

Market review of
UK-EEA consumer
cross-border
interchange fees

Stage 1 remedy consultation

December 2024

We welcome your views on this consultation. If you would like to provide comments, please send these to us by **5pm on 7 February 2025**.

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

Cross-border interchange fees market review team
Payment Systems Regulator
12 Endeavour Square
London E20 1JN

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

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

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

You can download this consultation paper from our website:

www.psr.org.uk/cp24-14-cross-border-interchange-fees/

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1 Executive Summary

Introduction

1.1 Our statutory objectives are:

- to ensure that payment systems are operated and developed in a way that considers and promotes the interests of the service users that are organisations that accept cards and their customers;
- to promote the effective competition in the markets for payment systems and services between operators, payment services providers and infrastructure providers; and
- to promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems

1.2 The Government's recommendation for the PSR, coming out of its recent National Payments Vision, emphasises the need for 'proportionate, effective regulation that allows firms of all sizes to grow, creates a stable attractive environment which encourages businesses to establish and expand in the UK, and adequately protects consumers'.

1.3 In our final report on our market review of UK-EEA cross-border interchange fees (IFs),¹ we concluded that cross-border IFs were increased to levels that are unduly high and therefore negatively affect merchants and to the extent of pass-through their customers. As part of that conclusion, we found no evident countervailing benefits or innovation to account for the IF increases (such as improved fraud prevention, quality, efficiency or economy of the card payments systems to the benefit UK merchants). We found that the additional IF-related costs do not translate into increased value reflecting those increases for the service users (organisations that accept cards and their customers). Hence, we considered the rise in IF levels operated by the card schemes to be detrimental for UK sustainable growth.

1.4 In our final report, we concluded that the only effective remedy to address the detriment would be a price cap on consumer debit and credit CNP IFs for UK-EEA CNP transactions (outbound IFs).² We concluded that alternative actions related to UK-EEA card not present transactions, which would not cap directly outbound IFs, would result in a continuous unnecessary cost to UK merchants and their customers, whilst a price cap remedy would materially mitigate the adverse impacts.

1.5 Having considered feedback from stakeholders since publication of our December 2023 interim report, we set out in this document our current view that, in light of our findings set out in the final report, setting a stage 1 price cap while further work is being carried out with a view to setting a stage 2 price cap, would be appropriate.

¹ MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024)

² MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), para 9.162 to 9.168

- 1.6** We are seeking further views and evidence on the benefits and costs to affected stakeholders of a stage 1 price cap, having regard to our statutory objectives above. This will help us to decide whether to move to a statutory consultation on whether to impose a stage 1 price cap, and if so at what level the cap should be, and how long it should stay in place.

Our current views on price cap remedy

- 1.7** This document sets out our current thinking on the appropriate approach to implementing a price cap remedy on outbound IFs.

Two-stage approach

- 1.8** In summary, balancing the need to finalise an approach to setting the level of the price cap with the need to address the detriment identified in a timely manner, our current view is that we should intervene in two stages:

- a. **Stage 1:** This would consist of an initial, time-limited cap, set for a transitional period while an appropriate methodology for determining the most appropriate level of the price cap is developed and implemented. In Annex 1, we set out a draft cost-benefit analysis (CBA) for this intervention and at Annex 2 we provide a draft direction to give effect to a stage 1 proposed remedy.
- b. **Stage 2:** During the stage 1 period, we would undertake work to develop an appropriate and longer-lasting cap (to be subject to regular reviews), which might be higher, lower or the same as the cap set during the stage 1 period. Stakeholders would be consulted on both the methodology and the cap to be set pursuant to that methodology.

- 1.9** Our current thinking is that this two-stage approach would be the most appropriate way for us, so far as possible, to address the features of concern identified in the market review and advance the service user and competition objectives in a timely manner. We are therefore consulting on whether we should have both a stage 1 and a stage 2 cap.

Level of the stage 1 cap

- 1.10** We also want to hear views, with supporting evidence, on what the level of any stage 1 cap should be. The view set out in our interim report was that the stage 1 cap should be set at a level of that 0.2% for CNP consumer debit transactions and 0.3% for CNP consumer credit transactions was appropriate and we have already received some stakeholder views on this, as detailed later in this document. Whilst we received support for this, particularly from those negatively affected by the current levels, we have also received feedback that this would impose inappropriate costs on issuers. We have received little evidence pertaining to those costs or on what alternative might be a more appropriate level. Nevertheless, we take the concerns raised seriously and continue to explore the issue.

- 1.11** While we are currently inclined, based on the evidence received to date, towards these levels as being the most appropriate for a stage 1 cap, we are continuing actively to consider the arguments for and against 0.2%/0.3%, as well as alternatives to that level. In order to obtain feedback and evidence (with underlying data or documents where possible) from stakeholders as to whether any alternative level may be more appropriate, we have set out two possible alternative levels to help focus discussion. The alternative levels on which we are currently focused are 0.5%/0.6%, which we think should address the concerns raised in relation to 0.2%/0.3%, and 1.15%/1.5% (i.e., the level of IFs

presently in place), which would not reduce the detriment we have identified but would prevent the level of detriment increasing further. Our rationale for focusing on these alternatives, and our current views on them, are set out later in this document.

Other elements of a stage 1 cap

- 1.12** We envisage that the direction imposing the stage 1 price cap would include a period of up to six months during which the new IF levels would be implemented, and would have a total duration (including the implementation period) of 30 months, with a commitment to review the continued application of the price cap and make an announcement on the outcome of that review (including on any new direction to implement a stage 2 price cap) no later than 24 months from the commencement of the direction imposing the stage 1 price cap. We are seeking views on these elements of a stage 1 remedy.
- 1.13** The remainder of this consultation document, and the attached draft CBA analysis (Annex 1) and draft direction (Annex 2), relate to stage 1. Stage 2 will be subject to a separate consultation process.
- 1.14** We intend to give effect to any stage 1 remedy we decide to introduce through a general direction given to Mastercard and Visa as the operators of the Mastercard Payment System and Visa Europe Payment System respectively. We explain this at Chapter 5. In Annex 2, we present an initial draft general direction. The draft direction includes several provisions to enable us to monitor compliance by Mastercard and Visa in an effective manner. We are seeking views on these.

Consultation process and next steps

- 1.15** This document sets out our current views regarding a phased approach to implementing a price cap remedy for outbound IFs. We seek stakeholder feedback on:
- a. our current view that a two-stage price cap would be appropriate,
 - b. our current views regarding potential levels for a stage 1 remedy,
 - c. other design features of a stage 1 price cap, and
 - d. the considerations that have informed our current views regarding those design features, including our draft CBA and draft direction.
- 1.16** We welcome all feedback in relation to the current views we express in this document, and highlight issues where we would particularly welcome stakeholder feedback, and accompanying evidence. This includes reasoned submissions from affected stakeholders as to the appropriateness of the consulted-on levels for a stage 1 cap relative to costs and benefits. As such, we welcome evidence on merchant benefits and costs, relative to the different options presented, as well as evidence of issuer costs together with evidence of the likely effect or consequences of such costs, if not covered by the cap over an interim period. Having regard to the views submitted to date, we invite evidence indicating a negative impact of the interim level. This could include data or documents indicating the likelihood and scope of any effect of the consulted-on levels for the interim period on investment, innovation or protection, and of other unintended consequences for EEA issuers or consumers. A full list of the consultation questions appears after paragraph 7.7.

- 1.17** Responses to this consultation should be made by **5pm** on **7 February 2025** via the means explained at the start of this document. If we are still minded to proceed with a two-stage price cap after having considered stakeholder feedback to this consultation, we will issue a statutory remedies consultation with our proposal for a stage 1 price cap. If we are not still minded to proceed with a two-stage price cap after having considered stakeholder feedback to this consultation, we will publish our reasons and next steps. Separately, we will publish a consultation on how we propose to conduct the analysis needed to set a stage 2 price cap.

2 Introduction

We are consulting on our current views regarding a phased approach to implementing a price cap remedy for outbound IFs.

UK-EEA cross-border interchange fees

- 2.1** In 2022, 3.6% of all card transactions at UK merchants were UK-EEA cross-border card transactions.^{3,4} Of all UK-EEA cross-border card transactions in 2022, 70% were card-not-present (CNP).⁵ Mastercard and Visa accounted for 90% of total volume and 79% of total value of CNP transactions acquired by UK merchants where the card was issued in the EEA.⁶
- 2.2** Every time a consumer initiates a card transaction, including a CNP transaction, with a Mastercard- or Visa-branded card, the merchant acquirer pays an interchange fee (IF) to the card issuer.
- 2.3** In 2015, the EU interchange fee regulation (EU IFR) introduced price caps on the IF levels for domestic transactions and for transactions across the different countries in the EEA (intra-regional IFs). While the UK was part of the EU, the EU IFR provisions applied caps for IFs on UK domestic and UK-EEA card transactions at the same levels as within the EEA: 0.2% of the value of consumer debit card transactions and 0.3% of the value of consumer credit card transactions.
- 2.4** Following the UK's withdrawal from the EU, the EU IFR caps on UK-EEA transactions no longer applied. Following the removal of previously applicable caps, Visa (October 2021) and Mastercard (April 2022), increased their IF levels for UK-EEA CNP transactions fivefold – increasing in one step from 0.2% to 1.15% for consumer debit cards and from 0.3% to 1.5% for consumer credit cards bringing them to the same levels as fees charged for card transactions between the EEA and the rest of the world.

3 PSR analysis of data on transaction values submitted by acquirers through a s81 notice, and by Mastercard, Visa and American Express.

4 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), para 2.5.

5 PSR analysis of data on transaction values submitted by acquirers through the s81 notice, and by Mastercard, Visa and American Express.

6 PSR analysis of data on transaction values submitted by acquirers through the s81 notice, and by Mastercard, Visa and American Express.

2.5 In November 2021,⁷ we announced our market review of card fees, and after gathering information through initial information requests and roundtables, we published our draft terms of reference in June 2022.⁸ We published our final terms of reference in October 2022⁹. We launched our market review of UK-EEA consumer cross-border interchange fees to understand: the rationale for and impact of increases in cross-border IFs; whether the increase in cross-border IFs was an indication that the markets were not working well for all service users; and what, if any, regulatory intervention was appropriate. We focused our review on outbound IFs, which are fees paid by UK acquirers to EEA issuers.¹⁰ Inbound IFs, which are paid by EEA acquirers to UK issuers, are currently subject to caps agreed between Mastercard and Visa and the European Commission (2019 commitments).

2.6 We published our interim report in December 2023, in which we provisionally concluded that the market for UK-EEA CNP transactions was not working well. We expressed our preliminary view in our interim report that a price cap was our preferred form of remedy, as, while it would not address the underlying cause of the detriment we had provisionally identified, restricting the maximum level of outbound IFs would likely be effective in mitigating:

- a. the adverse impacts of the lack of effective competitive constraints from the acquiring side on the schemes, coupled with the upward pricing pressure from the commercial relationship between issuers and the card payment schemes
- b. the costs arising from unduly high prices
- c. the risk that prices may increase further for UK merchants and (to the extent of pass through) their customers.

