Payment Systems Regulator

Consultation on revoking Specific Direction 2

Non-confidential stakeholder submissions to May 2025 consultation (PS25/4)

August 2025

Contents

Names of individuals and information that may indirectly identify individuals have been redacted.

HSBC Bank PLC

HSBC BANK PLC

Payment Systems Regulator: Revoking Specific Direction 2

RESPONSE TO CONSULTATION MAY 2024

05 JUNE 2025

HSBC Bank plc ('**HSBC**') welcomes the PSR's decision to revoke rather than amend Specific Direction 3 ('**SD3**' and '**SD3a**' which amended SD3) set out in the recent policy statement. We support the clear rationale for this decision which aligns with the feedback set out in our response to the consultation earlier this year.

As we said in the response to that consultation, HSBC agrees that similar considerations apply to Specific Direction 2 ('**SD2**', amended to '**SD2a**') which concerns BACS, and we welcome the opportunity to provide feedback on this issue through a further direct consultation. Whilst SD2a does not include a delivery date in the same way as SD3, we do believe it is important that the proposed interventions relevant to BACS are also addressed directly and a clear statement made on the regulatory status of this direction.

HSBC agrees with the PSR's initial view is that the reasons for revoking SD3 also apply to SD2. We support a decision to revoke SD2 for the following reasons:

- The National Payments Vision ('**NPV**') has tasked the PSR and the Bank of England with reassessing the requirements for retail payments infrastructure, and to strengthen the governance and funding arrangements needed to deliver this. Revoking both SD2 and SD3 in entirety allows any subsequent regulatory interventions on infrastructure procurement to be prepared afresh in light of the next steps determined by the Payments Vision Delivery Committee ('**PVDC**') under the NPV, unencumbered by legal obligations in SD3.

- Continuation of the Direction presupposes that Pay.UK will continue to operate the future infrastructure. Given work underway on the future governance and funding arrangements, the operator of future infrastructure remains an open question.

- It is important that there is a clear statement made on the regulatory status of this Direction. There is no current deadline for SD2a and no path for Pay.UK to be able to meet the SD2 obligation in the current landscape, rendering it obsolete. Any retention of this obligation adds confusion, friction and challenge to how planned future change can be deployed.

- The focus should be on any steps needed to safeguard the BACS central infrastructure, which includes securing a contract extension on appropriate terms, to guarantee the continuity of supply for critical national infrastructure.

- A decision to revoke SD2 aligns with Government desire to simplify the regulation of payments and reduce the regulatory burden, particularly given unknowns about the treatment of Specific Directions once the PSR's functions and powers are consolidated into other regulatory authorities.

- Competition remains vital and is one of the three core pillars of the NPV. Revocation of SD2 does not mean that the PSR and other regulatory authorities will not continue to closely monitor Pay.UK and the broader payments sector to ensure that the outcomes of the PVDC's recommendations effectively support competition.

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HSBC UK Bank PLC

HSBC UK BANK PLC

Payment Systems Regulator: Revoking Specific Direction 2

RESPONSE TO CONSULTATION MAY 2024

5 JUNE 2025

HSBC UK Bank plc ('**HSBC UK**') welcomes the PSR's decision to revoke rather than amend Specific Direction 3 ('**SD3**' and '**SD3a**' which amended SD3) set out in the recent policy statement. We support the clear rationale for this decision which aligns with the feedback set out in our response to the consultation earlier this year.

As we said in the response to that consultation, HSBC UK agrees that similar considerations apply to Specific Direction 2 ('**SD2**', amended to '**SD2a**') which concerns BACS, and we welcome the opportunity to provide feedback on this issue through a further direct consultation. Whilst SD2a does not include a delivery date in the same way as SD3, we do believe it is important that the proposed interventions relevant to BACS are also addressed directly and a clear statement made on the regulatory status of this direction.

