competent authority to enforce the IFR.
160. The FCA has announced it will launch a market study into the credit card market, focusing on the relationship between card issuers and cardholders.¹⁵ We will liaise with the FCA on its study.
161. We will continue to track competition law and legislative developments ahead of our operational launch in April 2015. This will help us to define and assess what, if any, actions we might need to take regarding domestic interchange fees.
162. We will continue to engage with relevant stakeholders to inform our thinking on these issues.
163. In addition, we will monitor how the package of proposals discussed elsewhere in this Consultation Paper is promoting competition and innovation in payment systems. In particular, greater competition between PSPs in the services provided by payment systems might exert competitive pressure on the charges to merchants for accepting payments.
164. *Supporting Paper 5: Interchange fees* sets out more details on interchange fees, the proposed IFR and our proposed approach. Question **SP5-Q1** asks for feedback on our proposed approach.

¹⁴ On 4 November 2014, the CMA announced its decision not to progress its investigations into MasterCard's and Visa's interchange fee arrangements at the present time. The CMA reached this decision in light of the proposed IFR, which is expected to cap MasterCard's and Visa's interchange fees. The CMA has indicated that its investigations remain open and, if the Interchange Fee Regulation (IFR) were to not address the suspected harm, the CMA would look again at continuing proactively with its investigations. See <https://www.gov.uk/government/news/cma-decides-not-to-progress-interchange-fee-investigations-at-the-present-time>.

¹⁵ See <http://www.fca.org.uk/news/credit-cards-competition-review>.

H. Holding industry to account

165. We will closely monitor industry progress and ensure that our measures remain fit-for-purpose in light of changes in the market, law and regulation. We will take action using our regulatory and competition powers as appropriate where needed to pursue our objectives, including where we find examples of behaviour or encounter actions that may prevent or slow down the advancement of our objectives. This includes stepping in where we see decisions being made, for example by Operators, which we consider run counter to our directions or our objectives.
166. We will exercise a range of enforcement and information gathering powers.
167. We will issue a number of general, legally-binding Principles to apply to participants in designated payment systems. Our aim is to formulate succinct, high-level Principles stating the fundamental obligations of these participants. These Principles are part of our overall regulatory framework and will underpin our other proposals on access and governance.
168. We expect a ‘no surprises’ culture, in which industry participants engage meaningfully with us, and keep us informed of anticipated developments before they are implemented.

PSR Principles

169. Our proposed Principles are as follows:
- **Principle 1: Relations with regulators:** *A participant must deal with its regulators in an open and cooperative way, and must disclose to the PSR appropriately anything relating to the participant of which the PSR would reasonably expect notice.*
 - **Principle 2: Compliance:** *A participant must observe proper standards of conduct, and must refrain from activity which that participant should reasonably have expected to restrict or prevent another participant from complying with its regulatory obligations in relation to payment systems or services provided by payment systems.*
 - **Principle 3: Financial Prudence:** *An Operator or Infrastructure Provider must ensure it has, or has access to, adequate financial resources to ensure that it is able to carry out its functions and activities in relation to the regulated payment system it operates in the case of an Operator, or the regulated payment system or systems whose central infrastructure it provides or controls in the case of an Infrastructure Provider, including resources to:*
 - *cover potential general business losses and debts as they fall due*
 - *continue operations and services as a going concern if those losses or debts materialise and*
 - *comply with its regulatory obligations in relation to payment systems and services provided by payment systems.*

170. Our Principles are consistent with the CPSS-IOSCO Principles that apply to Interbank Operators, the ECB's 'Oversight Framework for Card Payment Schemes' that applies to Card Operators, and the FCA's Principles which apply to many PSPs.
171. In all cases, the practical implications of the Principles for participants' conduct, organisation and resources will depend on the size of the participant and the business it undertakes. The Principles are deliberately drafted in such a way as to enable each participant to comply with them by taking into account its particular circumstances. We expect that many participants will already be organising and conducting themselves in ways which are compliant with our Principles.
172. We consider that these Principles support our competition, innovation and service-user objectives. Payment systems form a vital part of the UK's financial systems supporting the broader UK economy and service-users. Our vision is to have world class payment systems. To achieve this, we need, among other things, financially sound payment systems, which are used and operated by compliant participants that interact in an open and cooperative way with their regulators.
173. If industry participants do not adhere to the behavioural standards we are setting, our ability to advance one or more of our objectives may be jeopardised. For example, PSPs that are confident that their payment systems are operated and managed in a compliant and financially sound way may be more willing to make investments in their own payments-related infrastructure and in new and innovative service propositions, which will benefit service-users.
174. Our proposed Principles will therefore ensure that industry participants are accountable to us and, indirectly, to their service-users, for their behaviour. This will benefit all industry participants and service-users.
175. Part B of *Supporting Paper 6: Regulatory tools* sets out more detail on our proposed Principles. Questions **SP6-Q1**, **SP6-Q2**, **SP6-Q3**, **SP6-Q4** and **SP6-Q5** ask for feedback on our proposed approach.

Monitoring, investigations and enforcement

176. We will require participants to report on their compliance with our directions in relation to access and governance, and to 'self-certify' this compliance annually. We will assess whether the measures implemented are compliant. This will include testing with service-users what their views are on participants' compliance with our directions.
177. We will issue information requests as appropriate to any party we consider may have information or insight that would help us assess the state of compliance.
178. We also have a range of enforcement, information gathering and investigation powers to help us further our objectives and monitor progress. In particular, we can:
- require information or documents to be provided to us
 - appoint a skilled person to provide a report on any matter
 - investigate a compliance failure or the nature, conduct or state of the business of an Operator, Infrastructure Provider or PSP

- require someone who has relevant information to attend an interview as part of an investigation, or to produce information or documents
179. We will take action if we see that:
- the solutions proposed by industry do not take into account the criteria or measures we have set, or do not satisfactorily address our concerns
 - industry or individual participants are not implementing directions effectively or on time, or are acting in a way which could pre-empt or run counter to our directions
 - progress against the priorities we have set for, or expect, from industry is too slow
 - the outcomes we expect are not being delivered
180. We have a range of 'regulatory tools' and powers at our disposal if we consider that we need to take action. We will determine in each case what action is the best suited to achieve the results we want, and what is most appropriate and proportionate in light of the specific circumstances.
181. The action we might take in these circumstances could include:
- using our concurrent competition powers
 - carrying out reviews of relevant markets or keeping those markets under review (see further below)
 - launching own-initiative investigations where we have concerns, or in response to complaints
 - using our powers to gather further information
 - imposing general or specific directions and issuing guidance to ensure our outcomes are delivered and concerns are addressed
 - considering applications in relation to disputes (see below under **Part I**)
 - imposing sanctions for non-compliance with our regulatory requirements, in accordance with our *Powers & Procedures Guidance and Penalties Guidance* (see **Parts E** and **H** of *Supporting Paper 6: Regulatory tools* for further details).
182. This range of powers and tools means that we can hold industry to account, and we can follow up and take action where appropriate and necessary.
183. *Supporting Paper 6: Regulatory tools* sets out more detail and questions asking for feedback on our proposed approach with regard to our Objectives Guidance (Part C and question **SP6-Q6**), our Administrative Priority Framework (Part D and question **SP6-Q7**), our Powers & Procedures Guide (Part E and question **SP6-Q8**), our Super-complaints Guidance (Part G and question **SP6-Q10**), our Penalties Guidance (Part H and questions **SP6-Q11**, **SP6-Q12**, **SP6-Q13** and **SP6-Q14**), our concurrent competition powers (Part J) and our Complaints Scheme (Part K).

Market reviews

184. We have statutory objectives to promote effective competition, innovation and the interests of service-users. We may consider conducting market reviews as a tool to examine issues relating to the advancement of our objectives in the markets for payment systems, or the markets for services provided by payment systems.
185. We may use our general FSBRA regulatory powers or we may launch a market study under the procedures set out in the Enterprise Act 2002. For the purposes of this Consultation Paper, where we announce a market review, we expect to use our general FSBRA regulatory powers.
186. We would typically expect to have six key phases when conducting a market review: Pre-launch, Launch, Research, Analysis and Interim Report, Report, and Remedies, with each phase having specific high-level objectives (see Part I of *Supporting Paper 6: Regulatory tools* for more details).
187. Before launching a market review, we will assess internally what it should cover and the possible concerns we will consider. Where helpful, we may engage external parties on particular aspects of the market review (for example, on the scope of the market review). We will also consider how, if necessary, we will request additional information from stakeholders once the market review is launched (e.g. by asking stakeholders to respond to a Request for Information or Questionnaire).
188. Following a Pre-Launch scoping phase of work, we expect a market review to typically report on its findings within approximately 12 months from the date of its formal launch to releasing the Report, depending on the scope and complexity of the market review.
189. The Report may be followed by a further phase of work to assess possible remedies to address the Report's findings. This additional phase may include consultation on proposed remedies. Further details of our market review process and approach are set out in Part I of *Supporting Paper 6: Regulatory tools*.

I.

How we will handle disputes

190. Our dispute resolution and applications procedures may be used in relation to what can broadly be described as ‘commercial disputes’, namely disagreements between different industry participants, or between an industry participant and a service-user (as opposed to disagreements between a regulated entity and its regulator).¹⁶ We consider that it is helpful for stakeholders to understand what our approach to commercial disputes will be.
191. Our expectation is that when parties refer commercial disputes to us, this will typically be through complaints, or through applications submitted to us
- by PSPs seeking new Direct Access or Indirect Access to a payment system
 - by a service-user (including an Indirect PSP) seeking to modify the terms of existing Direct Access or Indirect Access to a payment system
 - by PSPs or service-users seeking to modify the fees or charges payable in connection with participating in a regulated payment system or the use of services provided by a regulated payment system.¹⁷
192. We would expect other commercial disputes (for example, related to infrastructure contracts) to be raised with us through the same process.
193. We will expect that parties to disputes will first have sought to resolve their disagreement through commercial negotiations. We expect that parties will only apply to us having exhausted the available commercial and alternative dispute resolution means available to them, which may include attempts at mediation.
194. Our approach and procedures are drawn on those used by other regulators, but adapted to our specific context. We will be transparent throughout, and will explain to the involved parties what phase of the procedure they are in, what the next steps are and, if we decide to dismiss an application, why we are doing so.
195. Applicants will be expected to submit a reasoned case setting out what the commercial issue is, what negotiations or discussions have taken place with the other party, what remedy is being sought, and to have the application signed by an officer of the applicant (or by the applicant if it is an individual).
196. We will apply our Administrative Priority Framework when deciding how to handle the application and whether to progress to the next phase (the Information Gathering Phase).¹⁸

¹⁶ Our dispute resolution and applications procedures are part of our overall *Powers & Procedures Guide* (PPG) – see *Annex 3 to Supporting Paper 6: Regulatory tools*.

¹⁷ Such applications will be made under sections 56 or 57 FSBRA.

¹⁸ If we decide to dismiss an application without further investigation, we will explain why to the applicant (who will have the possibility of seeking to have the decision judicially reviewed).