2.7 We also explained that our preliminary view was that a two-stage approach to intervention via a price cap would be appropriate as follows:

- a. Stage 1 would involve setting a cap on outbound IFs to be implemented in the short term. This stage would be appropriate because the stage 2 cap would take some time to develop, to conduct the relevant work to calculate and to implement. Accordingly, we proposed that it was appropriate to consider steps to address the service user detriment provisionally identified in the short to medium term, as well as the longer term. A stage 1 cap would apply until we developed and applied the methodology for setting an appropriate level of price cap for the longer term or until any detriment we provisionally see no longer applied (whichever happens first).
- b. Stage 2 would likely involve development and implementation of a longer lasting cap on outbound IFs. We explained that such a remedy would likely be based on a methodology (a merchant indifference test (MIT) or alternative) that we would consult on. We explained that the second-stage remedy would replace the cap set up in the first stage. The stage 2 cap could be in place for a fixed period, for an enduring period with a review mechanism, or until the detriment we provisionally identified no longer applied.

7 Press release [PSR statement on card scheme fees | Payment Systems Regulator](#) (November 17 2021)

8 MR22/2.1, [Consultation paper - Market review of card scheme and processing fees - An update and draft terms of reference](#) (June 2022)

9 MR22/2.2, [Market review of UK-EEA consumer cross-border interchange fees Final Terms of Reference](#) (October 2022)

10 MR22/2.2, [Market review of UK-EEA consumer cross-border interchange fees Final Terms of Reference](#) (October 2022), page 7, paragraph 2.3. In this interim report we use 'CNP outbound IFs' and 'outbound IFs' interchangeably to refer to UK-EEA consumer CNP outbound IFs; we use 'CNP inbound IFs' and 'inbound IFs' interchangeably to refer to UK-EEA consumer CNP inbound IFs.

2.8 We explored, and sought feedback on, different potential levels that might be imposed by a 'stage 1' price cap, should a two-stage approach to a price cap remedy be taken. We set out initial views and sought initial feedback on the following options, whilst expressing a preliminary view that setting levels at 0.2%/0.3% would be an acceptable stage 1 cap:

- a. not applying a stage 1 cap
- b. capping outbound IF levels at the levels the card schemes currently use (1.15% and 1.5%)
- c. capping them at the levels that applied when the UK was in the EU (0.2% and 0.3%)
- d. applying a cap above or below 0.2% and 0.3% but not at the current level
- e. applying a cap at zero (or otherwise removing IFs).

2.9 We received feedback in response to the interim report and engaged with stakeholders. This engagement took various forms, including information and document requests, voluntary questionnaires, roundtable discussions and bilateral meetings. The stakeholders who provided feedback and/or who we otherwise engaged with are listed below:

- the card scheme operators, Mastercard and Visa
- American Express
- two fintechs
- two digital wallet providers
- a trade association representing EEA issuers, acquirers, and card scheme operators
- a trade association representing UK issuers and acquirers; a trade association representing EEA acquirers and a national trade association representing its financial service sector
- a European issuer trade association
- three national issuer trade associations in Europe
- seven members of the European Parliament representing different countries.
- 13 issuers, who collectively account for over 90% of UK card transactions by value¹¹
- 19 card acquirers, who collectively account for over 90% of UK card transactions by value¹²
- four merchant representative bodies who together cover thousands of independent and major UK retailers from a broad range of sectors, one merchant trade association who represents retailers and wholesalers in Europe, and nine large merchants
- a hospitality and travel company
- three independent individuals

11 PSR analysis. [3-]

12 PSR analysis. [3-]

- 2.10** Some of the feedback, in particular from a group of Members of the European Parliament and from some EEA trade associations, came in during the late summer. We met with those EEA trade associations, giving them an opportunity to expand on the written representations they made to us. We also provided them, and the EEA issuers they represent, with a further opportunity to provide us with evidence and data to support the points they made to us. It is worth noting that, with very limited exceptions, we have not to date received evidence from this cohort to support views expressed about the potential problems associated with setting an interim cap at the levels in place before they were raised in 2021 and 2022.
- 2.11** We thank all stakeholders for their engagement with our interim report and the feedback they gave us. Our current views and assessment of the feedback we have received to date in relation to our preliminary views regarding an approach to remedy are explained in this document.

Conclusions reached in our final report

- 2.12** We published our final report in December 2024.
- 2.13** In summary, our findings as set out in our final report are:
- Mastercard and Visa could and did **increase outbound IFs without needing to have regard to the potentially detrimental consequences for service users, namely organisations that accept cards and their customers** who receive and make payments and ultimately pay the increased IFs. This is because:
 - merchants and acquirers are unable to respond to increased IFs in such a way as to exert competitive constraints on Mastercard and Visa
 - increased IFs are in the interest of the issuers and, hence, the scheme themselves. Mastercard and Visa have a commercial incentive to raise IFs, since they compete with each other to attract issuers. The increased IFs provide more revenues for these banks to issue cards from their respective schemes.
 - The schemes submitted that the IF levels that applied to UK-EEA CNP transactions when the UK was part of the EU and prior to the increases were inadequate, since they had been based on a flawed methodology (the one used to set the EU IFR IF levels). However, **the schemes were not able to show that they undertook any specific assessment** when deciding to increase outbound IFs. Nor have they shown that they had any regard to the **interests of the service users that are organisations that accept cards and their customers** (and not only to the interests of issuers and their own interests) in setting the higher level.
 - By setting IF levels at the rates charged for transactions between the EEA and the rest of the world, Mastercard and Visa adopted levels that the European Commission had set in another context and for different circumstances – that is, for cards issued in non-EEA countries and used at EEA merchants at a time when the UK was in the EEA. In doing so, **the schemes based their levels on benchmarks that are not relevant to the UK-EEA context** (specifically, on means of payments funded via *non-SEPA* bank transfers even though both the UK and the EEA are part of SEPA). These benchmarks are also more expensive than benchmarks in the UK-EEA context (specifically, means of payments funded via *SEPA* bank transfers).

- An analysis of alternative payment methods, based on the data and to a large extent the methodology put forward to us by Visa, provides further evidence that the current levels of IFs are unduly high.
- We have also not seen any positive evidence that the outbound IF increases contributed to improving the quality and efficiency of payments in CNP transactions which would not have occurred absent such higher prices. In particular we have seen no evidence that issuers used their increased incomes to fund service improvements (fraud, quality, efficiency or savings) that provided benefits to users on the acquiring side. As a consequence, we consider that Mastercard and Visa set outbound IFs unduly high.
- Besides the political shift and deregulation of outbound IFs following the UK's withdrawal from the EU, we have found no compelling explanation of other factors, or change in circumstances, which prompted the change in IF levels. **Deregulation created an opportunity to raise outbound IFs and the schemes took it.**
- **The increases are costing service users approximately [X] £150 million to £200 million per year** though we have seen no evidence that they generated any corresponding benefits for them. We have taken in the round the available evidence summarised above and described in this report.

2.14 In our final report, we:

- Conclude that the increases to the current levels result from aspects of the market that are not working well, that they are contrary to UK service users' interests and that the situation requires regulatory intervention.
- On the grounds of administrative priority, we have decided to close our review of IFs for consumer debit and credit CNP transactions for UK cards at EEA merchants (UK-EEA CNP inbound IFs, or simply 'inbound IFs').
- Conclude that restricting the maximum level of outbound IFs by introducing a price cap is the only effective form of remedy open to us.
- Recognise that a price cap would not address the underlying cause of the harm we have identified – the lack of effective competition on the acquiring side. However, we have concluded that alternative actions related to UK-EEA CNP transactions – that did not cap directly the outbound IFs – would result in a continuous unnecessary cost to UK merchants and their customers, while such a price cap remedy would materially mitigate its adverse impacts.

This consultation document

2.15 Having considered feedback from stakeholders, we set out in this document our current view that, in the light of our findings set out in the final report, setting a stage 1 price cap while further work is being carried out with a view to setting a stage 2 price cap remedy would be appropriate.¹³

¹³ That is a price cap set by reference to a methodology that is appropriate for a longer lasting remedy.

What we are consulting on

- 2.16** We are now consulting on that current view, and, in particular:
- a. whether a two-stage approach to the implementation of a price cap would be appropriate, and
 - b. the key design features of a stage 1 price cap, including its level, duration, implementation, and compliance-monitoring provisions.
- 2.17** In doing so, we also seek stakeholder feedback on a draft direction, set out at Annex 2, and a draft CBA, provided at Annex 1, that has informed our current views as set out in this document.
- 2.18** The methodology for setting the level of a longer-lasting stage 2 price cap, or only price cap should we ultimately decide a two staged price cap is inappropriate, will be the subject of a separate consultation. If we are still minded to proceed with a two-stage price cap after having considered stakeholder feedback to this consultation, we will issue a further remedies consultation with our specific proposal for a stage 1 price cap.

Alternative levels for a stage 1 cap

- 2.19** We want to hear views, with supporting evidence, on what the level of a stage 1 cap should be. Our view set out in our interim report was that 0.2% for CNP consumer debit transactions and 0.3% for CNP consumer credit transactions was appropriate and we have already received some stakeholder views on this, as detailed later in this document.
- 2.20** The levels which we are currently considering for a stage 1 cap are set out below. We seek stakeholder views and reasoning, with underlying data, which might support setting an interim cap at one of these levels, or at a different level.

Price cap of 0.2%/0.3%

- 2.21** As set out above, our preliminary view set out in the interim report was that the stage 1 cap should be set at a level of that 0.2% for CNP consumer debit transactions and 0.3% for CNP consumer credit transactions was appropriate and we have already received some stakeholder views on this, as detailed later in this document. Whilst we received support for this, particularly from those negatively affected by the current levels, we have also received feedback that this would impose inappropriate costs on issuers. We have received little evidence pertaining to those costs or on what alternative might be a more appropriate level. Nevertheless, we take the concerns raised seriously and continue to explore the issue. While we are currently inclined, based on the evidence received to date, towards these levels as being the most appropriate for a stage 1 cap, we are continuing actively to consider the arguments for and against 0.2%/0.3%, as well as alternatives to that level. In order to obtain feedback and evidence (with underlying data or documents where possible) from stakeholders as to whether any alternative level may be more appropriate, we have set out two possible alternative levels to help focus discussion. The alternative levels on which we are currently focused are 0.5%/0.6%, which we think should address the concerns raised in relation to 0.2%/0.3% and 1.15%/1.5% (i.e. the level of IFs presently in place), which would not reduce the detriment we have identified but would prevent the level of detriment increasing further. Our rationale for focusing on these alternatives, and our current views on them, are set out later in this document.

Price cap of 0.5%/0.6%

- 2.22** An alternative to an interim cap at 0.2%/0.3% could be to set the cap at 0.5%/0.6%. This represents a more cautious approach to setting a stage 1 cap, which could reduce any potential unintended consequences while we undertake the work to determine the stage 2 cap. For example, from the evidence we have seen, a cap of 0.5%/0.6% might be more likely to enable issuers – and particularly smaller issuers – to cover their net costs.

Price cap at current levels of 1.15%/1.5%

- 2.23** This option would eliminate any risk that cross-border IF levels might rise beyond current levels while we carry out the work to establish the appropriate level for a stage 2 cap. It would thus protect against a further increase in user detriment during this time. However, it would not address the conclusion set out in our final report that current outbound UK-EEA cross-border IF levels are unduly high.