HSBC UK agrees with the PSR's initial view is that the reasons for revoking SD3 also apply to SD2. We support a decision to revoke SD2 for the following reasons:

- The National Payments Vision ('**NPV**') has tasked the PSR and the Bank of England with reassessing the requirements for retail payments infrastructure, and to strengthen the governance and funding arrangements needed to deliver this. Revoking both SD2 and SD3 in entirety allows any subsequent regulatory interventions on infrastructure procurement to be prepared afresh in light of the next steps determined by the Payments Vision Delivery Committee ('**PVDC**') under the NPV, unencumbered by legal obligations in SD3.
- Continuation of the Direction presupposes that Pay.UK will continue to operate the future infrastructure. Given work underway on the future governance and funding arrangements, the operator of future infrastructure remains an open question.
- It is important that there is a clear statement made on the regulatory status of this Direction. There is no current deadline for SD2a and no path for Pay.UK to be able to meet the SD2 obligation in the current landscape, rendering it obsolete. Any retention of this obligation adds confusion, friction and challenge to how planned future change can be deployed.
- The focus should be on any steps needed to safeguard the BACS central infrastructure, which includes securing a contract extension on appropriate terms, to guarantee the continuity of supply for critical national infrastructure.
- A decision to revoke SD2 aligns with Government desire to simplify the regulation of payments and reduce the regulatory burden, particularly given unknowns about the treatment of Specific Directions once the PSR's functions and powers are consolidated into other regulatory authorities.
- Competition remains vital and is one of the three core pillars of the NPV. Revocation of SD2 does not mean that the PSR and other regulatory authorities will not continue to closely monitor Pay.UK and the broader payments sector to ensure that the outcomes of the PVDC's recommendations effectively support competition.

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Lloyds Banking Group PLC

LLOYDS BANKING GROUP PLC

Response to PSR's questions on Specific Direction 2, 8th May 2025

Submitted on 29/05/2025

OUR RESPONSE

1. As a **leading UK financial services provider, Lloyds Banking Group (LBG) provides financial services to 27 million customers** in the UK. We help millions of customers – individuals, families, and businesses – to spend, save, borrow, and invest and help Britain prosper.

2. **We believe in an efficient, orderly financial system anchored in strong regulation enforced by independent institutions while delivering security for our customers and confidence in the UK as a place to do business**. **We believe regulators should have clear and coordinated mandates, based on strong prudential and conduct principles, which encourage innovation and competitiveness**. Regulators should facilitate cross-sectoral thinking with input from the industry and consumer groups, to promote growth in the long-term interests of UK consumers, businesses, and the economy.

3. **It is our view that Specific Direction 2 (SD2) and SD2a should be revoked.** We agree with the Payment Systems Regulator (PSR) that the arguments set out in its response to CP24/13 through PS25/4 also apply in the case of Specific Direction 2 (SD2).

4. **We do not believe a requirement for competitive procurement is necessary to promote the effective functioning of Bacs**. The payments landscape has evolved significantly since SD2 was issued in 2017, with increased access for firms of all sizes to the UK's payments infrastructure, leading to a more competitive marketplace. The PSR (including through its Access to Payment Systems report up to 2022) has documented that the number of direct participants in interbank payment systems has continued to grow year on year (with 10 new participants in 2022 and 2023).

5. The PSR's commitment to continue to collaborate with Government, FCA, BoE and other authorities to ensure focus on innovation in payment systems is maintained also supports a decision to remove the requirement for a competitive procurement. This is due to such a requirement adding complexity and increasing the risk of delays to any procurement, which is not offset by it necessarily delivering additional benefits, such as increased innovation.

6. **As with Faster Payments, the Payments Vision Delivery Committee (PVDC)'s decisions on future infrastructure needs should not be restricted by requirements for a competitive procurement.** We therefore agree with the PSR that revoking SD2 will provide the PVDC with the necessary space and certainty to take its decisions. Furthermore, General Direction 4 requires Pay.UK as the Operator of Bacs to make transparent decisions and consider service-users' interests in the decision-making process, meaning that the revocation of SD2 will not impact on ongoing servicing of Bacs and its customers.

7. **The removal of the non-objection requirements on Pay.UK when securing contract extension/s for Bacs will support a more efficient process** and a smoother continuation of service. Given the maturity of the regulatory relationship Pay.UK holds, and the existing measures by which it is overseen, any concerns over Pay.UK's procurement can be managed via existing regulatory powers, which provide the ability to intervene in cases of market failure.