197. In the Information Gathering Phase, we will seek representations from the other parties involved. If we consider it appropriate and helpful, we will hold face-to-face meetings with all parties to try to resolve the commercial dispute. We may also suggest to parties that they consider mediation/ADR if we consider that that would be a preferable approach in light of the specific circumstances of the case.¹⁹
198. If we are minded to decide to grant access or to modify the terms of existing access (including in relation to fees and charges), the PSR Managing Director will issue a Notice of a Proposed Requirement to Grant Access or a Notice of a Proposed Variation of an Agreement to all parties we consider to have a legitimate interest in the dispute, and will set a deadline for final representations. A Final Notice will be issued once representations have been considered.²⁰
199. Enablement of Direct Access to LINK, Visa and MasterCard is subject to Article 28 PSD. The UK legislation implementing Article 28 PSD (the PSRs 2009) lays down an outline procedure for decision-making which is analogous to that set out above for sections 56-57 FSBRA. We therefore propose to use the procedural framework we are establishing to handle access applications under s.56-57 FSBRA in relation to Bacs, C&CC, CHAPS, FPS and NICC, also for complaints regarding Direct Access to LINK, Visa and MasterCard under Article 28 PSD, and more generally for all complaints relating to commercial disputes.
200. Finally, whenever an application or complaint is submitted to us in relation to a specific commercial dispute, we will reserve the right to decide to open a broader investigation and, ultimately, to issue general directions or generally applicable requirements, begin competition or regulatory investigations, or launch a market review if proportionate and appropriate.
201. Part F of *Supporting Paper 6: Regulatory tools* sets out more detail on our proposed approach to dispute resolution and applications procedures. Question **SP6-Q9** asks for feedback on our proposed approach.

¹⁹ Our Information Gathering Phase might reveal that there are no grounds for taking action, or we may consider that, on the basis of the information gathered, exercising our powers is not an administrative priority. In these circumstances, we will explain the basis for our conclusion to the applicant (who will have the possibility of seeking to have the decision judicially reviewed).

²⁰ Such a Notice can be challenged by any interested party before the CMA.

J. Next steps

202. We will be holding an Event on 9 December 2014 to provide further insight into our proposals. The materials used at our Event will be uploaded onto our website and will be available to all stakeholders.
203. Our consultation is open until **12 January 2015**.
204. The full set of consultation questions and the proposed directions to give effect to our policy proposals are set out in the Annex to this Consultation Paper.
205. Our Consultation Principles, which apply to all of our consultations, are set out in the *Annex 1 to Supporting Paper 1: The PSR and UK payments industry*.
206. To make preparing a response easier, stakeholders can download an accessible version of our consultation questions and Consultation Paper response sheet from our website.
207. Stakeholders are invited to send their responses (in Word and PDF version) to PSRconsultations@psr.org.uk, accompanied by the response sheet provided in the Annex to this Consultation Paper. We will acknowledge receipt of your response.
208. Stakeholders also have the option to send their response to us by mail²¹ to:
- Payment Systems Regulator
25 The North Colonnade
Canary Wharf
London E14 5HS
209. We will publish all non-confidential responses to our Consultation Paper along with our final Policy Statement.
210. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. Stakeholders that wish to claim commercial confidentiality over specific items in their response should make sure to fill in the cover sheet accordingly, and to identify those specific items which they claim to be commercially confidential by highlighting them in yellow.
211. 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 in handling such a request. Any decision we make not to disclose a response is reviewable by the Information Commissioner and the Information Rights Tribunal.

²¹ We ask all stakeholders to provide electronic Word and PDF versions of their responses.

212. We will finalise our policies, processes and priorities prior to becoming fully operational in April 2015. Before issuing our Final Policy Statement in March 2015, we will consider any representations made to us under this consultation. To ensure we can consider your feedback, responses must be submitted to us by 5pm, Monday 12 January 2015 at the latest.
213. If you have any questions on the consultation, you can contact us at PSRconsultations@psr.org.uk.

Annex 1: Glossary

Glossary

This table includes the glossary and abbreviations used for the purposes of this *Consultation Paper* and *Supporting Papers*.

Defined expressions are capitalised in the table (for example, 'PSP').

Term or acronym	Description
Accenture Governance Report	A report on the governance of payment systems commissioned by the PSR. The report by Accenture, ' <i>A Review of Governance and Ownership of UK Payment Systems</i> ', is an Annex to <i>Supporting Paper 3: Ownership, governance and control of payment systems</i> .
Accenture Innovation Report	A report on innovation in payments commissioned by the PSR. The report by Accenture, ' <i>Review of the International Landscape of Innovation in Payments and Insights for UK Payments</i> ', is an Annex to <i>Supporting Paper 2: Payments industry strategy and areas for collaboration</i> .
Access Package	The Access Package includes the introduction of a principles-based access rule (the Access Rule) (applicable to non-PSRs 2009 pan-GB Operators) and compliance reporting obligations (the Reporting Rule) (applicable to all pan-GB Operators).
Access Requirements	The rules (including criteria), terms or conditions (including fees and charges), policies or procedures governing access to, or participation in, a regulated payment system.
Access Rule	The Access Rule proposed by the PSR requires pan-GB Operators not subject to the PSRs 2009 to have objective, risk-based, and publicly disclosed Access Requirements, which permit fair and open access. The Access Rule is part of the Access Package of proposals.
accreditation	The process that ensures that a person or solution is compliant with the set of criteria predefined by the Operator. Being an accredited provider or software solution means that the provider or solution has gone through a process set by the Operator and has been considered by the Operator to meet the required technical and other standards that make up the accreditation requirements.
Affiliate or Associate member (of a card system)	An Indirect PSP in card payment systems; known as an Affiliate for MasterCard, and an Associate for Visa. An Affiliate/Associate is a participant in a card system that must be sponsored by a Principal member (or Direct PSP) for access. It can carry out any or all of the functions of the Principal, if the Principal agrees to be responsible for their actions, except the activity of sponsoring other Affiliates/Associates.
affiliates (in an interbank system)	Service-users and other interested parties who are members of the Electronic Payments Affiliates Group (for Bacs and FPS) or the CHAPS Affiliates Group.
Agency Agreement	See Sponsor Agreement.

Agency Bank	For the purposes of this Consultation Paper, this refers to a credit institution that is an Indirect PSP.
AML (Anti-Money Laundering)	The package of initiatives and regulations directed at preventing money laundering, including the Money Laundering Regulations 2007.
Analysis of the PSR Questionnaires on Access	Our internal analysis of the results of two questionnaires on access to payment systems that were conducted in July 2014 by Accenture on behalf of the PSR, 'Questionnaire on Access to Interbank Payment Systems' and 'Questionnaire on Access to Card Payment Systems'.
ANP (Account Number Portability)	The concept of allowing an end-user to change their banking service provider with minimum effort and without changing their bank account number.
ATM (Automated Teller Machine)	A device that enables users, typically using machine-readable plastic cards, to withdraw cash from their accounts and/or access other services.
ATM deployer	A company which owns and operates ATMs.
authentication (in the context of payment processing)	A security mechanism for verifying the identity and/or authority of a person or entity in relation to a potential transfer of funds.
authorisation (in the context of payment processing)	Consent given by a person or entity to a PSP (or to a third party acting on behalf of that PSP) in order to allow the transfer of funds.
Bacs	The payment system which processes payments through two principal electronic payment schemes: Direct Debit and Bacs Direct Credit. The payment system is operated by BPSL.
the Bank	The Bank of England.
banks	For the purposes of this Consultation Paper, the term 'banks' refers more generally to both banks and building societies.
BBA	The British Bankers' Association.
BBCCL	Belfast Bankers' Clearing Company Ltd – the Operator of the NICC payment system.
BPSL	Bacs Payment Schemes Ltd – the Operator of the Bacs payment system.
C&CC (Cheque & Credit Clearing)	The payment system in England, Scotland and Wales that processes cheques and other paper instruments. It is operated by C&CCCL.
C&CCCL	Cheque and Credit Clearing Company Ltd – the Operator of the C&CC payment system.
CA98	Competition Act 1998.
Call for Inputs	This refers to the <i>Payment Systems Regulator: Call for Inputs</i> (5 March 2014) requesting feedback from stakeholders on a range of issues. See http://www.fca.org.uk/your-fca/documents/payment-systems-regulation-call-for-inputs .
card (payment card)	A device or personalised set of procedures agreed between the service-user and the PSP that can be used by its holder to pay for goods and services or to withdraw money.

card acquirer (or acquirer)	A PSP that processes card payments on behalf of a merchant. In point-of-sale transactions, the acquirer is the entity to which the merchant transmits the necessary information in order to process the card payment.
card issuer (or issuer)	A PSP that makes payment cards available to cardholders, authorises cards and card-initiated transactions (i.e. at point-of-sale, online or at ATMs), and guarantees payment to the acquirer for transactions that conform with the rules of the relevant system.
Card Operator	An Operator of a card payment system.
card payment system (or card system)	A payment system supporting payments made by cards. Examples of card payment systems that we expect to be designated by the Treasury are MasterCard and Visa.
CASS (Current Account Switch Service)	A service that makes it easier for customers to switch their current account.
Central Infrastructure	A package of systems and services provided under contract to an Operator for the purpose of operating the relevant payment system, and specifically the processing of payment transactions and funds transfers. The package must include at a minimum the provision of hardware and software (including related ancillary support services). It may include additional services such as secure telecommunications networks, facilities, physical security or support staff. Central Infrastructure may be provided to the Operator by an external provider, or internally.
Central Infrastructure Provider	An Infrastructure Provider who provides Central Infrastructure to an Operator under a contract.
CHAPS	The UK's real-time, high-value sterling payment system, where payments are settled over the Bank's RTGS system. It is operated by CHAPS Co.
CHAPS Co	CHAPS Clearing Company Ltd – the Operator of the CHAPS payment system.
clearing	The process of transmitting, reconciling and, in some cases, confirming transfer orders prior to settlement, potentially including the netting of orders and the establishment of final positions for settlement.
CMA	Competition and Markets Authority.
Code of Conduct	For the purposes of this Consultation Paper, this refers to the PSR-approved 'Code of Conduct' referred to in our proposals for Indirect Access in <i>Supporting Paper 4: Access to payment systems</i> .
constitution	Memorandum and/or Articles of Association or equivalent constitutional document of a company, organisation or association.
CPSS	Committee on Payment and Settlement Systems, which changed its name in September 2014 to Committee on Payments and Market Infrastructures (CPMI).
CPSS-IOSCO Principles	Principles for Financial Market Infrastructures published by CPSS-IOSCO in April 2012. These were adopted as principles by the Bank under section 188 of the Banking Act 2009 for payment systems recognised by the Bank (i.e. Bacs, CHAPS and FPS).
Current Account Switch Service	See CASS.