Structure of the consultation document

- 2.24** This consultation document is structured as follows:
- In Chapter 3, we set out the feedback we received, following our interim report, on a two-stage approach to implementing the price cap and the reasons why, in our current view, this is appropriate.
 - In Chapter 4, we set out the feedback we received on the appropriate level for a stage 1 price cap and our current view on this.
 - In Chapter 5, we set out the feedback we received on the design features (other than level) of a stage 1 price cap and our current views.
 - In Chapter 6, we set out our current views regarding whether a stage 1 price cap set at 0.2%/0.3%, with the key design features described in chapter 5 and reflected in the draft direction at Annex 2, would be appropriate, effective and proportionate to its aims.
 - In Chapter 7, we set out our next steps and the list of consultation questions.
 - In Annex 1 we present a draft cost-benefit analysis (CBA) for a Stage 1 price cap. This draft CBA has informed our current views as explained in this document.
 - In Annex 2 we present a draft direction for consultation.
 - Annex 3 contains a glossary.
- 2.25** Our assessment of the stakeholder feedback we received in response to our interim findings are set out in Chapters 3 to 5 as appropriate.

3 Stakeholder feedback on a two-stage price cap as expressed in our interim report and our response

In this chapter, we set out our current view regarding the appropriateness of a two-staged price cap remedy as explained in our interim report, stakeholder feedback in relation to those preliminary views and our response to that feedback.

The principle of a two-stage price cap

- 3.1** For consumers and merchants, the value of having and using a card is influenced by how many other consumers and merchants do so (network effects), but neither consumers nor merchants would normally account for the effect their own choices create on the other group (externality). IFs are fees imposed by card schemes (in this instance Visa and Mastercard), which acquirers pay to issuers each time a card is used to buy goods or services. IFs affect cardholders and merchants' incentives when deciding how to pay and be paid, helping to internalise the externality. In principle, IFs should be set at levels that take into account the joint interests of service users on both sides of the schemes' network, including merchants and their customers. In our final report, we found that current levels of UK-EEA cross border IFs are unduly high, and that the only effective form of remedy to address the detriment arising from this is a price cap.
- 3.2** However, it remains the case that no specific methodology is available for calculating such levels that consider the interests of network participants on both sides of the schemes' networks in a precise manner. In the past, the European Commission has used a methodology based on the 'merchant indifference test' for setting or agreeing IFs (albeit in relation to intra-EEA card-present transactions). Indeed, as set out in paragraphs 5.31 to 5.57 of the final report, there are analytical and empirical challenges associated with this type of methodology, and in any event no robust methodology of this nature (and related identification of relevant comparators) has yet been developed for the purposes of the specific UK-EEA corridor.
- 3.3** At this stage, we have not reached a view on whether a methodology similar to the one used by the European Commission (with appropriate comparators for UK-EEA CNP transactions), or a different methodology would be best suited to identify the appropriate IF level.
- 3.4** We will therefore need to develop and consult on an appropriate methodology and reach a view on the appropriate IF level. We expect this will take up to 30 months, including consultation and implementation.

- 3.5** Without intervention by the PSR, we anticipate that the detriment to service users we identified in our final report will continue during the period before a price cap set by reference to the methodology described above can be implemented.
- 3.6** In our interim report, we set out some preliminary considerations regarding how, in principle, a price cap remedy might look. We also identified and considered potential timing issues, and how we might address them in the best interests of service users.
- 3.7** Our thinking at the time was that, in the longer term, a price cap could be based on a MIT designed to be appropriate for outbound CNP IFs, or, some other alternative methodology.^{14,15} We estimated that this process could take up to 18 months, including design, consultation and evaluation.¹⁶
- 3.8** Accordingly, in our interim report, we set out (and sought feedback on) our preliminary view that a price cap remedy could be implemented in two phases, an initial stage 1 price cap (with the level set at their prior levels, that is, 0.2% / 0.3%) and a stage 2 price cap (with the level set on the basis of an appropriate methodology).
- 3.9** In this chapter, we set out feedback from stakeholders to the section of our interim report relating to the design of possible price caps, our response to that feedback, and our more developed, current view as to whether, in principle, such a two-staged approach to a price cap remedy would be appropriate.

Stakeholder feedback on our preliminary view that a two staged approach to the imposition of a price cap would be appropriate

- 3.10** We received feedback from a range of stakeholders on a two staged approach to a cap: six large trade associations, plus separate representations from two acquirers, two large merchants, the card schemes, a payment service provider and an issuer on the two staged approach. Generally, acquirers and merchants were supportive of this, and the schemes and issuers were not supportive of it. We set out the feedback received in detail below, and from paragraph 3.32 we set out our responses.

What acquirers told us

- 3.11** Acquirers were generally supportive of a two-staged approach to imposing a price cap. An acquirer [A] said it agreed with us that an interim remedy in the form of a direct price intervention is necessary, given how long the 'unjustified increases' have been in place and the time we estimates will be needed to impose a long-term remedy.¹⁷ Another acquirer [B] said that our proposed approach to remedies, will in its view, 'benefit all

14 MR22/2.6 [Market review of UK-EEA cross-border interchange fees interim report](#) (December 2023) para 1.4

15 Indeed, a MIT methodology was used by the European Commission to set the level of caps for IFs in the 2015 EU Interchange Fee Regulation. It was also the methodology used to determine the caps in the 2019 Commitments decisions for each of Mastercard and Visa for RoW-EEA transactions (see Chapter 3).

16 MR22/2.6 [Market review of UK-EEA cross-border interchange fees interim report](#) (December 2023) para 9.45

17 Stakeholder response to MR22/2.6 dated 31/01/2024 [A]

participants of the card payments market', but suggested the cap should also cover card present transactions.¹⁸

3.12 A trade association, speaking on behalf of its UK acquirer members [redacted] said its members were generally supportive of reducing cross-border IFs as it will ultimately benefit merchants. Some expressed a preference that the levels previously imposed by the IFR¹⁹ (0.2% / 0.3%) be implemented 'as soon as possible'.

3.13 However, [redacted] said some acquirers the trade body represented would prefer us to wait until we have completed the development of its methodology to enable us to introduce a longer lasting price cap, as it would rather implement any change to IFs once, not twice (as would be the case if an interim remedy and enduring remedy was imposed) and therefore were not supportive of a Stage 1 cap.²⁰

3.14 Another trade association [redacted] speaking on behalf of EEA acquirers agreed with our proposal to introduce a two-stage price cap remedy.²¹

What merchants told us

3.15 Merchants were generally supportive of our proposed two-staged price cap. A trade association [redacted] representing the views of tech start-ups with over 2,500 start-ups in its network, supported the principle of an interim price cap.²²

3.16 A large merchant [redacted] was supportive of a two-stage price cap remedy, whilst having specific views regarding the level and scope of such caps, namely that both inbound and outbound IFs should be capped at a level which enables the full recovery of 'overpayments' made by acquirers incurred since 2021 and that any permanent cap should be introduced at a rate no higher than the existing caps for domestic IFs.²³

3.17 Another merchant [redacted] agreed with us that an interim cap on outbound IFs at the previous levels of 0.2% for debit cards and 0.3% for credit cards would be appropriate.²⁴

3.18 A European trade association, EuroCommerce, representing merchant wholesalers said that it supported intervention in the market in the form of a price cap, as the card schemes had raised IFs since the UK left the EU at the end of 2020, 'although materially nothing changed in payments between the EEA and the UK'.²⁵ However, it did have some objections to elements of our proposal (see 4.36 to 4.37).

18 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

19 Previously, the EU IF regulation (EU IFR) applied to the UK. The EU IFR came into force in 2015. It set business rules for card payments and introduced price caps on the IF levels for domestic transactions and for transactions across the different countries in the EEA (intra-regional IFs). These caps fixed the maximum level of IF payable by merchants when accepting certain card payments. While the UK was part of the EU, the EU IFR provisions applied caps for IFs on UK domestic and UK-EEA card transactions at the same levels as within the EEA: 0.2% of the value of consumer debit card transactions and 0.3% of the value of consumer credit card transactions. Since 31 December 2020, the UK IFR caps the level of domestic IFs within the UK.

20 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted].

21 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted].

22 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

23 Stakeholder response to MR22/2.6 dated 02/02/2024 [redacted].

24 Stakeholder response to MR22/2.6 dated 25/01/2024 [redacted].

25 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted].

What issuers and the card schemes told us

3.19 A number of stakeholders, mainly the schemes and issuers, gave us negative feedback on a potential Stage 1 price cap, and specifically they submitted that:

- a. We need to show an urgent need to intervene before imposing any interim remedy.
- b. If we imposed an interim price cap now, that would pre-empt / pre-judge the outcome of the further analysis and work that will inform the longer lasting price cap.
- c. A two-staged approach to a price cap would entail double the disruption, double the cost, and would exacerbate uncertainty already created by the market review.

3.20 One issuer [redacted] (who did not support any form of price cap remedy on multiple grounds) stated that if such a remedy were to be implemented, a single intervention (rather than a two stage approach) is likely to lead to a better long-term outcome for end users'.²⁶

3.21 Payments Europe, the European Banking Federation, the Lithuanian Banking Association, and Financial Services Ireland raised concerns about our approach of applying a Stage 1 cap, while a study is conducted in relation to a longer term level.²⁷

3.22 Some of the feedback we received is grouped together below by theme.

Feedback that we need to show an urgent need to intervene before imposing any stage 1 remedy

3.23 We heard from one trade association, speaking on behalf of its UK issuer members, [redacted] that the issuers it represented 'generally do not support it', and some 'expressed strong opinions that an interim price cap was inappropriate'. Those issuers said that 'imposing a temporary price cap, in the absence of an urgent and materially significant costs shock to merchants is also inappropriate' and pointed to the 'likelihood that a temporary cap sets expectations as to where a final cap will land and could be materially prejudicial'.^{28, 29}

3.24 Visa said that we had 'no legal or evidential basis'³⁰ for its proposed interim price cap, stating 'The IR [interim report] admits to not having conducted the analysis necessary for analysing [its] XB [cross-border] CNP IFs and, with no such methodology even in place, needing ~18 months to do so – this reason alone makes clear that there is no basis for seeking to impose any interim XB [cross-border] CNP IF caps.'³¹

3.25 Visa also challenged our ability to impose an interim price cap without having first demonstrated an urgent need to do so. It pointed to extracts from our Powers and Procedures Guidance ('PPG')³² which, in its view, makes clear that, interim measures

26 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

27 Stakeholders response to MR22/2.6 dated 1/08/2024 [redacted]

28 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

29 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

30 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

31 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

32 [redacted] highlights paragraph 4.43 of the PPG entitled 'Taking urgent or interim action' which states 'Taking interim or urgent action 4.43. We may use our FSBRA powers to take urgent action, including the use of interim measures, where appropriate, either to: prevent the risk of a negative impact occurring as a result of the behaviour of regulated parties, or address a negative impact that has already occurred. For example, we may consider giving a specific direction (see paragraphs 4.46 to 4.56) with short or no notice to prevent or address that behaviour'.

should be used only to take “urgent action” and to “address a negative impact that has already occurred” and that the PSR’s guidance does not endorse the imposition of urgent interim action in order to give the PSR more time to conduct an analysis.’³³³⁴

Feedback that if we imposed an interim price cap now, that would pre-empt / pre-judge the outcome of the further analysis and work that will inform the stage 2 price cap

- 3.26** Mastercard stated that the [interim] report’s findings underpinning its proposed interim remedy were unsupported by the evidence and it was concerned that they should not prejudge the outcome, and potentially prejudice the objective implementation, of the MIT study that the PSR envisages’.³⁵
- 3.27** An issuer [redacted] expressed concerns that we appear to be choosing to implement a 20/30bps [basis points] cap using a series of assumptions, before conducting the needed economic and competition impact analysis.’³⁶ The issuer said that our decision to implement an interim cap appeared to pre-judge the results of their upcoming study, and made a potentially incorrect assumption that ‘(i) a cap is justified and (ii) the cap will be lower than 115/150bps, (iii) the potential loss of revenue due to the interim 20/30bps cap will be offset by issuers’ presumed ‘excess’ revenue over the last two years.’³⁷
- 3.28** Another issuer, [redacted] stated that ‘reducing the interchange fee on an interim basis presupposes the outcome of any cost study. The cost study may in fact find that lower interchange fee levels do not allow for proper cost recovery and a reasonable return to ensure a sustainable commercial model for cards. Indeed, the PSR itself notes that “there is a possibility that the final enduring price cap may be higher than this interim price cap”.’³⁸

Feedback that a two-staged approach to a price cap would entail double the disruption, double the cost, and would exacerbate uncertainty already created by the market review.