8. **Bacs remains integral to the UK's payments landscape**, providing a crucial service supporting essential payments. It continues to work well and is likely to be supported for some time, despite continued expected flow transfer to FPS. In addition to continuing Bacs in the medium term, the longer-term future of Bacs should be considered, and Pay.UK should work with industry to develop its Bacs strategy managing down the total cost of ownership, while sourcing equivalent or better solutions on the new industry architecture. We note that 'Bacs contingency

measures' is included in the regulator's direction to Pay.UK to secure enhancements to FPS ahead of the development of a longer-term strategy in future.

NatWest

PS25/4– Consultation on amending Specific Direction 2 NatWest Response

Executive Summary

NatWest supports the Payment Systems Regulator's (PSR's) objectives to promote innovation, competition and ensure end-user benefit from payment change.

We were encouraged by the recent revocation of Specific Direction (SD) 3 and the PSR's consideration of revoking SD2, and we understand from UK Finance, potentially SD4. However, NatWest would like to flag a concern that the revocation of SD3 has removed the means to manage the Critical Infrastructure (CI) supplier's industry pricing for FPS, and the revocation of SD2 and SD4 would have a similar impact on BACS and Link. This change exposes participants to the risk of an increase in cost at a time when the industry will be considering a significant investment in Next Generation Infrastructure. NatWest would like to see a mechanism developed to manage CI pricing in lieu of the Specific Directives 2, 3 and 4.

Reasons for supporting the revocation

- NatWest welcomed the revocation of SD3 as the abandonment of the New Payments Architecture will simplify the way to determine the future of Faster Payments (FPS) and BACS too. A strategy for BACS is essential and needs to be considered alongside FPS. We believe that the current SD2 may be unhelpful in this respect.
- NatWest therefore supports the PSR's proposal to remove the Specific Direction 2 (SD2) requirement for Pay.UK to procure a replacement of BACS Central Infrastructure through competitive procurement by 2026. This is no longer practical.

Potential implications of revocation

- This is an opportunity to resolve the consequence of SD3's revocation: the removal of the framework designed to create competition and manage pricing from the infrastructure provider. The current Payment System Operator (PSO) is now in a contract extension/renewal negotiation with the incumbent monopoly CI supplier.
- The revocation of SD3 and SD2 could have an unintended consequence of a poor outcome for the industry and NatWest suggests that the PSR considers how the price from the CI supplier to the PSO and its participants for BACS and FPS can be maintained at a fair level.
- A solution could be that the PSO participants are engaged in the re-negotiation with the CI supplier to increase transparency and are empowered to support the PSO in the negotiations it has historically single handedly undertaken on behalf of participants. The major participants have depth of procurement expertise which would potentially match the scale and resources of the CI supplier. This change in accountability and transparency would give greater reassurance to the participants who ultimately pay the CI supplier bill.

Need for an agreed future BACS strategy

- This consultation on SD2 should trigger a discussion of how revocation could assist the plan to wind down BACS Direct Credit and Direct Debit and agree a sun set date.
- A plan driven by the industry could be integrated so that firms can plan ahead and manage customer impact as well as allow industry to plan for investing in future payment mechanisms.
- It may be that an added benefit of removing BACS is that most of the traffic would switch to FPS, removing the need for the PSO to negotiate two contracts with a CI supplier, increasing transparency and strengthening its negotiating position with added volume through a single infrastructure. If other infrastructure is required, this should be signalled early to allow suitable planning.
- NatWest is also conscious that the BACS infrastructure supports capabilities other than Direct Debit and Direct Credit, such as CASS, and a plan would need to consider the wider ecosystem; such ancillary services

may need to be disentangled prior to BACS infrastructure for Direct Credit and Direct Debit being wound down.