Designated Representative Body	A body which has been designated by the Treasury for the purposes of s.68 FSBRA as a body that may make a complaint to the PSR that a feature, or combination of features, of a market in the UK for services provided by payment systems is, or appears to be, significantly damaging the interests of service-users.
de-tiering (and tiering)	A tiering arrangement refers to the arrangement whereby a PSP can choose to rely on the services of a Direct PSP to access a payment system indirectly, such as a Sponsor Agreement (this is only possible in payment systems that allow Indirect Access). De-tiering refers to a reduction in tiering arrangements in a payment system.
Direct Access	As under s.42(6) FSBRA, a PSP has Direct Access to a payment system if the PSP is able to provide services for the purposes of enabling the transfer of funds using the payment system as a result of arrangements made between the PSP and the Operator. For the purposes of this Consultation Paper, 'arrangements' refers to the following: <ul style="list-style-type: none"> • In the case of Bacs, C&CC, CHAPS, FPS and Visa, the arrangements are made between the PSP, the other existing Direct PSPs and the Operator. • In the case of MasterCard, the arrangements are made between the PSP and the Operator. For the purposes of this Consultation Paper, in the cases of LINK and NICC we also consider that Direct Access is the result of the following arrangements: <ul style="list-style-type: none"> • In the case of LINK (and because of LINK's particular organisation model), the arrangements are made between the PSP, the other existing Direct PSPs and the Infrastructure Provider to the LINK payment system (VocaLink). • In the case of NICC, the arrangements are made between the PSP and the other existing Direct PSPs.
Direct Agency Access	This describes the specific situation where an Indirect PSP has Direct Technical Access arrangements for FPS, by securing Direct Technical Access through a third-party provider, without becoming a Direct PSP of FPS. In this scenario the Indirect PSP uses a Sponsor Bank for the provision of settlement services.
Direct Credit	The Bacs scheme by which a person or entity can transfer funds electronically, directly into a specified bank account (e.g. paying salaries).
Direct Debit	The Bacs scheme for collecting pre-authorised debits on the payer's bank account, which are initiated by the payee.
Direct PSP	A PSP that has Direct Access.
Direct Technical Access	The manner in which a PSP technically connects directly with either a payment system Infrastructure Provider or an Operator in order to enable the transfer of funds. For the purposes of this Consultation Paper, Direct Technical Access does not include the settlement of funds.
EA02	Enterprise Act 2002.
EMI (Electronic Money Institution)	A person that has been granted authorisation under a national legislation implementing title II of the Electronic Money Directive (2009/110/EC) including, for the avoidance of doubt, a person who has been granted a waiver from full authorisation and been registered in accordance with Article 9 Electronic Money Directive (a 'small EMI').

end-user	A person who is a payee or payer.
FCA	Financial Conduct Authority.
FMIRs	The Financial Markets and Insolvency (Settlement Finality) Regulations 1999 (SI 1999/2979) which contains the UK transposition of the European Settlement Finality Directive (Directive 98/26/EC) (SFD).
four-party card system	A card system where the stakeholders involved are: 1) the issuer; 2) the acquirer; 3) the cardholder; and 4) the merchant. Examples of a four-party system are MasterCard and Visa.
FPS (Faster Payments Service)	The payment system that provides near real-time payments as well as Standing Orders. It is operated by FPSL.
FPSL	Faster Payments Scheme Ltd – the Operator of the FPS payment system.
FSBRA	Financial Services (Banking Reform) Act 2013.
HMRC	Her Majesty's Revenue & Customs.
IBAN (International Bank Account Number)	An International Organization for Standardization code that uniquely identifies an individual account at a specific financial institution in a particular country.
IFR (Interchange Fee Regulation)	The draft Regulation of the European Parliament and of the Council on interchange fees for card-based payment transactions.
Indirect Access	For the purposes of this Consultation Paper, a PSP has Indirect Access to a payment system if it has a contractual arrangement with a Direct PSP to enable it to provide services (for the purposes of enabling the transfer of funds using that payment system) to persons who are not participants in the system.
Indirect PSP	A PSP that has Indirect Access.
Information Hub	For the purposes of this Consultation Paper, this refers to the Information Hub being developed by industry and referred to in our proposals for Indirect Access in <i>Supporting Paper 4: Access to payment systems</i> .
Infrastructure Provider	As under s.42(4) FSBRA, any person who provides or controls any part of the infrastructure used for the purposes of operating a payment system.
Interbank Operator	An Operator of an interbank payment system.
interbank payment system (or interbank system)	The Bacs, C&CC, CHAPS, FPS, LINK and NICC payment systems (i.e. it does not include card payment systems).
interchange fees	The term used in the payment card industry to describe a fee usually paid between PSPs for the acceptance of card-based transactions. They can be bilateral or multilateral. For example, for credit or debit card transactions, the interchange is a fee paid to the cardholder's PSP (the 'card-issuing PSP') by a merchant's PSP (the 'acquiring PSP') for each transaction made.
IOSCO	International Organization of Securities Commissions.

ISO 20022	An international financial messaging standard that is being introduced into a number of payment systems.
KPMG Infrastructure Report	A report on payment systems infrastructure commissioned by the PSR. The report by KPMG, ' <i>UK Payments Infrastructure: Exploring Opportunities</i> ', is an Annex to <i>Supporting Paper 2: Payments industry strategy and areas for collaboration</i> .
KYC (Know Your Customer)	Or Know Your Business, as appropriate. This refers to the due-diligence that financial institutions must perform in order to identify their customer and ascertain relevant information from them to perform business with them (and comply with the relevant legislation). KYC controls are designed to prevent identity fraud, money laundering, terrorist financing and to ensure compliance with international trade sanctions.
LINK	The payment system which enables end-users to take cash out of their accounts (amongst other activities) using the network of ATMs in the UK. It is operated by LINK Scheme.
LINK Scheme	The Operator of the LINK payment system. The LINK Scheme does not itself install or operate cash machines.
London Economics Report on Competition and Collaboration	A report on competition and collaboration in payment systems commissioned by the PSR. The report by London Economics, ' <i>Competition and collaboration in UK payment systems</i> ', is an Annex to <i>Supporting Paper 2: Payments industry strategy and areas for collaboration</i> .
merchant	In a payment system context, a merchant is the retailer or service provider that accepts electronic payments (including card payments) from end-users, through the services of an acquirer.
MIFs (Multilateral Interchange Fees)	Multilaterally-agreed interchange fees payable between the PSPs of the payer and payee.
mobile payment service	A payment service made available through a mobile device (e.g. a smart phone).
MSC (Merchant Service Charge)	A fee that merchants pay to their acquirer, in return for a range of services (including payment guarantee, connectivity to the card system network, terminal hardware and software, customer support).
NDA (Non-Disclosure Agreement)	A contract by which one party agrees not to disclose confidential information that it has received from another party.
NICC (Northern Ireland Cheque Clearing)	The payment system in Northern Ireland that processes cheques and other paper instruments. It is operated by BBCCL.
objectives (or 'our objectives')	The PSR's statutory objectives as set out in ss.50-52 FSBRA – these are the competition objective, the innovation objective and the service-user objective.
Ofcom/PSR Joint Study	A joint report by Ofcom and the PSR, titled ' <i>Innovation in UK Consumer Electronic Payments</i> ' (November 2014), is an Annex to <i>Supporting Paper 2: Payments industry strategy and areas for collaboration</i> .

Operator (Payment System Operator)	As under s.42(3) FSBRA, in relation to a payment system, Operator means any person with responsibility under the system for managing or operating it; and any reference to the operation of a payment system includes a reference to its management.
pan-GB Operators	A sub-category of Operators which have activities across a substantial part of Great Britain.
participants in payment systems	As under s.42(2) FSBRA, includes Operators, PSPs and Infrastructure Providers.
Paym	A service that enables person-to-person payments to be made using mobile phone numbers as a proxy for sort code and account number.
PI (Payment Institution)	A person that has been granted authorisation under a national legislation implementing the PSD or been granted a waiver from full authorisation and been registered in accordance with Article 26 PSD (a 'small PI').
payment processing	The performance of the actions required, in accordance with the rules of a payment system, for the handling of a transfer of funds from the point of acceptance by the system to the point of discharge from the system. Processing may include initiation, clearing, sorting, netting, and/or matching.
payment routing information	A combination of letters, numbers or symbols specified by an entity to be provided when instructing or requesting a payment for the purpose of routing the payment to the correct destination.
payment system	As under s.41 FSBRA, a payment system is a system which is operated by one or more persons in the course of business (for the purpose of enabling persons to make transfers of funds), and includes a system which is designed to facilitate the transfer of funds using another payment system. Limited exclusions are set out in s.41(2) and (3) FSBRA. Only payment systems which are designated by the Treasury are 'regulated payment systems'.
payment systems infrastructure	<p>Payment systems infrastructure is the hardware, software, connections and operating environments that support the clearing and/or settlement of a payment or funds transfer request after it has been initiated.</p> <p>For the purposes of this Consultation Paper, 'payment systems infrastructure' refers collectively (and individually) to</p> <ul style="list-style-type: none"> (i) Central Infrastructure and other infrastructure within Operators or provided to Operators (ii) payments-related infrastructure within PSPs or provided to PSPs (iii) payments-related infrastructure provided to service-users <p>for the purpose of enabling the transfer of funds using a payment system.</p>
Payments Council	An industry membership organisation set up following the OFT's Payment Systems Task Force, which includes a focus on payment systems.
PRA	Prudential Regulation Authority.
Principal	A Direct PSP in a card payment system. Principals can issue cards, service merchants and sponsor other financial institutions for membership of a card system.
Principles (PSR Principles)	High level legally binding rules proposed by the PSR which set out the expected behaviour of industry participants (similar to the FCA's PRIN Sourcebook). See <i>Supporting Paper 6: Regulatory tools</i> .

PSD (Payment Services Directive)	The European Payment Services Directive (2007/64/EC) which has been implemented into UK law by the PSRs 2009. The PSD provides the legal foundation for the creation of an EU-wide single payments market.
PSD2	A proposed revision of the PSD.
PSP (Payment Service Provider)	As under s.42(5) FSBRA, a PSP, in relation to a payment system, means any person who provides services to persons who are not participants in the system for the purposes of enabling the transfer of funds using the payment system. For the purposes of this Consultation Paper, this includes Direct PSPs and Indirect PSPs.
PSRs 2009	Payment Services Regulations 2009 (SI 2009/209) – these are the UK regulations which implement the PSD.
regulated payment system	A payment system designated by the Treasury under s.43 FSBRA. The payment systems that the Treasury has proposed designating in its consultation <i>'Designation of Payment Systems for Regulation by the Payment Systems Regulator'</i> (14 October 2014) are: Bacs, C&CC, CHAPS, FPS, LINK, NICC, MasterCard and Visa.
Reporting Rule	The Reporting Rule proposed by the PSR requires all regulated Operators subject to an access obligation (either our proposed Access Rule or Regulation 97 of the PSRs 2009, as applicable) to keep under review their Access Requirements, provide annual compliance reports to the PSR, keep the PSR informed of any material updates and changes which are made to their Access Requirements and publish their Access Requirements on their website. The Reporting Rule is part of the Access Package of proposals.
RPI Paper on International Approaches	A paper commissioned by the PSR. The Paper by the Regulatory Policy Institute, <i>'Overview of the approach to strategy setting for payment systems in selected jurisdictions'</i> , is an Annex to <i>Supporting Paper 2: Payments industry strategy and areas for collaboration</i> .
RPI Regulatory Approach Report	A report on the regulatory approach of different economic regulators commissioned by the PSR. The report by the Regulatory Policy Institute, <i>'Assessment of the Suitability of Different Regulatory Approaches to Economic Regulation that could be applied to Payment Systems'</i> , is an Annex to <i>Supporting Paper 1: The PSR and UK payments industry</i> .
RTGS (Real Time Gross Settlement)	The continuous (real-time) settlement of funds transfers individually on an order-by-order basis. Each individual payment is settled in real time across the settlement accounts of Direct PSPs.
RTGS (of the Bank of England)	The Bank of England's system for continuous (real-time) settlement of funds transfers.
SEPA (Single Euro Payments Area)	The SEPA Regulation (EC 260/2012). The Regulation aims to create a European single market for retail payments. Effective from 1 August 2014 in euro area countries, and by 31 October 2016 in non-euro area countries.
service bureau	Provides an outsourced service for the submission and processing of payments on behalf of service-users. Service bureaux may also provide a range of value-added services (such as payroll processing).
service-user	As under s.68(1) FSBRA, service-user means those who use, or are likely to use, services provided by payment systems.