- 3.29** Mastercard said that our review had already created substantial uncertainty as to issuers’ future revenue streams – citing our announcement of the market review on 21 June 2022 and our statement of 17 November 2021 in which we announced ‘an additional phase of work’ in relation to card fees – and reduced issuer incentives to invest. It argued that our proposed two-stage price cap remedy was likely to increase the existing uncertainty and harm issuers’ incentives to innovate and invest. It concluded that this, in turn, could impact fraud levels.³⁹
- 3.30** Visa said our proposed two-stage price cap remedy risks ‘destabilising the balance that exists between the costs and incentives of merchants/acquirers on the one hand and cardholders/issuers on the other – particularly in the longer term’.⁴⁰ It expressed its concerns that imposing the proposed interim IF caps ‘stands to cause significant cost and

33 Stakeholder response to MR22/2.6 dated 29/02/2024 [redacted]

34 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

35 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

36 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

37 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

38 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

39 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

40 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

disruption to the global payments ecosystems operated by [the card schemes] – particularly in circumstances where we also propose to implement further IF changes by way of Enduring IF Caps relatively soon thereafter.⁴¹

3.31 An issuer [X] said our actions could cause disruption and costs for the industry, especially if the fee is to be changed twice. It said we should not implement an interim cap and instead expedite the process of determining an appropriate long-term level for these IFs. It said we should then be seeking to implement a ‘legally certain regulated price, rather than a price cap, implemented as a legal requirement’ to avoid the significant litigation which has occurred around the IFR.⁴²

Our response to the concerns and issues raised by stakeholders regarding the principle of a two-stage approach to a price cap remedy

3.32 In raising concerns regarding the principle of a two-stage price cap, the schemes impliedly or expressly questioned our conclusion that current IF levels for CNP transactions are unduly high. We explained in our final report why we concluded current IF levels for outbound CNP transactions are unduly high and give rise to ongoing detriment (see chapter 5).

3.33 Some concerns expressed by stakeholders regarding the principle of a two-stage price cap were closely related to their concerns regarding our preliminary view, as expressed in our interim report, that 0.2% / 0.3% would be an appropriate level for a stage 1 price cap. We address representations made to us regarding the potential level of any stage 1 price cap in Chapter 4.

3.34 We address the concerns raised and issues highlighted by stakeholders that specifically relate to the principle of a two-stage price cap below.

Suggestion that we need to show an urgent need to intervene before imposing any interim remedy

3.35 It was suggested that we need to show there is an urgent need to intervene before imposing any interim remedy. In principle, we do not agree that urgency is a pre-requisite for the imposition of a remedy when using our powers under Part 5 FSBRA. Nor do we agree that the provisions of the PPG preclude the imposition of an interim remedy using our powers under Part 5 FSBRA in this particular context.

3.36 In our view, our role here is to consider whether implementing a price cap at a transitional level, pending the imposition of a stage 2 price cap calculated by reference to an appropriate methodology, would be effective and proportionate in light of all the circumstances, including having regard to the conclusions of the final report.

3.37 As explained in Chapter 4 at paragraph 4.4, relevant considerations in this context include the need to balance the benefits of addressing the detriment to service users we have identified more quickly than we would do if we waited for the stage 2 price cap (given the likely timescale for identifying a level for the stage 2 price cap) with the potential costs and any unintended consequences of doing so.

41 Stakeholder response to MR22/2.6 dated 14/02/2024 [X].

42 Stakeholder response to MR22/2.6 dated 31/01/2024 [X].

Suggestion that if we imposed an interim price cap now, that would pre-empt / pre-judge the outcome of the further analysis and work that will inform a stage 2 price cap

- 3.38** We do not agree with the suggestion that the imposition of a stage 1 price cap would pre-judge, or pre-empt the outcome of our further work that will inform the stage 2 price cap.
- 3.39** The stage 2 price cap will be imposed by reference to a methodology, the development of which will in itself be the subject of separate consultation. The application of that methodology will inform what an appropriate level for the longer lasting price cap will be. Our decision to impose the longer lasting price cap at a certain level will be made in light of all relevant considerations and best information available at the relevant time, including the results of the application of the methodology. Further, the factors under consideration for an interim cap also take into account the shorter-term nature of that form of intervention, as well as the context of further planned work, together with a realistic time estimate of what that work would entail. Accordingly, it entails a different weighing exercise, which does not pre-judge that of the stage 2 assessment.
- 3.40** We recognise it is possible that, once developed and applied, the methodology that will inform the stage 2 price cap may show that a level that is higher, or lower, than that which might be imposed by any stage 1 price cap, may in fact be appropriate. We take this into account in our appraisal of the interim cap options.

Suggestion that a two-staged approach to a price cap would entail double the disruption, double the implementation cost for issuers, and would exacerbate uncertainty already created by the market review.

- 3.41** We recognise that a two-staged approach to a price cap will create a degree of increased business disruption and duplication of some one-off costs for, in particular, the schemes, issuers and acquirers. This is because they will need to implement two price changes as opposed to one price change if we waited to intervene until we are in a position to impose the stage 2 price cap.
- 3.42** Our current view is that the implementation costs of a stage 1 price cap would be small for card schemes, and marginal for the card issuers and acquirers (see Annex 1 paragraph 1.57) of our draft cost benefit analysis). Our existing evidence based on previous changes to IF levels and on stakeholder responses suggests that, as long as sufficient notice (at least six months) is provided, necessary changes could largely be incorporated into regular business activities. Card schemes would face some additional cost associated with information and reporting requirements to enable us to monitor compliance and efficacy of the price cap.
- 3.43** We do not therefore consider that the costs these participants would likely incur implementing any stage 1 price change are a persuasive reason to preclude the imposition of a stage 1 price cap remedy, notwithstanding they would incur some of these costs (associated with notifying customers of the change, repricing blended contracts, and changing the levels in their systems) twice.
- 3.44** Similarly, for the reasons set out in Chapter 5 paragraphs 5.24 to 5.29, we do not currently consider that there would be such a degree of business disruption to issuers, acquirers and the schemes to preclude the imposition of a stage 1 price cap, given the benefits of more quickly addressing the detriment to service users a stage 1 price cap would bring.

- 3.45** We note Mastercard's argument in paragraph 3.29 that our review has already created substantial uncertainty for issuers' income and that our proposed two-stage price cap remedy would increase this uncertainty further, potentially impacting fraud levels negatively in turn. These comments need to be contextualised by reference to the conclusions of our final report, which identified service user detriment. Further, most UK issuers confirmed to us that they do not track IF revenue by corridor.⁴³ Indeed, all UK issuers we gathered information from said that they do not consider individual sources of card revenue, such as UK-EEA IF revenue, in making their decisions on rewards for card holders or on investments (including in fraud prevention). They make decisions more holistically, at card portfolio level.⁴⁴ We have no reasons to believe that EEA issuers would act differently. Acquirers and merchants also told us that they have seen no visible change in fraud prevention for UK-EEA CNP transactions following the increases in UK-EEA CNP IFs. Some also stated that fraud is already addressed via other funded mechanisms.⁴⁵
- 3.46** As such, in particular given the evidence that decisions on investment in fraud prevention are not made through considering individual sources of card revenue, we do not accept the suggestion that our review has negatively affected their incentive to invest in fraud prevention, and that an interim cap would continue to do so. We also note the certainty that a stage 1 cap would bring in the shorter term, while a stage 2 cap was being developed.

Our current view on the principle of a two-stage cap

- 3.47** In our final report, we found that current levels of cross-border IFs are unduly high and that the only effective form of remedy to address the detriment arising from this is a price cap. Given the timeframe for developing a methodology for setting the level of a price cap on a lasting basis, significant detriment would continue to occur (for more than two years) if no remedy were to be implemented until completion of that work.
- 3.48** Having carefully considered representations from the schemes, issuers, merchants and other third parties, we remain of the view that, in principle, we should impose a price cap set at an interim level. Our draft CBA (see Annex 1) concludes that "a stage 1 price cap would be effective in achieving our stated policy objectives and aligned with our statutory service-user objective".
- 3.49** In the following two sections we therefore seek to identify appropriate levels and design features for a stage 1 price cap that is effective and proportionate.

Question 1: In light of our analysis of feedback received to date, do you agree that we should implement a price cap on CNP UK-EEA cross-border IFs in two stages, with the stage one cap being implemented whilst we develop and implement a methodology to calculate a stage 2 cap? Please provide reasoned views and supporting evidence for your response.

43 MR22/2.6 [Market review of UK-EEA cross-border interchange fees interim report](#) (December 2023) page 62 para 5.29.

44 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), page 20 section 3.19

45 Stakeholders responses to PSR information requests dated 11 January 2023. [↗.]

4 The level at which stage 1 of a two-stage price cap might be set

- 4.1** As explained in chapter 3, there is no established methodology that could be suitable for setting a price cap for outbound IFs for the UK-EEA corridor.
- 4.2** We therefore looked at the level we might set for an interim cap. In doing so we considered whether any particular option would:
- be effective in achieving its aim. As explained in Chapter 3, our current view is that the aim of any stage 1 price cap should be to address the detriment to service users we have identified in our final report;
 - be no more onerous than is required to address that service user detriment;
 - Incorporate the least onerous among the available options that are effective in addressing that service user detriment; and
 - not produce adverse effects which are disproportionate to the objective of addressing that service user detriment.
- 4.3** Our assessment is underscored by the regulatory principles we have regard to when considering whether to exercise our powers under FSBRA.⁴⁶
- 4.4** Accordingly, in assessing and comparing the effectiveness and proportionality of possible options of a level for a stage 1 price cap, and recognising the uncertainty as to what the appropriate level would be for a stage 2 remedy, we have had particular regard to the need to balance two objectives:
- to address the detriment we have identified to service users in our final report in an effective manner and in a way that would be substantially quicker than if we waited for the stage 2 price cap; and
 - to avoid any stage 1 price cap leading to unintended consequences.
- 4.5** In our interim report, we set out our preliminary views on what a stage 1 price cap might look like in practice. We set out the following options for a potential level of a stage 1 price cap remedy:
- capping Outbound IF levels at the levels the card schemes currently use (1.15% and 1.5%)
 - applying a cap at zero (or otherwise removing IFs)
 - capping them at the levels that applied when the UK was in the EU (0.2% / 0.3%)
 - applying a cap above or below 0.2% / 0.3% but not at the current level

⁴⁶ FSBRA, section 53(b) provides that: 'the principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction'.