- NatWest would welcome the opportunity to discuss a plan for the sun setting of BACS and would suggest that an alternative system be available to migrate current BACS traffic to, from a suitable date to be defined through rigorous BACS ecosystem engagement and agreement. This would enable the existing BACS system to be switched off by a defined date whilst minimising the complexities of dual running and increased cost for legacy instruments. Ideally, this timeline would coincide with the FPS migration to ISO20022 and will also allow for other potential overlay systems, such as Open Banking, to be ready to facilitate customer payments that currently run over BACS when combined with enhanced FPS.
- We acknowledge that accomplishing this timescale for both Direct Credit and Direct Debit will be ambitious, mostly due to the complexity of BACS Direct Debit, but if the wider industry, including the regulator(s), are in agreement we believe this can be achieved.
- Such a strategy would require early engagement with customers, noting that the Government is a major user of BACS, to ensure that they can prepare changes to processes and systems as well as communications with the end users of BACS.

Thoughts on future regulatory framework after revocation

- NatWest supports the retention of non-objection rights for the PSR, and the Bank of England's Financial Markets Infrastructure Directorate (FMID), as the incumbent CI supplier is guaranteed a market, through both FPS and BACS for the foreseeable future. We do, however, also urge the PSR to ensure this process is an efficient one, which does not delay the implementation of modernised infrastructure.
- We understand that the Direct Debit guarantee and the protection of consumers will be an important consideration in winding down BACS. Regulatory involvement will be necessary to ensure the wind down is not open to future challenge.
- NatWest agrees that the PSR, and the FCA as the future payment regulator will need to review its regulatory framework in light of the demise of NPA. The framework should encourage collaboration between the PSO and its participants, complemented by a regime which regulates the monopoly supplier effectively and creates opportunity for other suppliers to enter the market.
- NatWest would support the authorities in setting the dates for the replacement of BACS and the PSO's delivery mechanism (currently Pay.UK's Industry Delivery Board) to deliver the outcome required; the design must commence in 2025 so that if SD2 is revoked, industry can agree to high level proposals aligned to the National Payments Vision (NPV) and tracked by PVDC along with the FPS five priority enhancements.
- We will suggest that as the NPV develops, it includes BACS in its forward plan.

Pay.UK

Dear PSR Team,

This email confirms that Pay.UK supports the revocation of Specific Direction 2. We believe that revocation will enable us to extend our existing Bacs contract with Vocalink to ensure continuity of supply, in line with regulatory direction.

We also shared this view within our consultation response on Specific Direction 3 and would like to reiterate the following points in support of our view:

- Revocation of SD2 (as opposed to retaining the direction with no compliance deadline) will provide the greatest certainty around regulation and removes an obligation which has caused significant complexity.
- SD3 and SD2 were created to address issues which had arisen over a period when there was common ownership of the PSOs and Vocalink – these arrangements have changed significantly since that period.

UK Finance

PSR's call for views on Specific Direction 2

UK Finance Response

May | 2025

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Introduction

UK Finance is the collective voice for the banking and finance industry. Representing more than 300 firms, we act to enhance competitiveness, support customers and facilitate innovation.

We welcome the opportunity to respond to the Payments System Regulator's (PSR) Call for Views on Specific Direction 2 (SD2). UK Finance supports the revocation of SD2, which requires the payment system operator to competitively procure central infrastructure for Bacs. We believe the rationale for revoking SD3 applies equally to SD2, and that doing so will help create the right environment for delivering the National Payments Vision (NPV). Revoking SD2 will remove an outdated regulator obligation, provide certainty to market and allow a more strategic, flexible approach to future infrastructure decisions.

This response reflects the broad consensus of our members, who support creating space to deliver on long-term priorities, reduce unnecessary regulatory burden, and enable innovation through more pragmatic means.

Response to Call for Views

In December 2024, the PSR consulted on amending Specific Direction 3 (SD3) and UK Finance responded to this consultation. SD3 requires the payment system operator to competitively procure the Faster Payments System central infrastructure. We welcome the PSR's decision to revoke, rather than amend, SD3.

In the policy statement announcing the decision to revoke SD3, the PSR set out several factors which influenced its decision, including:

- Providing the necessary space, certainty and flexibility for National Payments Vision (NPV) work on the future of the UK payments landscape to progress unencumbered by legacy requirements.
- Giving regulators greater scope to consider the most appropriate regulatory tools and levers, regardless of where regulatory responsibilities lie in the future.
- Recognising that a change in approach to competitive procurement could enable competition and innovation in the market through alternative means.