settlement	The discharge of obligations in respect of funds owing between two or more participants in a payment system.
settlement account	An account which is used to settle transactions between participants in some payment systems.
SFD (Settlement Finality Directive)	The EU Directive on Settlement Finality in Payment and Securities Settlement Systems (Directive 98/26/EC), implemented into UK law by the FMIRs. The Bank of England is the UK designating authority for the purposes of the SFD.
sort code	A six digit number used for the purpose of routing payments in certain payment systems.
Sponsor Agreement	An agreement in which an Indirect PSP obtains access to one or more payment systems through a Sponsor Bank. (Also referred to as an Agency Agreement.)
Sponsor Bank	A Direct PSP that provides other PSPs with Indirect Access for the purpose of enabling the transfer of funds within the UK.
Standing Order	An instruction from a payer to their PSP to pay a set amount at regular intervals to the payee's account. The majority of Standing Orders are made through FPS.
Technical Access	The manner in which a PSP technically connects with either a payment system Infrastructure Provider, an Operator, a Sponsor Bank or a third-party service provider in order to enable the transfer of funds. For the purposes of this Consultation Paper, Technical Access does not include the settlement of funds.
TFEU (Treaty on the Functioning of the European Union)	The Consolidated Version of the Treaty on the Functioning of the European Union (2012 OJ C326/47).
third-party service provider	A third-party service provider who provides services to facilitate the processing, acceptance, management and/or transmission of payments. Examples include technology providers, telecommunication providers, payment gateways/platforms, point-of-sale terminal providers, and fraud management services.
three-party card system	A card system involving the following stakeholders: 1) the card system itself, which acts as issuer and acquirer; 2) the cardholder; and 3) the merchant. An example of a three-party system is American Express.
the Treasury	Her Majesty's Treasury.
TSC	Treasury Select Committee.

Annex 2:
PSR General directions and general requirements
on participation in regulated payment systems

PSR General directions and general requirements on participation in regulated payment systems

This annex includes the following proposed directions and general guidance:

- Proposed general provisions regarding the application of the general directions and general requirements on participation in *regulated payment systems*
- Proposed general directions on principles of participation in *regulated payment systems*
 - Commencement
 - **General Principles**
- Proposed general directions on access to and governance of *regulated payment systems*
 - Commencement
 - Transitional provisions in relation to these general directions on access to and governance of *regulated payment systems*
 - **General direction 1 (Access)**
 - **General direction 2 (Access)**
 - **General direction 3 (Access)**
 - **General direction 4 (Governance)**
 - **General direction 5 (Governance)**
 - **General direction 6 (Governance)**

General provisions regarding the application of general directions and general requirements on participation in regulated payment systems

Guidance:

General directions are made under section 54 of the Financial Services (Banking Reform) Act 2013 (the *Act*), general requirements under section 55 of the *Act* and guidance under section 96 of the *Act*.

Guidance, including in this section, appears in a separate box.

Breaching a general direction or general requirement is a compliance failure, which makes a *participant* liable for regulatory sanctions.

Guidance, on the other hand, does not give rise to a binding obligation. Guidance may be used, among other things, to explain the implications of other provisions (such as general directions), to indicate a possible means of compliance and to recommend a particular course of action. Guidance is generally used to throw light on a particular aspect of a regulatory requirement, not to be an exhaustive description of a *participant's* obligations.

A *participant* cannot be liable for a compliance failure merely because it has not followed guidance. Nor is there any presumption that departing from guidance is indicative of a breach of the relevant direction. However, if a *participant* acts in accordance with guidance in the circumstances contemplated by that guidance, then the Payment Systems Regulator will proceed as if that *participant* has complied with the aspects of the direction or requirement to which the guidance relates.

The application of general directions and requirements

General provision GP1

General directions and general requirements only apply to *participants* in *regulated payment systems*.

Guidance:

The application of general directions or general requirements on participation in *regulated payment systems* will depend on who the direction or requirement is aimed at.

In some instances this will be obvious from the direction or requirement itself. For example, some directions only apply to *operators*. The following General Provisions restrict the application of the directions and requirements to take into account, among other things, matters reserved for authorities and regulators under EU instruments, including authorities and regulators in other EEA States.

General provision GP2

The application of the directions and requirements made by the Payment Systems Regulator are restricted by the following:

- a. directions and requirements do not apply to any *participant* that provides services to persons in the United Kingdom in so far as responsibility for the matter in question is reserved by an EU instrument for another EEA State (or an authority in that EEA State)
- b. the reference to the provision of services to persons in the United Kingdom includes both services provided on a cross-border basis and services provided from an establishment in the United Kingdom.

Guidance:

The general directions and general requirements on participation in *regulated payment systems* are not intended to apply to foreign *participants* exercising the freedom to provide services or the right of establishment where the conduct supervision of that *participant* is reserved by an EU instrument to an authority in another EEA State. In particular, the general directions and general requirements on participation in *regulated payment systems* are not intended to apply to a *participant* insofar as the matter in question is reserved for an authority in another EEA State by, for example:

- Regulation 575/2013 (the Capital Requirements Regulation)
- Directive 2007/64/EC (the Payment Services Directive)
- Directive 2009/110/EC (the E-Money Directive)

The general directions and general requirements on participation in *regulated payment systems* are not intended to apply to a service provider within the meaning of article 2(b) of Directive 2000/31/EC (the E-Commerce Directive) that provides services to persons in the United Kingdom from an establishment in another EEA State to the extent that the service provider is acting as such.

General provision GP3

A *participant* will not be subject to a direction or requirement to the extent that it would be contrary to the United Kingdom's obligations under an EU instrument.

Guidance:

The general directions and general requirements on participation in *regulated payment systems* will not apply to the extent that they purport to impose an obligation which is inconsistent with the requirements of an EU instrument. For example, there may be circumstances where the scope of a direction is limited by the harmonised obligations contained in Directive 2007/64/EC (the Payment Services Directive) or Directive 2009/110/EC (the E-Money Directive).

General provision GP4

The general directions and general requirements on participation in *regulated payment systems* apply to activities of *participants* within the United Kingdom, or which impact on the activities of *participants* in the United Kingdom in relation to *regulated payment systems* and services provided by *regulated payment systems*.

Emergency

Guidance:

The Payment Systems Regulator recognises that there may be occasions when, because of a particular emergency, a *participant* may be unable to comply with a particular direction or requirement. The purpose of this guidance is to provide insight into our approach in such circumstances.

If any emergency arises which:

- makes it impracticable for a *participant* to comply with a particular direction or requirement
- could not have been avoided by the *participant* taking all reasonable steps, and
- is outside the control of the *participant* and its agents (and any of their employees)

the Payment Systems Regulator will not normally consider the *participant* to be failing to comply with that direction or requirement to the extent that, in an emergency, compliance with that direction or requirement is impracticable.

This would normally be the position of the Payment Systems Regulator only for as long as:

- the consequences of the emergency continue, and
- the *participant* can demonstrate that it is taking all practicable steps to deal with those consequences, to comply with the direction or requirement, and to mitigate losses and potential losses to *service-users* (if any).

We expect such a *participant* to notify us as soon as practicable of the emergency and of the steps it is taking and proposes to take to deal with the consequences of the emergency.

In the context of the above in emergencies, an action is normally considered not practicable if it involves a *participant* going to unreasonable lengths.

The above does not affect our powers to take action in an emergency. For example, the Payment Systems Regulator may exercise its power to grant access or to issue a specific direction in an emergency.

Proposed general directions on Principles of participation in regulated payment systems

Powers exercised

The Payment Systems Regulator makes these general directions in accordance with the following sections of the Financial Services (Banking Reform) Act 2013 ('the Act'):

- sections 49 to 53 (General duties of regulator)
- section 54 (Regulatory and competition functions – directions)
- section 96 (Guidance)
- section 104(2)(b) (Consultation in relation to generally applicable requirements)

Commencement

These general directions come into force on 1 April 2015.

Consultation

The Payment Systems Regulator has consulted with the Bank of England, the FCA and the PRA in accordance with section 104(2)(a) of the Act.

Citation

These general directions may be cited as General Principles.

By order of the Board of the Payment Systems Regulator

[date]

Interpretations and definitions used within these general directions on *Principles* of participation in *regulated payment systems*

Except insofar as the context otherwise requires, words or expressions will have the meaning assigned to them in these directions and otherwise any word or expression will have the same meaning as it has in the *Act*.

<i>Act</i>	Financial Services (Banking Reform) Act 2013
<i>central infrastructure</i>	a package of systems and services, comprising hardware and software, provided under contract to an <i>operator</i> for the purposes of operating the relevant <i>regulated payment system</i> , including the processing of funds transfers
<i>central infrastructure provider</i>	an <i>infrastructure provider</i> when providing <i>central infrastructure</i>
<i>infrastructure provider</i>	see section 42(4) of the <i>Act</i>
<i>operator</i>	see section 42(3) of the <i>Act</i>
<i>participant</i>	see section 42(2) of the <i>Act</i>
<i>payment service provider</i>	see section 42(5) of the <i>Act</i>
<i>payment system</i>	see section 41 of the <i>Act</i>
<i>Principle(s)</i>	one or more of the <i>Principles</i> of participation in <i>regulated payment systems</i> set out in these general directions
<i>regulated payment system</i>	a <i>payment system</i> designated by HM Treasury under section 43 of the <i>Act</i>
<i>service-users</i>	those who use or are likely to use services provided by <i>regulated payment systems</i>

For the purpose of interpreting these directions:

- the General Provisions are incorporated into these general directions and are to be read as directions under section 54 of the *Act* or as guidance under section 96 of the *Act*, as appropriate
- headings and titles shall be disregarded, and
- the Interpretation Act 1978 shall apply as if these directions were an Act of Parliament.

Direction 1 – The *Principles*

<i>Principles of participation in regulated payment systems</i>	
Relations with regulators	<i>A participant</i> must deal with its regulators in an open and cooperative way and must disclose to the Payment Systems Regulator anything relating to the <i>participant</i> of which the Payment Systems Regulator would reasonably expect notice.
Compliance	<i>A participant</i> must observe proper standards of conduct and refrain from activity which that <i>participant</i> should reasonably have expected to restrict or prevent another <i>participant</i> from complying with its regulatory obligations in relation to <i>regulated payment systems</i> and services provided by <i>regulated payment systems</i> .
Financial prudence	<p>An <i>operator</i> or <i>infrastructure provider</i> must ensure it has, or has access to, adequate financial resources to ensure that it is able to carry out its functions and activities in relation to the <i>regulated payment system</i> it operates in the case of an <i>operator</i>, or the <i>regulated payment system</i> or <i>systems</i> whose <i>central infrastructure</i> it provides or controls in the case of an <i>infrastructure provider</i>, including resources to</p> <ul style="list-style-type: none"> • cover potential general business losses and debts as they fall due • continue operations and services as an a going concern if those losses or debts materialise, and • comply with its regulatory obligations in relation to <i>regulated payment systems</i> and services provided by <i>regulated payment systems</i>.