- 4.6** We expressed an initial view that 0.2% / 0.3% might be an appropriate level for stage 1 of a two-stage price cap, although we invited feedback on that initial view.
- 4.7** We have explained our current thinking regarding the merits of having a stage 1 price cap in Chapter 3 above.
- 4.8** We set out below the feedback we received to our interim report in relation to different alternative levels for a stage 1 price cap (as well as a fifth option, i.e. capping cross-border IFs at a flat per transaction rate) below and our current views on the level which achieves the best balance against the objectives outlined at paragraph 4.4. Please note that, in our interim report, we did not seek views on the level of 0.5%/0.6% for a stage 1 cap specifically.

Setting a stage 1 cap at current levels

- 4.9** Outbound IFs are currently at 1.15% for debit and 1.50% for credit cards. We consulted on these levels.
- 4.10** We did not receive responses from acquirers, merchants or issuers on setting a cap at the current levels.

What the card schemes told us

- 4.11** While the card schemes did not respond directly regarding a potential cap at current levels, they did tell us or implied that current IF levels remain appropriate. In particular,
- Mastercard said that ‘the EEA-RoW interchange fees set in the European Commission’s 2019 Commitments are a better indicator of the IFs that would appropriately reflect the costs that issuers face for CNP transactions (including fraud costs) on the EEA-UK channel than intra-EEA rates’.⁴⁷
 - Visa said that the [PSR’s] interim report contains no evidence for why IFs of 0.2% / 0.3% are more appropriate for UK-EEA CNP transactions than Visa’s current levels.⁴⁸ Visa said that the 0.2%/0.3% caps were supported by, in its view, flawed and outdated studies used by the European Commission, which for example did not specifically consider cross border or CNP transactions, used cash as a comparator, and were focused almost exclusively on the CP space. However, Visa said that several economic studies commissioned by Visa over the past two decades show that irrespective of the methodology used – i.e. whether from an issuer or merchant cost perspective – these studies support cross-border IFs that far exceed 0.2% / 0.3%.⁴⁹

Our assessment of setting a stage 1 cap at current levels

- 4.12** We recognise that a price cap set at the current level would prevent further increase in fees (and related detriment). We also note that such a cap could in principle be implemented immediately without implementation costs as it would merely maintain the status quo.

47 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

48 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

49 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

- 4.13** However, as set out in the final report, we concluded that current levels of cross-border IFs are unduly high, which gives rise to a detriment to merchants (and their customers).⁵⁰ Capping UK-EEA cross-border IFs at current levels would not address the detriment and therefore it would only serve to act as a barrier to future detriment while we finalised the more lasting remedy. It would therefore be a preventative measure against greater detriment. In avoiding any risk of costs of a cap that reduces the IF levels at all (pending the further work being undertaken) it is a minimum option, reducing any risk of disruption but based on the conclusions of the final report, leaving rates unduly high.
- 4.14** Our current view is that this option would not be effective in pursuing the aim of the remedy and reducing harm. However, we are open to evidence and underlying data that might show that it would be an appropriate level for a stage 1 cap in the light of the conclusions set out in the final report.

Applying a stage 1 cap at zero (or otherwise removing IFs)

- 4.15** We considered in our interim report whether capping outbound IFs at zero or otherwise removing IFs might be an appropriate Stage 1 remedy.
- 4.16** In our interim report, we did not consider that applying a zero cap was necessarily appropriate, particularly as an interim remedy.

What acquirers told us

- 4.17** An acquirer [redacted] said it supported a stage 1 IF cap at zero.⁵¹ It said that, by the time the interim cap is put in place the harm to UK merchants would have been in place for more than two years, during this time the schemes would have transferred millions of pounds worth of wealth from the acceptance side of the market to issuers without any consequence.⁵² On this basis the acquirer said that we should place an interim cap of zero rather than the previous levels of 0.2% and 0.3%, in order to partially mitigate the harm done so far, or 'consider imposing compensatory penalties on the schemes for the harm done so far'.⁵³ It told us that 'the PSR would be fully justified if a negative interchange was imposed to compensate merchants for the excessive fees they have been made to pay'.⁵⁴

What merchants told us

- 4.18** The British Retail Consortium (BRC) said that the interim cap should be set at 0%, until the overpayment has been fully repaid.⁵⁵

50 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

51 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

52 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

53 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

54 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

55 Stakeholder response to MR22/2.6 dated 26/01/2024 [redacted]

- 4.19** A few other merchants or merchant associations [redacted], while not explicitly advocating a zero cap, indicated that they supported a price cap lower than 0.2%/0.3%:^{56, 57, 58}
- a. One merchant [redacted] said that while it supported our stage 1 remedy of capping CNP IFs at 0.2% for debit cards and 0.3% for credit cards, this was 'subject to consideration of a further initial reduction in an interim period to account and allow recovery for merchant costs from the extended overcharge since 2021'.⁵⁹ It said this would allow merchants to recover the higher costs it incurred since the increases.
 - b. Similarly, a trade association [redacted] representing small businesses said that it supported our proposal of a 0.2/0.3% interim price cap. However, it recommended that we should consider lowering the cap going forward. It said, referencing the ECB study, that while the 0.2%/0.3% price caps align with the current EU caps, some EU countries such as Italy, Croatia, and Hungary are still cash-dependent, with less than 40% of transactions taking place by card.⁶⁰ It said we should consider a lower IF rate as in its view that would boost trade between the UK and EU. It said 'given the sheer and growing volumes of card transactions occurring and the steps UK is taking to increase trade with the EU, we recommend that PSR consider a lower cap going forward to facilitate trade.'⁶¹

What the card schemes told us

- 4.20** While neither Mastercard nor Visa expressly addressed this option in their representations to us, it is clear from their representations on the 0.2% / 0.3% option that they consider this option to be inappropriate (i.e., too low).

Our assessment of setting a stage 1 cap at zero

- 4.21** As set out in the final report and above, IFs should be set at a level that reflects effective competition and thereby takes into account the interests of service users on both sides of the schemes' platforms. The purpose of a stage 1 price cap would be to ensure that the issue and service user detriment we have identified is addressed in the interim while a longer-term remedy is developed (both being on a forward-looking basis).
- 4.22** While we note the views of merchants and acquirers that would like some redress in terms of the unduly high fees they have already paid, we do not view a stage 1 cap as a mechanism to 'compensate' merchants and their customers for the higher levels of IFs that they have paid since 2021. The conclusions in our final report do not include a finding that the schemes have breached competition law, or any other obligation we enforce compliance with. Therefore, the purpose of our intervention is not to use our powers to remedy a past non-compliance, but to take a regulatory action that advances our statutory objectives on a forward-looking basis, specifically by addressing the detriment we have identified.

56 Stakeholder response to MR22/2.6 dated 02/02/2024 [redacted]

57 Stakeholder response to MR22/2.6 dated 02/02/2024 [redacted]

58 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

59 Stakeholder response to MR22/2.6 dated 02/02/2024 [redacted]

60 European Central Bank, Study on the Payment Attitudes of Consumers in the Euro space (SPACE):
https://www.ecb.europa.eu/stats/ecb_surveys/space/html/index.en.html

61 Stakeholder response to MR22/2.6 dated 02/02/2024 [redacted]

- 4.23** Without a more robust methodology for assessing what the longer term level should be (which we intend to develop to set a stage 2 price cap), we have the following concerns with a zero cap for a stage 1 price cap:
- a. this would effectively eliminate IFs in this specific cross-border corridor, while these continue to exist not only in other cross-border corridors but also domestically. While we have not taken any view on the appropriateness of having IFs for domestic transaction (or on their levels)⁶², taking into account the current broader regulatory context we see no clear rationale for setting a stage 1 price cap on UK-EEA transactions lower than on the IFs domestic transactions.
 - b. in relative terms compared to other potential levels of price cap considered in this section, it would create a greater risk of unintended adverse consequences; indeed, some form of IFs mechanism has existed for years and it is unclear on the evidence we have gathered to date what effects a zero cap would have on the schemes' network and their users.
- 4.24** Therefore, our current view is that implementing a cap at zero carries a risk of going beyond what is necessary to achieve with a stage 1 remedy. For the reasons set out below, we consider that – for the purposes of setting a Stage 1 level until an appropriate methodology is developed and implemented to set the level for a stage 2 cap – there are other remedy options which provide a better overall balance between the objectives outlined at paragraph 4.4. However, since the evaluations are distinct, the possibility of a future cap being set at zero would not be discounted for the stage 2 assessment by the ultimate decision as to an appropriate stage 1 cap.⁶³

Setting a stage 1 cap at 0.2%/0.3%

- 4.25** In the interim report, we consulted on our preferred option of setting an outbound IF stage 1 cap at 0.2% / 0.3% as a potential remedy. We considered this remedy would address the issues we identified, as it would reverse the increase in fees which gave rise to the concerns investigated in this market review and restore the conditions that prevailed between 2016 and 2021.⁶⁴
- 4.26** As explained in our interim report,⁶⁵ we consider that lack of effective competitive constraints on the acquiring side combined with the commercial incentives on the issuing side to increase IFs for UK-EEA CNP transactions indicates that, when it comes to outbound IFs, prices are distorted across each side of the payment platforms to the detriment of UK acquirers and merchants. As far as we can currently see, having regard to our competition, service user and innovation objectives, the detriment that might flow

62 Assessing the merits of IFs (and related commercial models) in domestic or intra-regional corridors goes beyond the scope of this review which is focussed on the current levels of UK-EEA Cross-border IFs within the current commercial setting for IFs.

63 MR22/2.6 Market review of UK-EEA consumer cross-border interchange fee: interim report, page 105 paragraph 9.81

64 This option would implement a return to the fee levels that were introduced in 2016 by the 2015 EU IFR (which ceased to apply to the UK as of 31 January 2020 but continue to apply cross-border intra-EEA CNP transactions). Even after UK exit, these levels continued in practice to apply to UK-EEA CNP transactions until the increases implemented by Visa and Mastercard in 2021 and 2022.

65 MR22/2.7 [Market review of UK-EEA cross-border interchange fees interim report \(December 2023\)](#)

from this distortion is not balanced by countervailing benefits elsewhere in the system.⁶⁶ We also do not consider (and had not seen any evidence to suggest) that the outbound IF levels applicable before the increases carried any obvious risks, undermined or otherwise adversely affected the operations of either of the two payment systems in ways that caused detriment to service users, distorted competition or presented an impediment to innovation.⁶⁷ Rather, our preliminary view was that the payment systems would likely continue to operate more or less the same as they did before and have done since the increases.⁶⁸ We also noted that EU IFR still uses these levels and we 'currently consider that these are justifiable levels because they were the IFR levels for intra-EEA transactions while the UK was still part of the EEA' and '[o]ther than a political shift (the UK's withdrawal from the EU), nothing else of substance appears to have changed'.⁶⁹

4.27 While recognising that the previous levels may not be those that ultimately would be set for a stage 2 remedy, our preliminary view was that a cap at this level, on a temporary basis, may be the most appropriate remedy.⁷⁰

4.28 Of the 23 stakeholder responses to our interim report consultation question on the stage 1 remedy⁷¹, 10 respondents mainly acquirers and merchants agreed with our preliminary view that capping CNP IFs at the previous levels for outbound transactions (0.2% for debit cards and 0.3% for credit cards) may be an appropriate stage 1 remedy. Issuers and the card schemes generally disagreed, with one respondent neither agreeing nor disagreeing. We explore their views in more detail below.