The PSR recognises that these considerations may also apply to Specific Direction 2 and is now seeking views on whether it may also be appropriate to revoke SD2. We have discussed our response to this consultation with a broad range of our diverse membership. Our members agreed that the circumstances and factors which justified the revocation of SD3 also apply in the context of SD2.

Members further consider that revoking SD2 would help to simplify the regulatory landscape for payments and felt that the Government's recent announcement to consolidate the PSR may be more straightforward without such enduring directions.

Additional Considerations

While we support the revocation of SD2, the continuing resiliency and stability of Bacs Direct Debits and Direct Credits is of vital importance to consumers, businesses, and the UK economy. Bacs is a critical payments system and is significant in terms of both value and volume. For example, **UK Finance's Payment Markets report** showed that in 2023, Bacs Direct Credit volumes increased by 10% to 2.2 billion payments. In the same year Direct Debit volumes rose 2% to 4.8 billion payments. Further, Bacs plays an important role in the paying of wages, salaries and nearly all state benefits and pensions in the UK.

In light of alternatives – such as commercial Variable Recurring Payments – that are currently being considered and developed, and the extensive nature of the Bacs ecosystem, members do not support change to Bacs where there is not clear justification or alignment with the strategic direction for the future of bulk clearing. Members want to see the Payments Vision Delivery Committee's work to refresh the requirements for the UK's retail payments infrastructure take a holistic approach and consider both existing systems and new payment needs, types and technologies. Members would welcome close collaboration between industry and the PVDC as this work progresses.

If you have any questions relating to this response or would like to discuss anything further, please contact [redacted].

Vocalink

Dear PSR NPA project team,

Vocalink welcomes the opportunity to respond to this consultation on whether or not to revoke Specific Direction 2 (**SD2**) and, for the reasons outlined below, we agree with the Payment System Regulator's (**PSR**) proposal to revoke SD2.

Response

1. Vocalink is pleased the PSR has recognised that the circumstances surrounding the New Payments Architecture (**NPA**) procurement process have significantly changed. The National Payments Vision (**NPV**) has (among other things) established the Payments Vision Delivery Committee (**PVDC**), the remit of which includes examining and refreshing the requirements for the future UK retail payments infrastructure. The first PVDC deliverable is due by the end of Q2 2025.

2. Consequently, we believe that the procurement of future UK retail payments infrastructure, including the Bacs payment system, should proceed in accordance with the recommendations of the PVDC when these are published. We firmly consider that the continuation of SD2 is incompatible with the role given to the PVDC by the NPV, and that the logic for revoking the provisions of SD3 extends to revoking the provisions of SD2.

3. Furthermore, we believe that the repeal of SD2 in its entirety would reinforce the overwhelmingly positive message that the repeal of SD3 has sent to the industry and would enable the industry to start afresh, free of the historical restrictions associated with the NPA, with the future approach being driven through the activities of the PVDC as envisaged by the NPV.

4. In light of these recent developments, especially the repeal of SD3, we would be concerned if the decision was made to retain SD2, in particular:

    - the continued application of SD2 would anticipate the outcome of the PVDC's work on potential reforms to the governance and ambit of the UK's retail payments infrastructure, including the role of Pay.UK, rather than waiting for the PVDC's work to complete. Any new central infrastructure contract should be the subject of a new direction (if required) to implement the outcome of the PVDC's work, and should reflect the recommendations of the PVDC as to the scope and purpose of that central infrastructure and procurement programme;

    - as a corollary, the PSR's right, in SD2, to determine the date by which any central infrastructure contract must be procured is contrary to the role of the PVDC and its ongoing work in determining the requirements for the future UK retail payments infrastructure, and

    - similarly, a non-objection right in relation to that new central infrastructure contract (or the contract for existing infrastructure) should no longer be presumed necessarily to be held by the PSR, as is the case in SD2. Rather, maintaining this position in SD2 at this stage risks causing regulatory confusion in light of the repeal of SD3 in its entirety.

5. In conclusion, therefore, we agree with the PSR's proposal to revoke SD2, and that doing so could provide the necessary space and certainty for work to deliver the NPV.

PUB REF: PS25/4 Submissions

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