Application of the *Principles of participation in regulated payment systems*

General

Guidance:

Breaching a *Principle* makes a *participant* liable to regulatory sanctions. In determining whether a *Principle* has been breached, it is necessary to look to the standard of conduct required by the *Principle* in question. Under each of the *Principles* the focus will be on the Payment Systems Regulator to show that a *participant* has been at fault or deficient in some way.

The *Principles* are relevant to the Payment Systems Regulator's powers of information gathering and of investigation and intervention.

Who?

Guidance:

The application of the *Principles* is set out in the first instance in the *Principle* itself, and varies depending on the *Principle*.

The application of *Principle 3* is restricted to *operators* and *infrastructure providers*, while *Principles 1* and *2* apply to all *participants*.

What?

Direction 2

- 2.1 The *Principles* apply in so far as they:
 - a. require or prohibit the taking of specified action in relation to a *regulated payment system*
 - b. set the standards to be met in relation to the *regulated payment system* in which a *participant* participates.
- 2.2 Where *Principle 1* refers to regulators, this means, in addition to the Payment Systems Regulator, other regulators with recognised jurisdiction in relation to participation in a *regulated payment system*, whether those regulators are in the United Kingdom or abroad.
- 2.3 *Principle 2* does not apply to the extent that the activity pursued by the *participant* is required to comply with its own statutory or regulatory obligations.

- 2.4 *Principle 3* does not apply to the extent that it relates to the functions and activities of an *infrastructure provider* that are not in connection with the provision of *central infrastructure*.

Guidance:

Principle 1 and *Principle 3* take into account the activities of members of a *participant's* group. This does not mean that, for example, inadequacy of a group member's resources will automatically lead to a *participant* contravening *Principle 3*. Rather, the potential impact of a group member's activities could be relevant in determining the adequacy of the *participant's* resources.

Proposed general directions on access to, and governance of, regulated payment systems

Powers exercised

The Payment Systems Regulator makes these general directions in accordance with the following sections of the Financial Services (Banking Reform) Act 2013 ('the Act'):

- sections 49 to 53 (General duties of regulator)
- section 54 (Regulatory and competition functions – directions)
- section 96 (Guidance)
- section 104(2)(b) (Consultation in relation to generally applicable requirements)

Commencement

These general directions come into force as follows:

General direction	Applicable to	Commencement date
General direction 1 (Access)	Non-PSR 2009 payment system operators	30 June 2015
General direction 2 (Access)	PSR 2009 payment system operators	30 June 2015
General direction 3 (Access)	Sponsor banks	1 April 2015
General direction 4 (Governance)	Regulated payment system operators	30 September 2015
General direction 5 (Governance)	Operators of non-card regulated payment systems	1 April 2015
General direction 6 (Governance)	Regulated payment system operators	1 April 2015

Consultation

The Payment Systems Regulator has consulted with the Bank of England, the FCA and the PRA in accordance with section 104(2)(a) of the Act.

Citation

These general directions may be cited as:

- General direction 1 (Access)
- General direction 2 (Access)
- General direction 3 (Access)
- General direction 4 (Governance)
- General direction 5 (Governance)
- General direction 6 (Governance)

By order of the Board of the Payment Systems Regulator

[date]

Interpretations and definitions used within these general directions on access to and governance of *regulated payment systems*

Except insofar as the context otherwise requires, words or expressions will have the meaning assigned to them in these directions and otherwise any word or expression will have the same meaning as it has in the Act.

<i>access requirements</i>	the rules (including criteria), terms or conditions (including fees and charges), policies and procedures governing access to, or participation in, a <i>regulated payment system</i>
<i>Act</i>	Financial Services (Banking Reform) Act 2013
<i>card payment system</i>	a <i>regulated payment system</i> that enables a holder of a payment card to effect a payment
<i>central infrastructure</i>	a package of systems and services, comprising hardware and software, provided under contract to an <i>operator</i> for the purposes of operating the relevant <i>regulated payment system</i> , including the processing of funds transfers
<i>central infrastructure provider</i>	an <i>infrastructure provider</i> when providing <i>central infrastructure</i>
<i>direct access</i>	access to a <i>regulated payment system</i> to enable a <i>payment service provider</i> to provide services for the purposes of enabling the transfer of funds using the <i>regulated payment system</i> , as a result of arrangements made between that <i>payment service provider</i> and the <i>operator</i> (and other <i>participants</i> , as applicable)
<i>direct payment service provider</i>	a <i>payment service provider</i> with <i>direct access</i> to a <i>regulated payment system</i>
<i>direct technical access</i>	a direct connection by a <i>payment service provider</i> or another third party with the <i>central infrastructure</i> used by a <i>regulated payment system</i>

<i>director</i>	in relation to an unincorporated association or a body corporate, any person appointed to direct its affairs, including a person who is a member of its <i>governing body</i>
<i>governing body</i>	the board of <i>directors</i> , committee of management, or other body entitled to take management decisions, as set out in the memorandum and articles of association or equivalent constitutional document
<i>indirect access</i>	access to a <i>regulated payment system</i> through a contractual arrangement with a <i>direct payment service provider</i> to enable it to provide services (for the purposes of enabling the transfer of funds using that <i>regulated payment system</i>) to persons who are not <i>participants</i> in the system
<i>indirect payment service provider</i>	a <i>payment service provider</i> that has <i>indirect access</i>
<i>infrastructure provider</i>	see section 42(4) of the <i>Act</i>
<i>major office</i>	a <i>sponsor bank's</i> registered office or head office
<i>Northern Ireland Cheque Clearing</i>	the <i>regulated payment system</i> in Northern Ireland that processes cheques and other payment instruments and is operated by Belfast Bankers' Clearing Company Ltd
<i>operator</i>	see section 42(3) of the <i>Act</i>
<i>participant</i>	see section 42(2) of the <i>Act</i>
<i>payment service provider</i>	see section 42(5) of the <i>Act</i>
<i>payment system</i>	see section 41 of the <i>Act</i>
<i>PSR 2009</i>	Payment Services Regulations 2009 (SI 2009/209)
<i>PSR 2009 payment system</i>	a <i>regulated payment system</i> to which Part 8 of the <i>PSR 2009</i> applies
<i>public interest matters</i>	a matter concerning the <i>operator</i> , the <i>regulated payment system</i> operated by the <i>operator</i> or the payments industry for the long-term benefit of the United Kingdom, its citizens and businesses as a whole, with particular emphasis on customer needs, competition, innovation, reducing barriers to entry in the payments industry and limiting systemic risk, as set out in the memorandum and articles of association or equivalent constitutional document of the relevant <i>operator</i>

<i>regulated payment system</i>	a <i>payment system</i> designated by HM Treasury under section 43 of the <i>Act</i> .
<i>service-users</i>	those who use or are likely to use services provided by <i>regulated payment systems</i>
<i>sponsor bank</i>	a <i>payment service provider</i> that has <i>direct access</i> to a <i>regulated payment system</i> and provides <i>indirect access</i> to that system to other <i>payment service providers</i> for the purpose of enabling the transfer of funds within the United Kingdom
<i>sponsor bank eligibility criteria</i>	the criteria that a <i>payment service provider</i> must meet to be eligible for the supply of <i>sponsor bank services</i>
<i>sponsor bank services</i>	services provided to a <i>payment service provider</i> or potential <i>payment service provider</i> who is not a <i>participant</i> in a particular <i>regulated payment system</i> to enable them to become and continue to be an <i>indirect payment service provider</i> using that <i>regulated payment system</i>

For the purpose of interpreting these directions:

- the General Provisions are incorporated into these general directions and are to be read as directions under section 54 of the *Act* or as guidance under section 96 of the *Act*, as appropriate
- headings and titles shall be disregarded, and
- the Interpretation Act 1978 shall apply as if these directions were an Act of Parliament.

Transitional provisions in relation to these general directions on access to and governance of *regulated payment systems*

Transitional provision TP1

In the first year following designation of a *payment system* by HM Treasury under section 43 of the *Act*, references to the '12-month period' in general direction 1 (access), general direction 2 (access) and general direction 4 (governance) are to be read as references to the period beginning with the date of designation and ending with the specified date on which the relevant report is due.

Transitional provision TP2

For reports due in 2015, the following transitional provision applies:

- a. the report due on 31 July 2015 from non-*PSR 2009 payment system operators* need only include the following:
 - i. a self-assessment by the *operator* on preparatory work it has carried out to ensure that its *access requirements* are compliant with the obligation in paragraph 1.1 by 30 June 2015, and
 - ii. the items in paragraphs 1.4(e) and 1.4(f);
- b. the report due on 31 July 2015 from *PSR 2009 payment system operators* need only include the following:
 - i. a self-assessment by the *operator* on its compliance with the obligation in regulation 97 of the *PSR 2009* covering the period from 1 July 2014 to 30 June 2015, and
 - ii. the items in paragraphs 2.4(e) and 2.4(f);
- c. the report due on 31 October 2015 from *regulated payment system operators* need only include the following:
 - i. a self-assessment by the *operator* on preparatory work it has carried out to ensure that it is compliant with the obligation in paragraph 4.1 by 30 September 2015, and
 - ii. the items in paragraph 4.2(c).

General direction 1 (Access): non-PSR 2009 regulated payment system operators

- 1.1 An operator of a regulated payment system which is not a PSR 2009 payment system or Northern Ireland Cheque Clearing must have objective, risk-based and publicly disclosed access requirements which permit fair and open access to the regulated payment system.
- 1.2 For the purposes of paragraph 1.1, public disclosure of the access requirements means by providing at least the following:
 - a. a copy of such access requirements in a prominent, easily accessible position on any relevant website operated or controlled by that operator
 - b. the Payment Systems Regulator with a link to the relevant website referred to in paragraph 1.2(a), and
 - c. a copy of such access requirements to the Payment Systems Regulator.

Guidance:

The Payment Systems Regulator does not expect operators to publicly disclose in the access requirements of the regulated payment system any technical information which could compromise the security or integrity of the payment system.

- 1.3 The Payment Systems Regulator must be informed, as soon as reasonably practicable, of any material updates and changes which are made to the operator's access requirements.

Guidance:

Examples of material updates and changes may include, but are not limited to, changes to:

- terms and conditions relating to fees or charges for *direct access*,
- technical requirements for entry to, or ongoing participation in, the *regulated payment system* where the update or change may result in an increase in the cost of *direct access* or *direct technical access* for *payment service providers*,
- eligibility requirements for *payment service providers* to obtain or continue to have *direct access*, or
- any rule, criteria, term or condition, policy or procedure governing access to, or participation in, a *regulated payment system* that may affect *indirect access* to that *regulated payment system*.

- 1.4 A report on compliance with the obligation in paragraph 1.1 must be provided to the Payment Systems Regulator by 31 July covering the 12-month period to 30 June in each year. This report must include at least the following:
- a. a self-assessment by the *operator* on compliance of its *access requirements* with the obligation in paragraph 1.1 throughout the relevant 12-month period
 - b. details of all occasions in the relevant 12-month period when an expression of interest in potentially securing *direct access* or *direct technical access* has been made and details of the *operator's* response to, and outcome of, such expression of interest
 - c. details of all occasions in the relevant 12-month period when an enquiry or objection regarding potential changes to the *access requirements* has been made to the *operator* and details of the *operator's* response to, and outcome of, such enquiry or objection
 - d. details of all occasions in the relevant 12-month period when the *operator* has engaged with, and considered, the views of *payment service providers* and other interested parties on the operation and effectiveness of its *access requirements*
 - e. details of any anticipated *operator* review, or engagement with *payment service providers* and other interested parties, that the *operator* plans to take over the following 12-month period in relation to its *access requirements*, and
 - f. details of any anticipated future developments that the *operator* considers may require or justify material updates or changes to its *access requirements*.
- 1.5 This direction comes into effect on 30 June 2015.