4.29 We present the stakeholder feedback by group, beginning with stakeholders that agreed with our proposed stage 1 remedy, before presenting the views of stakeholders that disagreed with our proposed remedy.

What acquirers told us

4.30 Acquirers largely agreed with the option of setting the stage 1 cap level on outbound IFs for CNP card transactions at 0.2%/0.3%. A trade association, [redacted], speaking on behalf of its UK acquirer members, said its members are supportive of the 0.2%/0.3% cap as it will benefit merchants.⁷²

4.31 Another acquirer [redacted] said it agreed with the findings set out in our interim report and found 'the factors included for analysis exhaustive and associated reasoning to be sound and well considered'.⁷³

66 MR22/2.7 [Market review of UK-EEA cross-border interchange fees interim report \(December 2023\)](#), page 6 paragraph 4

67 MR22/2.7 [Market review of UK-EEA cross-border interchange fees interim report \(December 2023\)](#), page 7 paragraph 5

68 Our preliminary view was also in line with the European Commission's review of the effectiveness of the IFR, published in June 2020, that found no link between the drop in IF revenue for issuers resulting from the introduction of the IFR and a decline in what issuers offer to cardholders. European Commission, [Report on the application of Regulation \(EU\) 2015/751 on interchange fees for payment transactions](#), page 8 (29 June 2020).

69 MR22/2.7 [Market review of UK-EEA cross-border interchange fees interim report \(December 2023\) paragraph 9.63](#)

70 MR22/2.7 [Market review of UK-EEA cross-border interchange fees interim report \(December 2023\)](#)

71 MR22/2.7 [Market review of UK-EEA cross-border interchange fees interim report \(December 2023\)](#), page 121, question 17

72 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

73 Stakeholder response to MR22/2.6 dated 15/02/2024 [redacted]

4.32 Two acquirers [redacted] that supported a stage 1 remedy indicated they would like measures to go further.⁷⁴ One of these acquirers [redacted] that supported the 0.2%/0.3% stage 1 IF cap suggested the cap should also cover card present transactions.⁷⁵ The other acquirer's views are set out at paragraph 4.17 above.

What merchants told us

4.33 One large merchant [redacted] said it supported our stage 1 remedy of capping CNP IFs at 0.2% for debit cards and 0.3% for credit cards (subject to the comment at paragraph 3.16, that it recommended considering whether even lower fees would be appropriate for an interim period).⁷⁶

4.34 Similarly, a trade association [redacted] representing small businesses, said that it believed that 'the initial time-limited cap proposed of 0.2% for EEA consumer debit transactions and 0.3% for consumer credit transaction is appropriate and a step in the right direction.'⁷⁷

4.35 A merchant [redacted] agreed with us that the proposed 0.2%/0.3% interim cap of outbound IFs would be appropriate.⁷⁸

4.36 EuroCommerce, who represents European merchant wholesalers, said that while it supported intervention in the market in the form of a price cap, it disagreed with us that the stage 1 cap should be a percentage base cap, stating that percentage based fees are unfair. It advocated a flat fee per transaction instead, which it said would allow merchants to benefit from economies of scale. It stated that 0.2% / 0.3% made 'no sense' and 'if anything, credit should be lower than debit, because merchants have to bear the risk of chargebacks'.⁷⁹

4.37 EuroCommerce also advocated extending this low pence-per-transaction fee to all EEA-UK transactions, both in- and outbound and for both CP and CNP transactions. It said that with strong customer authentication correctly applied risk should be the same for all transactions. Therefore, it said there is no logical reason why "CNP should be more expensive than CP, or credit more than debit, or commercial more than consumer, or interregional more than domestic."⁸⁰

What issuers told us

4.38 Issuers who responded to us were not in favour of our preferred approach to a stage 1 price cap for outbound IFs at 0.2% for debit cards and 0.3% for credit cards.

4.39 An issuer [redacted] operating in Europe, who also disagreed with a cap at 0.2%/0.3%, provided data to underpin this argument, for debit cards. It provided us with its internal estimate for its costs of EEA-UK debit card transactions for 2023, which it said is in the range [redacted]^{81,82}.

74 Stakeholder responses to MR22/2.6 dated 31/01/2024 [redacted], [redacted]

75 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

76 Stakeholder response to MR22/2.6 dated 02/02/2024 [redacted]

77 Stakeholder response to MR22/2.6 dated 02/02/2024 [redacted]

78 Stakeholder response to MR22/2.6 dated 25/01/2024 [redacted]

79 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

80 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

81 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

82 Figure requested does not include rebates. [redacted]

It explained that if an interim cap were set at 0.2% for debit cards, each transaction would not cover its costs. Whilst sale of other products and services would mean most of their customers would remain profitable, a cohort of EEA customers who predominantly use free or low-margin services, [redacted], would become overall loss-making incentivising it to cut services to such customers.⁸³ It suggested other issuers would have similar issues (but that they are likely less efficient and have higher costs).

4.40 The same issuer [redacted] also suggested that the 'IFR's 20/30bps is not an appropriate benchmark as (i) it was designed using data from a general merchant indifference test on EEA transactions not specifically on UK->EEA CNP transactions and (ii) costs on issuers have changed significantly since 2015.' On point (ii), it said it was particularly concerned that we had not considered the increased costs issuers face for both domestic and international transactions since the IFR was introduced despite evidence being provided to it (for example Apple fees have added costs for issuers which are a significant portion of interchange revenue).⁸⁴

4.41 The same issuer [redacted] also said that an interim price cap at 0.2%/0.3% would:

- a. Deter new players such as Fintech companies⁸⁵
- b. likely reduce the viability of alternative schemes emerging;
- c. not increase competition or innovation nor benefit UK merchants or consumers.⁸⁶
- d. result in further costs being passed to EEA consumers, with minor marginal benefits simply "banked" by the largest merchants.⁸⁷

4.42 Relatedly, the issuer expressed a concern that if we decided that ultimately the level it had set for an interim cap was too low and needed to be raised for a longer-term cap, 'this would mean that the increased consumer fees are already baked in and merchants would then face a further increase in fees, causing prices to rise further'.⁸⁸

4.43 It also suggested a Stage 1 price cap (or Stage 2 price cap) may in fact lead to increased costs for merchants as, 'given alternatives such as American Express will be uncapped and be able to offer increased services to EEA consumers it is likely some volume will shift to these alternatives which can be more expensive for these larger merchants - which will certainly negate any benefits, and may in fact lead to increased costs'.⁸⁹

4.44 The issuer expressed concerns that a Stage 1 (or Stage 2) price cap set at a level below current levels would have adverse impacts in terms of EEA issuers being unable to recover costs associated with EEA-UK CNP transactions. It said this may in turn cause EEA issuers to pass on those costs to EEA consumers by way of a 'bank led charge', or choose to withdraw services from certain categories of EEA customers.⁹⁰

83 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

84 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

85 Stakeholder response to MR22/2.6 dated 22/04/2024 [redacted]

86 Stakeholder response to MR22/2.6 dated 22/04/2024 [redacted]

87 Stakeholder response to MR22/2.6 dated 22/04/2024 [redacted]

88 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

89 Stakeholder response to MR22/2.6 dated 22/04/2024 [redacted]

90 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

- 4.45** Six European trade associations (Financial Services Ireland, the French Banking Federation, the European Banking Federation, Payments Europe, the Lithuanian Banking Association and the Romanian Association of Banks) said that the proposed 0.2%/0.3% stage 1 cap would mean EU issuers would lose money on each transaction and this would discriminate against EEA issuers compared with issuers in the UK, US or Rest of the World.⁹¹
- 4.46** The European trade associations said that costs incurred by EU issuers for enabling EEA to UK CNP transactions often can exceed 20/30 bps (including mandatory costs they must pay to third parties, and core costs on servicing consumers and providing consumer protections). They said that the costs have increased since 2015 and are higher than for domestic transactions meaning EU issuers could lose money on each transaction. They warned these costs would be passed on to EU consumers, so potentially disadvantaging them by forcing issuers to curtail services or introduce new fees (such as account fees, foreign exchange fees, etc).⁹²
- 4.47** They also said that imposing a price cap at the level proposed only on EEA issuers (while cross border transactions involving UK and RoW issuers remain uncapped) would put existing EU payments companies at a disadvantage and undermine the scope for new EU card-based Fintechs to start up or scale.⁹³
- 4.48** Three of these trade associations (Financial Services Ireland, the French Banking Federation and Lithuanian Banking Association)⁹⁴ also argued that the stage 1 cap would distort the market in favour of three-party schemes, while Financial Services Ireland and the Lithuanian Banking Association also said that innovation and competition would be adversely affected by the cap.⁹⁵
- 4.49** [redacted], who represent EEA issuers, acquirers, and card schemes, said that our proposed stage 1 cap at 0.2%/ 0.3% was inappropriate for four reasons. First, these European rates were set nearly 10 years ago for domestic transactions within the EU, second they were never an appropriate benchmark for cross-border transactions beyond the EU⁹⁶; third, the rate was too low to cover issuer costs (including fraud costs)⁹⁷; and finally the rate would not incentivise issuers to promote card usage.⁹⁸
- 4.50** The European Banking Federation said IFs for cross-border transactions should not be aligned to the ones that apply to domestic transactions. It said that not only are there differences in legal treatment of transactions between domestic and international (i.e., between EU and non-EU countries) but also there is a higher risk of fraud from international transactions. However, it said that if a decision for a cap is to be taken, it should be symmetric, i.e. the same cap should apply for UK-EEA inbound and outbound transactions.⁹⁹

91 Stakeholders response to MR22/2.6 dated 17/08- 01/08/20924 [redacted]

92 Stakeholder response to MR22/2.6 dated 17/08- 01/08/20924 [redacted]

93 Stakeholder response to MR22/2.6 dated 17/08- 01/08/20924 [redacted]

94 Stakeholders response to MR22/2.6 dated 17/08- 01/08/20924 [redacted]

95 Stakeholders response to MR22/2.6 dated 17/08- 01/08/20924 [redacted]

96 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

97 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

98 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

99 Stakeholder response to MR22/2.6 dated 02/02/2024 [redacted].

4.51 In a joint response to us, the European Banking Federation and Payments Europe said that setting the same IF for CP and CNP transactions was outdated and had been “superseded by the 2019 ‘commitments’ approach of setting a higher rate for CNP, reflecting the obviously higher fraud costs of those transactions.”¹⁰⁰

What Members of the European Parliament told us

4.52 Seven Members of the European Parliament (MEPs)¹⁰¹ in a joint letter said they had concerns about the impact of ‘a cap which may be below the actual costs incurred by EEA payment providers.’ The MEPs said the cap would ‘not only place European companies at a distinct disadvantage to competitors outside of the EEA, but would also negatively affect European consumers.’¹⁰² They said they were concerned about the potential impact a cap could have on ‘the provision of low cost accounts and cross-border payment services to European consumers, and the ability for European FinTechs who are trying to compete with the international card schemes to grow.’¹⁰³

4.53 The seven MEPs also said that if the ‘EU decided to retaliate, in a similar fashion, UK payment companies and UK consumers would suffer the same negative consequences as those facing their EU counterparts.’¹⁰⁴

What the card schemes told us

The basis of setting a stage 1 cap at 0.2% / 0.3% is wrong

4.54 Both Mastercard and Visa said that we have provided no evidence that 0.2%/0.3% is an appropriate level for an IF cap for this corridor.^{105 106} Mastercard said that the interim report did not provide evidence that the current rates are too high or that the previous rates of 0.2%/0.3% were acceptable and justifiable.¹⁰⁷

4.55 The card schemes both also argued that the 0.2%/0.3% was inappropriate for a number of methodological reasons, including the data being historic (i.e. that the original methodology used to calculate the 0.2%/0.3% levels in 2015 is now dated), and the comparators being inappropriate for cross-border CNP transactions (i.e. that the levels being set on the basis of a payment method – cash - which cannot be used for CNP transactions).