General direction 2 (Access): PSR 2009 regulated payment system operators

- 2.1 An operator of a regulated payment system which is a PSR 2009 payment system must publicly disclose its access requirements.
- 2.2 For the purposes of paragraph 2.1, public disclosure of the access requirements means by providing at least the following:
- a. a copy of such access requirements in a prominent, easily accessible position on any relevant website operated or controlled by that operator
 - b. the Payment Systems Regulator with a link to the relevant website referred to in paragraph 2.2(a), and
 - c. a copy of such access requirements to the Payment Systems Regulator.

Guidance:

The Payment Systems Regulator does not expect operators to publicly disclose in the access requirements to the regulated payment system any technical information which could compromise the security or integrity of the payment system.

- 2.3 The Payment Systems Regulator must be informed, as soon as reasonably practicable, of any material updates and changes which are made to the operator's access requirements.

Guidance:

Examples of material updates and changes may include, but are not limited to, updates and changes to:

- terms and conditions relating to fees or charges,
- technical requirements for entry to, or ongoing participation in, the *regulated payment system* where the update or change may result in an increase in the cost of *direct access* or *direct technical access* for *payment service providers*,
- eligibility requirements for *payment service providers* to obtain or continue to have *direct access*, or
- any rule, criteria, term or condition, policy or procedure governing access to, or participation in, a *regulated payment system* that may affect *indirect access* to that *regulated payment system*.

2.4 An operator of a *regulated payment system* which is a *PSR 2009 payment system* must provide a report on compliance of its *access requirements* with the obligation contained in regulation 97 of the *PSR 2009* to the Payment Systems Regulator by 31 July covering the 12-month period to 30 June in each year. This report must include at least the following:

- a. a self-assessment by the operator on compliance of its *access requirements* with the obligation contained in regulation 97 of the *PSR 2009* throughout the relevant 12-month period
- b. details of all occasions in the relevant 12-month period when an expression of interest in potentially securing *direct access* or *direct technical access* has been made and details of the operator's response to, and outcome of, such expression of interest
- c. details of all occasions in the relevant 12-month period when an enquiry or objection regarding potential changes to the *access requirements* has been made and details of the operator's response to, and outcome of, such enquiry or objection
- d. details of all occasions in the relevant 12-month period in which the operator has engaged with, and considered, the views of *payment service providers* and other interested parties on the operation and effectiveness of its *access requirements*
- e. details of any anticipated operator review, or engagement with *payment service providers* and other interested parties, that the operator plans to take over the following 12-month period in relation to its *access requirements*, and
- f. details of any anticipated future developments that the operator considers may require or justify material updates or changes to its *access requirements*.

2.5 This direction comes into effect on 30 June 2015.

General direction 3 (Access): sponsor banks

- 3.1 A *payment service provider* must publish clear and up-to-date information on its *sponsor bank services* (in so far as the *payment service provider* provides such *sponsor bank services*) in respect of access to, and use of, a *regulated payment system* which is not a *PSR 2009 payment system* or *Northern Ireland Cheque Clearing* by an *indirect payment service provider*, in accordance with paragraphs 3.2 and 3.3.
- 3.2 The information published must include at least the following, in a clear, comprehensive and easily accessible form:
 - a. the *sponsor bank's* name, *major office* address and contact details of an appropriate named contact person in relation to its *sponsor bank services*
 - b. a description of the *sponsor bank services* offered, including the relevant *regulated payment system(s)* in relation to which the *sponsor bank services* are offered, and
 - c. details regarding any *sponsor bank eligibility criteria* an *indirect payment service provider* may be required to satisfy to obtain *sponsor bank services*.
- 3.3 Publication of the information means by providing at least the following:
 - a. a copy of such information in a prominent, easily accessible position on any relevant website operated or controlled by the *sponsor bank*
 - b. the Payment Systems Regulator with a link to the relevant website referred to in paragraph 3.3(a), and
 - c. a copy of such information to the Payment Systems Regulator.
- 3.4 This direction comes into effect on 1 April 2015.

General direction 4 (Governance): regulated payment system operators

- 4.1 An *operator* of a *regulated payment system* which is not *Northern Ireland Cheque Clearing* must ensure that there is appropriate representation of the interests of *service-users* in the *operator's governing body's* decision-making processes.
- 4.2 A report on compliance with the obligation in paragraph 4.1 must be provided to the Payment Systems Regulator by 31 October covering the 12-month period to 30 September in each year. This report must include at least the following:
 - a. a self-assessment by the *operator* on compliance with the obligation in paragraph 4.1 throughout the relevant 12-month period
 - b. details of all occasions in the relevant 12-month period when the *operator* has engaged with, and considered or rejected, the views of *service-users* (including *indirect payment service providers*) and other interested parties on the effectiveness of the representation of the interests of *service-users* in its decision-making processes of its *governing body*, and
 - c. details of any anticipated review, or engagement with *service-users* (including *indirect payment service providers*) and other interested parties, that the *operator* plans to take over the following 12-month period in the representation of the interests of *service-users* in its decision-making processes of its *governing body*.
- 4.3 This direction comes into effect on 30 September 2015.

General direction 5 (Governance): operators of non-card regulated payment systems

- 5.1 *An operator of a regulated payment system which is not a card payment system or Northern Ireland Cheque Clearing must take all reasonable steps to ensure that any person acting as a director of that operator must not be appointed to, retain the position of or act as a director of a central infrastructure provider to that regulated payment system.*
- 5.2 This direction comes into effect on 1 April 2015.

General direction 6 (Governance): regulated payment system operators

- 6.1 An *operator* of a *regulated payment system* which is not *Northern Ireland Cheque Clearing* must, as soon as reasonably practicable, publish minutes of its *governing body*, in accordance with paragraphs 6.2, 6.3, 6.4, 6.5 and 6.6.
- 6.2 The minutes published must include at least the following, in a clear, comprehensive and easily accessible form:
- a. an accurate summary of the discussions of the *governing body*, including any dissenting views
 - b. a record of all decisions and all votes by *directors* (where a decision is made by consensus, all *directors* present and entitled to vote must be recorded as supporting that decision, with any absentee *directors* being recorded)
 - c. the reasons behind each decision, including the reasons given by *directors* for their vote, and including where the decision is to reject a proposal made to the *governing body*, and
 - d. if applicable, a statement from all independent *directors* explaining how they have exercised their discretion related to *public interest matters*.
- 6.3 Publication of the minutes must be effected by providing:
- a. a copy of the minutes in a prominent, easily accessible position on any relevant website operated or controlled by the *operator*
 - b. the Payment Systems Regulator with a link to the relevant website in paragraph 6.3(a), and
 - c. a copy of the minutes to the Payment Systems Regulator.
- 6.4 The minutes published in accordance with paragraph 6.3 may be published in redacted form where this is necessary to protect commercial confidentiality, candid debate and the financial stability or integrity of the *regulated payment system*, but any and all redactions must be:
- a. limited to the extent necessary, reasonable and justifiable, and
 - b. in accordance with the policy in paragraph 6.6.
- 6.5 Redactions to minutes in accordance with paragraph 6.4 may also include information relating to the *operator's* activities outside of the *United Kingdom*, to the extent that those activities do not impact on the relevant *regulated payment system* in the United Kingdom, but any and all redactions must be:
- a. limited to the extent necessary, reasonable and justifiable, and

- b. in accordance with the policy in paragraph 6.6.
- 6.6 An *operator of a regulated payment system* which is not *Northern Ireland Cheque Clearing* must have a stated and reasoned policy regarding the redaction of minutes of its *governing body* and must provide the Payment Systems Regulator with a copy of that policy.
- 6.7 This direction comes into effect on 1 April 2015.

**Annex 3:
Reponse cover sheet for responding to a
consultation by the Payment Systems Regulator**

Basic details

Consultation title:	Autumn 2014 PSR Consultation Paper (CP14/1)
Name of respondent:	
Contact details/job title:	
Representing (self or organisation/s):	
Email:	
Address:	

Confidentiality

The Payment Systems Regulator (PSR) will assume that your response is non-confidential and can be published and/or referred to in our Final Policy Statement unless you identify specific parts of your response as being commercially confidential and explain in an email why you seek commercial confidentiality for each item.

If you are claiming confidentiality over any part(s) of your response, please provide both a non-confidential Word version of your response and a confidential Word version in which specific information over which you are claiming confidentiality is **yellow-highlighted**. If you are not claiming confidentiality, please provide a Word version of your non-confidential response.

Please tick this box if you are making any claim of confidentiality:

Declaration

'I confirm that the correspondence supplied with this cover sheet is a formal consultation response that the PSR can publish. However, in supplying this response, I understand that the PSR may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations, in particular if they are asked to disclose a confidential response under the Freedom of Information Act 2000. I understand that any decision the PSR make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal. If I have sent my response by email, I understand that the PSR can disregard any standard e-mail text about not disclosing email contents and attachments.

I confirm that this response only contains accurate, complete and non-misleading information.'

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Name

Signed (original or scanned hard copy)

Please send your response to: PSRconsultations@psr.org.uk
and include this cover sheet with your response

Annex 4:
PSR Consultation Questions

This document collates all of the questions set out in this consultation for stakeholders' convenience.

Question in relation to our proposed regulatory approach (see *Supporting Paper 1: The PSR and UK payments industry* for more details)

SP1-Q1: Do you agree with our regulatory approach? If you disagree with our proposed approach, please give your reasons.

Questions in relation to our proposed approach to payments industry strategy (see *Supporting Paper 2: Payments industry strategy and areas for collaboration* for more details)

SP2-Q1: Do you agree with our proposed approach (Option 1) to set up a Payments Strategy Forum, as opposed to Option 2 (maintaining the Payments Council's or a successor body's role in setting industry strategy) or Option 3 (we develop high-level priorities for the industry ourselves), as described in *Supporting Paper 2: Payments industry strategy and areas for collaboration*? If you disagree with our proposed approach, please give your reasons.

SP2-Q2: Do you have any comments on the design of the Payments Strategy Forum? In particular, please comment on how the Forum could meet the need for broad stakeholder representation while still being effective.

SP2-Q3: Do you have any comments on our indicative model for how the Payments Strategy Forum could operate in practice?

SP2-Q4: Are there any additional infrastructure-related themes you believe we, or the Payments Strategy Forum, should consider? If yes, please provide a description of why the additional themes are important to you.

Questions in relation to our proposed approach to the ownership, governance and control of payment systems (see *Supporting Paper 3: Ownership, governance and control of payment systems* for more details)

SP3-Q1: Do you agree with our proposed direction requiring all Interbank and Card Operators to ensure that there is appropriate representation of the interests of service-users in discussions and decision-making at board level? If you disagree with our proposed approach, please give your reasons.

SP3-Q2: Do you agree with the costs and benefits identified for our proposed direction on Operators to ensure there is appropriate representation of the interests of service-users? Can you provide any data that might further inform our analysis of the likely impact of our proposed direction?

- SP3-Q3:** Do you agree with our proposed direction on Interbank Operators requiring the Interbank Operator to take all reasonable steps to ensure that any individual acting as a director of that Operator must not simultaneously act as a director of an actual or potential Central Infrastructure Provider to that payment system? If you disagree with our proposed approach, please give your reasons.
- SP3-Q4:** Do you agree with our proposed approach not to issue directions at this time in relation to the other types of conflicts of interest identified by stakeholders? If you disagree with our proposed approach, please give your reasons.
- SP3-Q5:** Do you agree with the costs and benefits identified for our proposed direction requiring the Interbank Operators to take all reasonable steps to ensure that any individual acting as a director of that Operator must not simultaneously act as a director of an actual or potential Central Infrastructure Provider to that payment system? Can you provide any data that might further inform our analysis of the likely impact of our proposed direction?
- SP3-Q6:** Do you agree with our proposed direction to require all Operators to publish board minutes in a timely manner? In particular, do you agree with our proposal for the published minutes to include a record of votes and reasons for decisions made? If you disagree with our proposed approach, please give your reasons.
- SP3-Q7:** Do you agree with the costs and benefits identified for our proposed direction to require all Operators to publish board minutes in a timely manner? Can you provide any data that might further inform our analysis of the likely impact of our proposed direction?
- SP3-Q8:** Do you agree with our proposed approach not to issue a direction at this time in relation to Payments Council reserved matters? If you disagree with our proposed approach, please give your reasons.

Questions in relation to our proposed approach to access to payment systems (see *Supporting Paper 4: Access to payment systems for more details*)

- SP4-Q1:** Do you agree with our preferred option that an Access Rule, aligned with Principle 18 of the CPSS-IOSCO Principles, should be applied to those pan-GB Operators not subject to Regulation 97 of the PSRs 2009 (i.e. Bacs, C&CC, CHAPS and FPS)? If you disagree with our proposed approach, please give your reasons.
- SP4-Q2:** Do you agree with our proposal to introduce a Reporting Rule (on compliance with the access obligations applicable to them) on all relevant pan-GB Operators (i.e. Bacs, C&CC, CHAPS, FPS, LINK, MasterCard and Visa)? If you disagree with our proposed approach, please give your reasons.
- SP4-Q3:** Do you agree with our proposal to require public disclosure of Access Requirements for Operators subject to Regulation 97 of the PSRs 2009 (i.e. LINK, MasterCard and Visa)? If you disagree with our proposed approach, please give your reasons.

- SP4-Q4:** Do you agree with the costs and benefits identified for our Access Package (i.e. our Access Rule and Reporting Rule)? Can you provide any data that might further inform our analysis of the likely impact of our proposed directions?
- SP4-Q5:** Do you agree with our proposed direction requiring Sponsor Banks to publish certain information? If you disagree with our proposed approach, please give your reasons.
- SP4-Q6:** Do you agree with our proposed approach in relation to the development (by industry) of an Information Hub? Or do you consider that we should take a more prescriptive approach at this time? If you disagree with our proposed approach, please give your reasons.
- SP4-Q7:** Do you agree with our proposed approach in relation to the development (by industry) of a Sponsor Bank Code of Conduct, to be approved by the PSR? Or do you consider that we should take a more prescriptive approach at this time? If you disagree with our proposed approach, please give your reasons.
- SP4-Q8:** Do you agree with our proposed approach in relation to the development (by industry) of Technical Access solutions? Or do you consider that we should take a more prescriptive approach at this time? If you disagree with our proposed approach, please give your reasons.
- SP4-Q9:** Do you agree with the costs and benefits identified for our proposed direction on Indirect Access? Can you provide any data that might further inform our analysis of the likely impact of our directions?

Question in relation to our proposed approach in relation to interchange fees (see *Supporting Paper 5: Interchange fees* for more details)

- SP5-Q1:** Are there other matters regarding interchange fees that you think we should consider at this stage?

Questions in relation to our proposed approach to our regulatory tools (including our high-level Principles, and our enforcement and dispute resolution processes) (see *Supporting Paper 6: Regulatory tools* for more details)

- SP6-Q1:** Do you agree with our three proposed high-level PSR Principles on Relations with regulators, Compliance and Financial Prudence? If you disagree with our proposed approach, please give your reasons.
- SP6-Q2:** Do you agree with our proposed approach that our PSR Principles on Relations with regulators and on Compliance should apply to all participants? If you disagree with our proposed approach, please give your reasons for disagreeing, and explain which categories of participants you consider they should apply to and why.

- SP6-Q3:** Do you agree with our proposed approach that our PSR Principle on Financial Prudence should apply to Operators and Central Infrastructure Providers? If you disagree with our proposed approach, please give your reasons for disagreeing, and explain which categories of participants you consider it should apply to and why.
- SP6-Q4:** Do you think that we should also adopt some or all of the additional proposed Principles relating to Integrity, Skill care & diligence, Management & control, Governance, Service-users' interests, and/or Conflicts of interest? If you think we should adopt some or all of the additional proposed Principles, do you agree with the proposed participants to which each Principle would apply? Please give reasons for your response. If you disagree with the proposal to adopt some or all of the additional Principles, please give reasons for your response.
- SP6-Q5:** Do you agree with the anticipated costs and benefits identified for our three proposed high-level Principles? Can you provide any data that might further inform our analysis of the likely impact of our proposed directions?
- SP6-Q6:** Do you agree with our proposed approach for our Objectives Guidance? If you disagree with our proposed approach, please give your reasons.
- SP6-Q7:** Do you agree with our proposed approach for our Administrative Priority Framework, or are there any additional points that you think we ought to cover? If you disagree with our proposed approach, please give your reasons.
- SP6-Q8:** Do you agree with our proposed approach for our Powers & Procedures Guide? If you disagree with our proposed approach, please give your reasons.
- SP6-Q9:** Do you agree with our proposed approach for our dispute resolution and applications procedures? If you disagree with our proposed approach, please give your reasons.
- SP6-Q10:** Do you agree with our proposed approach for our Super-complaints Guidance? If you disagree with our proposed approach, please give your reasons.
- SP6-Q11:** Do you agree with our proposed approach to setting penalties? If you disagree with our proposed approach, please give your reasons.
- SP6-Q12:** Do you think that we should also take into account metrics other than revenues when setting penalties, in particular when considering participants organised as not-for-profit entities (e.g. should we take into account the value of funds transferred through the relevant system and relating to that participant in such a case)?
- SP6-Q13:** What should be the upper limit (if any) on penalties (e.g. 10% of annual revenues derived or billings made by the participant from the business activity in the United Kingdom to which the compliance failure relates), and should this upper limit differ according to the category of participant?
- SP6-Q14:** Do you agree with our proposed approach with respect to the enforcement and enforceability of penalties? If you disagree with our proposed approach, please give your reasons.

Annex 5:
**Table of contents for the Payment Systems
Regulator's Consultation 'A new regulatory
framework for payment systems in the UK'**

This detailed table of contents sets out the contents for the Consultation Paper, its Supporting Papers and Annexes.

Consultation Paper

Foreword

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Executive Summary

- Background
- What this consultation covers and who it is for
- Who we will regulate
- Our objectives
- Our regulatory framework
- Next steps

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- Consultation process (see also *Annex 1 to Supporting Paper 1*)

B. The PSR, our vision and regulatory approach (see *Supporting Paper 1* for more details)

- The PSR
- Our vision
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C. The industry, structure and challenges (see *Supporting Paper 1* for more details)

- Payment systems
- Who we will regulate
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- Industry structure and challenges

D. Payments industry strategy and areas for collaboration (see *Supporting Paper 2* for more details)

- Industry collaboration
- Our proposals on payments industry strategy and areas for collaboration
- E. **Ownership, governance and control of payment systems** (see *Supporting Paper 3* for more details)
 - Service-user representation
 - Conflicts of interest
 - Transparency
 - Reserved Matters
- F. **Access to payment systems** (see *Supporting Paper 4* for more details)
 - Direct access to payment systems
 - Our proposals
 - Indirect access to payment systems
 - Our proposals
- G. **Interchange fees** (see *Supporting Paper 5* for more details)
- H. **Holding industry to account** (see *Supporting Paper 6* for more details)
 - PSR Principles
 - Monitoring, investigations and enforcement
 - Market reviews
- I. **How we will handle disputes** (see *Supporting Paper 6* for more details)
- J. **Next Steps**

Annex to the Consultation Paper

1. Our Glossary
2. Proposed directions that give effect to our package of proposals
3. Consultation Paper response sheet
4. Consultation questions
5. Detailed table of contents for the Consultation Paper and Supporting Papers

Supporting Papers to the Consultation Paper *(detailed contents on following pages)*

1. The PSR and UK payments industry
2. Payments industry strategy and areas for collaboration
3. Ownership, governance and control of payment systems
4. Access to payment systems
5. Interchange fees
6. Regulatory tools

External reports commissioned by the PSR and joint studies

- Accenture Governance Report – a report by Accenture, titled ‘*A Review of Governance and Ownership of UK Payment Systems*’ (an Annex to Supporting Paper 3: *Ownership, governance and control of payment systems*).
- Accenture Innovation Report – a report by Accenture, titled ‘*Review of the International Landscape of Innovation in Payments and Insights for UK Payments*’ (an Annex to Supporting Paper 2: *Payments industry strategy and areas for collaboration*).
- KPMG Infrastructure Report – a report by KPMG, titled ‘*UK Payments Infrastructure: Exploring Opportunities*’ (an Annex to Supporting Paper 2: *Payments industry strategy and areas for collaboration*).
- London Economics Report on Competition and Collaboration – a report by London Economics, titled ‘*Competition and collaboration in UK payment systems*’ (October 2014) (an Annex to Supporting Paper 2: *Payments industry strategy and areas for collaboration*).
- Ofcom/PSR Joint Study – a joint report by Ofcom and the PSR, titled ‘*Innovation in UK Consumer Electronic Payments*’ (an Annex to Supporting Paper 2: *payments industry strategy and areas for collaboration*).
- RPI Paper on International approaches – a paper by the Regulatory Policy Institute, titled ‘*Overview of the approach to strategy setting for payment systems in selected jurisdictions*’ (an Annex to Supporting Paper 2: *Payments industry strategy and areas for collaboration*).
- RPI Regulatory Approach Report – a report by the Regulatory Policy Institute, titled ‘*Assessment of the Suitability of Different Regulatory Approaches to Economic Regulation that could be applied to Payment Systems*’ (an Annex to Supporting Paper 1: *The PSR and UK payments industry*).

Supporting Paper 1: The PSR and UK payment systems

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 - Card payment systems

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Figure SP1-2: Bilateral and multilateral arrangements

Figure SP1-3: Table illustrating that certain PSPs have interests across several of the regulated payment systems and/or VocaLink

C. Our objectives

- The competition objective
- The innovation objective
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- Proposed Objectives Guidance (see also *Supporting Paper 6* and *Annex 1 to Supporting Paper 6*)
- Regulatory and other principles we must consider

D. Our legislative and regulatory framework (see also *Annex 3 to Supporting Paper 1*)

- Our general functions and regulatory powers under FSBRA
- How and when we will consult (see also *Annex 1 to Supporting Paper 1*)
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Figure SP1-4: Regulated payment systems and our access-related regulatory powers

- Use of our concurrent competition powers (see also *Supporting Paper 6*)
- Considering the use of our powers under the Competition Act 1998 (see also *Supporting Paper 6*)
- Bank of England oversight of payment systems
- How we will work with other authorities
 - Working with authorities in the financial sector
 - Working with competition authorities
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E. Our proposed regulatory approach

- Our regulatory approach

Question SP1-1-Q1

Annexes to Supporting Paper 1

1. Our Consultation Principles
2. Equality Impact Assessment
3. Relevant legal provisions
4. Sources of evidence

External report commissioned by the PSR in relation to *Supporting Paper 1*

- RPI Regulatory Approach Report – a report by the Regulatory Policy Institute, titled '*Assessment of the Suitability of Different Regulatory Approaches to Economic Regulation that could be applied to Payment Systems*'.