4.56 For Mastercard, the main emphasis was on the changes to the payments landscape since the 0.2%/0.3% caps were set¹⁰⁸ as well as the fact that the 0.2%/0.3% levels were based on an MIT which used cash as a comparator and was therefore never appropriate for CNP transactions.¹⁰⁹ Mastercard stated that while Brexit provided the legal ability to increase the levels of IFs, as UK transactions with EEA became distinct from intra-EEA transactions,

100 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

101 The European parliament members signing the letter came from the following EEP, Germany, ECR, Croatia, EPP, Spain, EPP Ireland, Renew, Ireland, EPP, Hungary and Renew France

102 Stakeholder response to MR22/2.6 dated 20/09/2024 [↗]

103 Stakeholder response to MR22/2.6 dated 20/09/2024 [↗]

104 Stakeholder response to MR22/2.6 dated 20/09/2024 [↗]

105 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

106 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

107 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

108 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

109 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

the justification for the increase pre-dated Brexit. Mastercard said that the 0.2%/0.3% IF levels set by the European Commission in 2015 were inappropriate in a CNP context¹¹⁰ for a number of reasons:

- a. It did not consider CNP payments. Mastercard noted that the European Commission justified the exclusion of CNP payments on the basis that a small number of merchants who do face to face transactions will also have online activity. The European Commission additionally said that, in 2012, CNP transactions only accounted for 5.6% of total volume and 9.3% of total value in the European Union. Mastercard suggested that neither of these considerations by the European Commission were likely to be true today for the UK given that, based on UK finance data, the proportion of UK transactions which are CNP was 34% by value and 14% by number between September 2022 and August 2023.¹¹¹
- b. The MIT methodology that was used to establish the 0.2%/0.3% caps in 2015 used cash as an alternative payment method. Moreover, this MIT did not consider the basket of payment methods to which cardholders would most likely switch in a CNP context, which may include three-party schemes such as American Express available to cardholders making online purchases.¹¹²

4.57 Mastercard asserted that fraud levels for CNP EEA-UK transactions are more aligned to levels for EEA-ROW transactions than intra-EEA transactions (for which caps at 0.2/0.3% continue to apply), and therefore IF levels for EEA-ROW transactions (capped by the 2019 Commitments) are more reflective of the 'costs that issuers face for CNP transactions (including fraud costs) on the EEA-UK channel'.¹¹³

4.58 As noted above, in Mastercard's view higher fraud levels associated with CNP EEA-UK transactions is an important factor that justifies the uplift in IFs that was made post the caps imposed by the EU IFRs being lifted, and conversely that a return to those levels (i.e., 0.2%/ 0.3%) via the imposition of any sort of cap, including an interim cap, would be inappropriate now.¹¹⁴ Mastercard additionally said that, for the reasons stated in paragraphs 4.56 above, the inappropriateness of a 0.2%/0.3% may not be limited to the UK-EEA CNP channel, but also to intra-EEA CNP payments.

4.59 Mastercard questioned the provisional conclusions in our interim report that we did not see any evidence that the structure of IFs is linked to fraud risk and costs associated with the prevention of fraud. The implication is that in Mastercard's view, there is such a link, and if that link is properly acknowledged and considered, and given Mastercard's views regarding fraud levels associated with EEA-UK transactions relative to other payment corridors, the appropriate level of IFs for the CNP EEA-UK corridor would not be 0.2%/0.3%, but a level similar to that for EEA-ROW transactions as capped by the 2019 commitments.

110 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

111 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

112 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

113 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

114 Stakeholder response to MR22/2.6 dated 14/02/2024 [↗]

- 4.60** In Mastercard's view, given Mastercard only increased IFs for CNP EEA-UK transactions in April 2022 and, ever since, the PSR's market review has caused considerable uncertainty as to the future stability of that revenue stream for issuers, 'it would be unreasonable to expect to see specific issuer investments linked to the increases, let alone significant changes in fraud levels brought about by those investments'¹¹⁵.
- 4.61** Visa said that 0.2% and 0.3% would be inappropriate for a number of reasons. First it said that our proposed 0.2%/0.3% level was not evidence based and said that the interim report contained no evidence to show why IF levels of 0.2%/0.3% would be more appropriate than current levels.¹¹⁶
- 4.62** Visa suggested that our proposed intervention, including an interim cap on IFs for CNP EEA-UK transactions at 0.2%/0.3%, would fail to strike the right balance in terms of properly accounting for the interests of relevant stakeholders in a two-sided payment system such as the schemes operate. In particular, our proposed intervention, including any interim cap at 0.2/0.3%, would fail to adequately take into account the interests and concerns of EEA issuers as have been previously highlighted to us. Visa noted that UK issuers have provided relevant feedback to us on the challenges associated with supporting cross-border transactions, including that:
- 'international CNP transactions [carry] a substantially greater risk and operational overhead, even with strong customer authentication';
 - issuer costs can be "higher depending on whether transactions are domestic or cross-border, for example cross-border fraud levels tend to be two to three times higher in both debit and credit cards"; and
 - XB [cross-border] CNP Transactions have "higher operational and infrastructure costs such as consumer support cost, service quality maintenance cost (for example, to ensure high card acceptance for such transactions) and higher cloud application costs".¹¹⁷
- 4.63** Visa also discussed the methodology used in establishing the EU IFR caps. It said that there are flaws in the economic studies which underpinned the EU IFR caps, which means that the 0.2%/0.3% IF levels are not more appropriate than current outbound cross border CNP IFs. The studies did not consider CNP or cross-border transactions as they were based on face to face and domestic transactions. They also used cash as a comparator which Visa said is not relevant in the CNP space.¹¹⁸
- 4.64** Visa said it also provided expert economic evidence that showed that XB [cross-border] CNP IFs should far exceed 0.2%/0.3%.¹¹⁹ Visa stated that this 2023 independent expert economic MIT assessment of its current XB [cross-border] CNP IFs (done on its behalf), with up-to-date transaction and payment comparator data, showed that current IF levels do not exceed any MIT benchmark and are therefore, in its view, fully justified and not 'unduly high'.¹²⁰ It said that the 2023 MIT assessment showed that the appropriate IF for cross border CNP transactions for debit and credit card transactions far exceeded current levels.

115 Stakeholder response to MR22/2.6 dated 14/02/2024 [[↗](#)]

116 Stakeholder response to MR22/2.6 dated 14/02/2024 [[↗](#)]

117 Stakeholder response to MR22/2.6 dated 14/02/2024 [[↗](#)]

118 Stakeholder response to MR22/2.6 dated 14/02/2024 [[↗](#)]

119 Stakeholder response to MR22/2.6 dated 14/02/2024 [[↗](#)]

120 Stakeholder response to MR22/2.6 dated 14/02/2024 [[↗](#)]

It said that even when applying, in its view, conservative sensitivity adjustments to 'stress test' the MIT benchmark, it is still higher than current levels.

A 0.2%/0.3% cap level would have adverse consequences

- 4.65** The card schemes also argued that a cap set at 0.2%/0.3% was too low and as such would have adverse consequences.
- 4.66** Visa said the interim report failed to properly reflect the potential longer-term risks that a price cap remedy which disrupts the balancing role of interchange, including an interim price cap at 0.2%/0.3%, might create, which would include:
- a. a growth in transaction declines.** It argued that, without investments funded by IF revenue, issuers may be incentivised to decline a greater number of transactions or take longer to authorise payments in order to minimise their liability. It provided an example of declined Visa transactions at EEA merchants involving non-EEA card issuers increasing by approximately [redacted] following a reduction in IF levels to implement the 2019 commitments.^{121, 122}
 - b. the imposition/increase of cardholder fees and/or reduction of cardholder benefits.** It gave us two examples of this occurring, following the reduction of IFs, including UK issuers reducing cardholder benefits in response to the IF reductions caused by the EU IFR caps.^{123, 124}
 - c. greater numbers of lost sales and/or higher costs for UK merchants.** Visa said EEA consumers, when faced with less convenience or more friction, may choose to transact less with UK merchants or use other popular payment methods (like PayPal, American Express, or BNPL services) which are more expensive for UK merchants than a Visa card.¹²⁵
 - d. reduced investments in innovative payment technologies.** Visa said that issuers might invest less, or not at all, in providing innovative payment solutions that benefit merchants and users, including investment in fraud detection and prevention, if they did not receive 'appropriate IF revenue'.¹²⁶
- 4.67** Mastercard told us that interchange affects issuers' behaviour in two ways:
- a.** It said first that if IFs are set too low for a certain channel, issuers may choose to adjust their risk appetite for this channel directly, and that they have incentives to do so when IFs are too low, as less revenue is generated to cover the cost of each potential fraudulent transaction. It noted that when IFs are too low, an issuer is less likely to approve transactions with fraud risks which it may otherwise have been prepared to approve, leading to lower transaction approvals.¹²⁷

121 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

122 Visa noted that the 30% reduction was 'as of October 2022 compared with pre-commitment decline rates' and that 'Visa cannot exclude the possibility that this was (in part) impacted by other factors.'

123 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

124 Examples provided by Visa were: MoneySavingExpert.com, '[Cashback credit card rates to drop as Govt confirms lower interchange fees](#)' (October 2015), and MoneySavingExpert.com, '[Santander to hike 123 current account and 123 credit card fees](#)' (September 2015). Links visited on 21/10/2024.

125 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted].

126 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

127 Stakeholder response to PSR's Fraud Data request [redacted].

- b. It added that if interchange is set too low, issuers may invest less in fraud prevention tools. Less refined fraud prevention approaches may lead to a lower tolerance for the potential fraud for each transaction, meaning that a higher proportion of transactions will exceed the risk threshold of the issuer and be rejected.¹²⁸

4.68 Mastercard also said that the adverse consequences of rates that are too low for an interim period may have longer-lasting consequences for market participants in terms of reduced investment and higher fraud levels, than rates that are too high for the same period.¹²⁹

PSR is not considering all service users

4.69 Mastercard said that our interim report shared the views of a limited number of stakeholders (including the BRC and the European Digital Payments Industry Alliance) who support the levels of 0.2%/0.3% and these stakeholders predominantly reflect the views of those with an inevitable interest in paying lower fees.¹³⁰

Our assessment of setting a stage 1 cap at 0.2%/0.3%

4.70 In order to consider whether returning to the levels that prevailed until 2021 would achieve an appropriate balance between the objectives outlined in paragraph 4.4, we have first assessed the key issues and concerns raised by stakeholders if we chose 0.2%/0.3% as the level on an interim basis, as set out below.