Supporting Paper 2: Payments industry strategy and areas for collaboration

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- What are the issues?
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 - Our assessment of these concerns
 - Concerns regarding the level of stakeholder involvement or influence on how payments strategy is developed
 - Our assessment of these concerns
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 - Our assessment of these concerns
- What are the impacts of these concerns?
 - Impact on competition
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- Our proposed approach to payments industry strategy
 - Option 1 – We lead on the strategy setting process through a Payments Strategy Forum
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 - Assessment of these options
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 - Design of the Payments Strategy Forum

Figure SP2-1: Indicative model for a Payments Strategy Forum

Questions SP2-Q1, SP2-Q2 and SP2-Q3

- Areas for collaboration on infrastructure-related matters

Question SP2-Q4

D. Ownership and competition in the provision of infrastructure

External reports commissioned by the PSR and joint studies in relation to Supporting Paper 2

- Accenture Innovation Report – a report by Accenture, titled *‘Review of the International Landscape of Innovation in Payments and Insights for UK Payments’*.
- KPMG Infrastructure Report – a report by KPMG, titled *‘UK Payments Infrastructure: Exploring Opportunities’*.
- London Economics Report on Competition and Collaboration – a report by London Economics, titled *‘Competition and collaboration in UK payment systems’*.
- Ofcom/PSR Joint Study – a joint report by Ofcom and the PSR, titled *‘Innovation in UK Consumer Electronic Payments’*.
- RPI Paper on International approaches – a paper by the Regulatory Policy Institute, titled *‘Overview of the approach to strategy setting for payment systems in selected jurisdictions’*.

Supporting Paper 3: Ownership, governance and control of payment systems

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- Operation of the payment systems
- Governance of the Operators
 - a. Bacs Payment Schemes Ltd (BPSL)
 - b. Belfast Bankers' Clearing Company Ltd (BBCCL)
 - c. Cheque and Credit Clearing Company Ltd (C&CCCL)
 - d. CHAPS Clearing Company Ltd (CHAPS Co)
 - e. Faster Payments Scheme Ltd (FPSL)
 - f. The LINK Scheme
 - g. MasterCard Inc.
 - h. Visa Europe/Visa UK Limited
- Ownership and control of Operators
 - Interbank Operators (other than the LINK Scheme)
 - LINK Scheme
 - Card Operators
- The roles and responsibilities of board directors
- Decision-making processes at board level
- Appointment of directors to the boards of Operator
- What are the issues?

C. Concerns about the representation of the interests of service-users

- Direct engagement with Operators
- Engagement through Direct PSPs by service-users, including Indirect PSPs
- Additional issues that apply for card payment systems

- Our assessment of these concerns
- What are the impacts of these concerns?
 - Impact on competition
 - Impact on innovation
 - Impact on service-users
- Our proposal on the representation of the interests of service-users
 - Proposed general direction on service-user representation
 - Reporting requirements
 - Our proposed general direction on the representation of the interests of service-users is consistent with our objectives and duties
 - Other proposed options to address service-user representation

Question SP3-Q1

- What are the intended benefits of our proposals and related anticipated costs for industry?
 - Intended benefits
 - Anticipated costs

Question SP3-Q2

D. Concerns relating to conflicts of interest

- Background to the roles of individuals appointed by PSPs
- What are the issues?
 - Concerns on conflicts about directors appointed to both an Interbank Operator as well as a Central Infrastructure Provider to that payment system
 - Our assessment of these concerns
 - Concerns about directors acting against the interests of Interbank Operators
 - Our assessment of these concerns
 - Concerns about reporting lines for executive and independent Operator directors
 - Our assessment of these concerns
- What are the impacts of these concerns?

- Impact on competition
- Impact on innovation
- Impact on service-users
- Our proposals to address potential conflicts of interest

Questions SP3-Q3 and SP3-Q4

- What are the intended benefits of our proposals and related anticipated costs for industry?
 - Intended benefits
 - Anticipated costs

Question SP3-Q5

E. Concerns regarding transparency and clarity of decision-making

- What are the issues?
- Our assessment of these concerns
- What are the impacts of these concerns?
 - Impact on competition
 - Impact on innovation
 - Impact on service-users
- Our proposals on transparency and clarity

Question SP3-Q6

- What are the intended benefits of our proposals and related anticipated costs for industry?
 - Intended benefits
 - Anticipated costs

Question SP3-Q7

F. Concerns regarding the Payments Council's contractual arrangements with the Interbank Operators

- What are the issues?
- Our assessment of these concerns

Question SP3-Q8

Appendix: Guidance Checklist of items Operators may wish to consider when carrying out a governance review

- Governance review relating to ensuring appropriate representation of the interests of service-users in decision-making at Operator board level
- Other matters that could be considered in the service-user review
- Governance review in relation to managing conflicts of interest (actual or perceived)
- Output from these governance reviews

External report commissioned by the PSR in relation to *Supporting Paper 3*

Accenture Governance Report – a report by Accenture, titled '*A Review of Governance and Ownership of UK Payment Systems*'.

Supporting Paper 4: Access to payment systems

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A. Introduction

B. Background

- Direct Access

Table SP4-1: General Access Requirements across payment systems

Table SP4-2: Rationale for general Direct Access criteria

Table SP4-3: PSPs currently negotiating to secure Direct Access vs. current direct participation

- Indirect Access

C. Direct Access to payment systems

- What are the issues?
- Concerns relating to Access Requirements
 - Bank of England settlement account requirements
 - Bacs, C&CC, CHAPS and FPS
 - NICC
 - LINK
 - MasterCard and Visa
 - Regulatory status
 - Bacs
 - CHAPS
 - FPS
 - C&CC and NICC
 - LINK, MasterCard and Visa
 - Technical and operating requirements
 - Bacs and CHAPS
 - LINK and NICC

- C&CC
- FPS
- MasterCard and Visa
- Fee requirements
 - Bacs, CHAPS, FPS and NICC
 - C&CC
 - LINK
 - MasterCard and Visa
- Other requirements including legal and risk management requirements
 - Bacs, CHAPS and FPS
 - C&CC, LINK and NICC
 - MasterCard and Visa
- Our assessment of the concerns relating to Access Requirements
 - Bank of England settlement account
 - Regulatory status
 - Technical and operating requirements
 - Fee requirements
 - Other requirements including legal and risk management requirements
- Concerns relating to the transparency and availability of information
- Our assessment of concerns relating to the transparency and availability of information
- What is the impact of these concerns relating to the criteria for gaining Direct Access and around lack of transparency and availability of information?
 - Impact on competition
 - Impact on innovation
 - Impact on service-users
- Our proposals on Direct Access
 - Proposed direction to introduce a principles-based Access Rule

- Proposed content of the Access Rule
 - Option 1 for our Access Rule: Our preferred option is based on CPSS-IOSCO Principle 18
 - Option 2 for our Access Rule is based on Article 28 PSD/Regulation 97 PSRs 2009
 - Option 3 for our Access Rule a hybrid approach
- Our interpretation of the substantive requirements of our proposed Access Rule
- Our proposed Reporting Rule
 - Annual compliance report
 - Publication of Access Requirements
- Our proposed Access Package is consistent with our objectives and duties

Questions SP4-Q1, SP4-Q2 and SP4-Q3

- What are the intended benefits of our proposals and related anticipated costs for industry?
 - Proposed Access Rule
 - Intended benefits
 - Related anticipated costs
 - Reporting Rule
 - Intended benefits
 - Related anticipated costs

Question SP4-Q4

D. Indirect Access to payment systems

- What are the issues?
 - Concerns about lack of choice in Sponsor Banks
 - Our assessment of these concerns
 - Concerns about difficulties accessing and assessing information about different Indirect Access options
 - Our assessment of these concerns
 - Concerns about reliance on downstream competitors for the provision of access to payment systems
 - Our assessment of these concerns

- Concerns about fees for Indirect Access
 - Our assessment of these concerns
- Concerns about communication of important information by Sponsor Banks
 - Our assessment of these concerns
- Concern about the risk that Sponsor Banks may discontinue the supply of Indirect Access
 - Our assessment of these concerns
- Concerns about contractual arrangements that govern the supply of Indirect Access
 - Our assessment of these concerns
- Concerns about quality and availability of Technical Access
 - Our assessment of these concerns
- Concerns about demand for alternative access mechanisms
 - Our assessment of these concerns

Figure SP4-4 Stylised Technical Access arrangements

- What is the impact of these concerns?
 - Impact on competition
 - Impact on innovation
 - Impact on service-users
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 - Proposed direction requiring the publication of information

Question SP4-Q5

- Industry engagement on the development of an Information Hub

Question SP4-Q6

- Industry engagement on the development of a PSR-approved Sponsor Bank Code of Conduct

Question SP4-Q7

- Industry engagement on the development of Technical Access solutions

Question SP4-Q8

- Market review into the supply of Indirect Access
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Supporting Paper 5: Interchange fees

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- B. **Background**
- C. **Proposed European Interchange Fee Regulation**
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 - Our proposed Principles
 - Principle 1: Relations with regulators
 - Principle 2: Compliance
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 - Our proposed Principles are consistent with our objectives and duties
- Questions SP6-Q1, SP6-Q2, SP6-Q3*
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Question SP6-Q4

- What are the intended benefits of our proposals and related anticipated costs for industry?
 - Anticipated benefits
 - Anticipated costs

Question SP6-Q5

C. Our Objectives Guidance (see also Annex 1 to Supporting Paper 6)

Question SP6-Q6

D. Our Administrative Priority Framework (see also Annex 2 to Supporting Paper 6)

Question SP6-Q7

E. Our Powers & Procedures Guide (see also Annex 3 to Supporting Paper 6)

Question SP6-Q8

F. Our dispute resolution and applications procedures (see also Annex 3 to Supporting Paper 6)

Question SP6-Q9

G. Our Super-Complaints Guidance (see also Annex 4 to Supporting Paper 6)

Question SP6-Q10

H. **Our Penalties Guidance** (see also *Annex 5 to Supporting Paper 6*)

- Features of payment systems which may affect penalties
- Our approach to setting penalties
 - Methodology and level of penalty

Questions SP6-Q11, SP6-12 and SP6-Q13

- Effectiveness of compliance and penalties regime
 - Compliance with our Principles
 - Variation of agreements relating to payment systems

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I. **Our market reviews**

Table on Market review phases

J. **Our concurrent competition powers**

Annexes to Supporting Paper 6

1. Draft Objectives Guidance
2. Draft Administrative Priority Framework regarding our regulatory powers
3. Draft Powers & Procedures Guide (PPG)
4. Draft Super-Complaints Guidance (draft Guidance for designated representative bodies on making a super-complaint under s.68 FSBRA)
5. Draft Penalties Guidance

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