A return to 0.2%/0.3% would not allow sufficient cost recovery by issuers

4.71 We note that most objections to a 0.2%/0.3% stage 1 remedy cap focussed on a cap at that level being too low for issuers to recoup their costs of a transaction in this payment corridor. This included a critique of the basis underpinning the 0.2%/0.3% levels when they were set in 2015, which we respond to in paragraphs 5.77 to 5.84 of our final report and below at paragraph 4.73. The card schemes (see paragraph 4.65), an EEA issuer [redacted] (see paragraph 4.39), a UK issuer [redacted] (see paragraph 3.28), the MEPs (see paragraph 4.52) and Payments Europe (see paragraph 4.49), and six other EEA issuer trade Associations (Financial Services Ireland, the French Banking Federation, the European Banking Federation, Payments Europe, the Lithuanian Banking Association, and the Romanian Association of Banks) (see paragraph 4.46), all said that issuer costs would not be recovered at a level of 0.2%/0.3%.

4.72 The assumption behind such a position is that card payments (including UK-EEA CNP payments) represent a product that issuers offer, which should provide them with revenues that enable them to make a profit or, at a minimum, to cover their costs. This also relates to matters under consideration in our final report. Paragraphs [5.58-5.60] set out our views in relation to the treatment of costs under the IF. In that report, we explain:

- a. "It is via the forgone interest on positive balances on personal current accounts (PCAs) and via fees and interest on related products such as mortgages, loans, credit via credit cards, wealth management and insurance products, that the issuers generate revenues and profits. In practice, issuers offer a bundle of products and services, which may (seen individually) be profitable or loss making, with the former cross-subsidising the latter. Issuers have a choice in how payment services costs are

128 Stakeholder response to PSR's Fraud Data request [redacted].

129 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

130 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

recovered across their full set of products and services and it is not necessarily the case that issuers recover all of their costs for payments (including card payments).”

- b. “We have not seen a clear articulation as to why the level of IFs should be set at a level enabling issuers to recover all of their payment costs. In fact, as noted above, the European Commission has based IFs with reference to the costs to merchants (and not to the issuers) of other payment methods. However, in the absence of a clear methodology for assessing the levels of IFs, and in view of the submissions put to us by schemes and issuers, we have considered issuers’ costs related to IFs and whether the existence (and level) of such costs could provide a justification for raising cross-border IFs to the current levels”. In this consultation document, we consider the comments on costs or related potential consequences of a cap against that backdrop, and in the specific context of a shorter term, interim price cap, where further work on a longer-term remedy is planned.

4.73 While we have heard from an issuer and EEA issuer trade associations that reverting to the previous cap would not allow issuers to recoup the costs of a transaction, only one issuer [redacted], speaking as an EEA issuer, provided us with any data to underpin this argument, and only for debit cards (see paragraph 4.39). Neither Mastercard nor Visa provided cost data. As such we were only able to assess these arguments on a limited evidence base. However, we note that data provided by that issuer does not show data setting levels at 0.2%/ 0.3% for IFs relating to CNP Outbound EEA-UK transactions would result in material under recovery of costs for transactions of that type. That data related to debit card transactions only and showed that [redacted] direct costs, net of rebates, relating to CNP Outbound debit transactions would be between [redacted] and [redacted] basis points.

4.74 The evidence from [redacted] (paragraphs 4.39 to 4.44), the MEPs (see paragraph 4.52). and the EEA issuers (see paragraph 4.46) suggested that costs of lossmaking transactions may be passed on to EEA consumers, and issuers may be forced to curtail services and / or increase fees. The root cause of such unintended consequences would be the loss-making nature of the EEA-UK CNP payment corridor for it and other EEA issuers if IF levels returned to 0.2% / 0.3%. As the limited information we received on issuer costs suggested that issuer costs of debit card transactions would be between [redacted] and [redacted] basis points, we are not persuaded that any claimed under recovery would be material when rebates are properly considered. We are not therefore persuaded the adverse consequences [redacted] and the other stakeholders warn of would in fact occur, including the ‘baking in’ of costs to EEA consumers and cut in services to customers or introduction of new fees.

4.75 We also note that [redacted] said that a price cap at 0.2%/0.3%, would result in [redacted] of their EEA customers becoming loss making. However, this represents 0.42% of that issuer’s total customer base (despite the fact that this issuer has targeted customers using this type of transactions in recent years). Moreover, the 0.2%/0.3% cap would merely be a return to the rates that currently exist for intra-EEA trade, and have existed since 2015 with no apparent negative financial impact on commercial models that we are aware of.¹³¹

131 We note the findings of the European Commission in its Report on the application of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions, which states that following the implementation of the EU IFR there was “no notable development in terms of issuing consumer cards in the EU” including in relation to the total number of issued consumer cards.

- 4.76** We invite stakeholders to provide any additional views and documents/data on issuers' costs or related potential economic effects which might further inform our thinking or support setting a stage 1 cap at a particular level, in particular the levels we are currently considering (set out at paragraphs 2.21 to 2.23 of this consultation document).
- 4.77** We note in paragraphs (4.66 d and 4.67b) that the card schemes said that the level of IFs may affect issuer investment in fraud prevention technologies. Visa said that issuers might invest less in providing innovative payment solutions if they did not receive 'appropriate IF revenues', including in fraud detection and prevention in order (see paragraph 4.66 d). Mastercard said that if an interim, or any other price cap, returned IFs for CNP-EEA transactions to a maximum of 0.2% / 0.3%, there would be a material risk of such a level inhibiting EEA issuers' ability, or willingness, to invest in fraud prevention and mitigation (see paragraph 4.67b).

A return to 0.2%/0.3% would cause reduced issuer investment in innovative payment technologies and, in particular, in fraud prevention and mitigation.

- 4.78** We concluded in our final report chapter 5 section 5.75 that "we have seen no persuasive evidence from either the schemes or issuers that shows individual issuers' fraud prevention investments are directly linked to the IF revenue they receive."¹³² We have also seen statements from UK issuers explaining "that they do not track the cost of fraud for the specific UK-EEA transactions and have not invested the additional revenue from the higher IF levels to improve fraud prevention for these or other transactions. We have no reason to consider that EEA issuers behave differently."¹³³
- 4.79** We found in our final report no contemporaneous evidence to support the suggestion that Mastercard and Visa [~~↗~~].¹³⁴
- 4.80** Accordingly, in our final report we found no direct link between the higher IF levels set by the schemes for UK-EEA transactions and an increase in fraud prevention investments¹³⁵. As such, in our final report, we conclude that there is no reason to believe that the increases in outbound IFs provided EEA issuers with additional incentives to invest in fraud prevention and have had a positive impact on fraud levels to the benefits of service users that are organisations that accept cards and their customers.
- 4.81** We also concluded in our final report (see chapter 5 paragraphs 5.12-5.13) that there was no evidence that previous IF levels (that is, 0.2% / 0.3%) had caused detriment, or had any other negative impact, on users on the acquiring side. Neither had the increases, which resulted in current IF levels, led to benefits to service users on the acquiring side.¹³⁶ Rather, fraud levels for UK-EEA CNP transactions appear to have increased as IFs rose, while fraud levels for intra-EEA cross-border CNP transactions, for which IFs were unchanged, remained stable or even decreased.¹³⁷ We also note that data provided by Mastercard also showed that some of the intra-EEA CNP channels display higher fraud levels than the EEA to UK CNP channel.¹³⁸

132 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), para 5.75.

133 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), para 5.75.

134 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), para 5.69

135 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), para 5.75

136 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), para 6.12

137 See ECB, [Card fraud in Europe declines significantly](#) (May 2023). [~~↗~~]

138 Stakeholder response to PSR's Fraud Data request [~~↗~~]

4.82 Given these conclusions, our current view is that we are not persuaded that a return to 0.2% / 0.3%, particularly as a transitional measure, would have the unintended consequence of inhibiting issuers' ability, or willingness, to invest in innovation and in particular, innovation relating to fraud prevention or mitigation. Notwithstanding our conclusions in the final report relative to the lack of justification on these grounds as regards the IFs currently set by the schemes, we seek views and evidence from stakeholders which might further inform our thinking with regard to issuers' investment in fraud prevention or other innovations, and in the context of setting a stage 1 cap at a particular level whilst we conduct the work needed to put in place a stage 2 cap.

A return to 0.2%/0.3% would lead to a growth in declined transactions

4.83 We note that the card schemes have argued that if IFs are set too low this will generate adverse consequences to merchants and their customers. As an example, lower IFs may reduce the risk appetite of issuers and lead to increased rates of transactions declined by issuers.

4.84 As noted in our final report (see Annex 2 Table 8 and Table 10), both schemes provided data on transactions rejected by issuers for different payment corridors between 2020-2023, to support their position that the increase in IFs in this payment corridor were justified.

4.85 Mastercard said that if IFs are too low, issuers will invest less in fraud prevention tools and they will adjust their risk thresholds for a specific channel of transactions, thus reducing their transaction approval rates. Mastercard also said that data provided to us for 2023 shows that, after the increase in IFs on CNP transactions between EEA cardholders and UK merchants, rejection rates for UK merchants declined. This, Mastercard said was in contrast with rejection rates for other channels for which IFs remained unchanged (for example, RoW cardholders at UK merchants). However, in our final report, we concluded that we do not consider that the data provided by Mastercard established a relationship between IFs and fraud incurred costs, as Mastercard implied. We explained that this is because, as Mastercard recognises, the evidence is not sufficient to draw strong conclusions. In addition, we note that the reduction in rejections post increases reported by Mastercard is accompanied by an increase in fraudulent transactions. It is not clear then that the reduction in rejected transactions reported by Mastercard was a benefit to anyone, let alone service users. Finally, we have not been able to see similar trends, in terms of reduced rejected transactions, in the data provided by Visa: if a relationship existed between IFs and rejections, this would be expected to hold for other players in the industry (in this case Visa).¹³⁹

4.86 We consider that the data from the schemes on rejected transactions do not establish any link between increases, or decreases, in IF levels and rates of transaction rejections by issuers.¹⁴⁰ Therefore, we are not persuaded by the schemes' suggestions that rates of transactions being rejected by EEA issuers would materially increase for EEA-UK CNP transactions if IF levels for those transactions were reduced to 0.2% / 0.3 %, especially given that reduction would be for a transitional period, but invite any further views from stakeholders on this point.

139 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), para 2.72

140 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), annex 2 para 2.71- 2.72.

The basis of setting a stage 1 cap at 0.2% / 0.3% is wrong

- 4.87** We note in paragraph 4.64 that Visa stated that its 2023 MIT report provided evidence that cross-border IFs were not unduly high. We disagree with this assessment for the reasons set out in Annex 3 to our final report.
- 4.88** The card schemes also suggested that we have no evidence that 0.2%/0.3% is an appropriate level, and that the original methodology used to calculate the 0.2%/0.3% levels in 2015 is now dated and not applicable to CNP transactions (as it is based on a methodology that used cash as a comparator, which is not relevant for cross border CNP transactions). We also note that in a joint letter, two EEA issuer trade associations (the European Banking Federation and Payments Europe) said that the setting of CNP and CP at the same level was outdated, and had been superseded by the 2019 commitments.
- 4.89** As set out above, developing a methodology to calculate the appropriate IF level takes time and in the interim, there is a need to act to limit the detriment to UK merchants, and – to the extent there is pass through – their customers.
- 4.90** We are mindful that this option would require (as a first stage cap) a return to levels that were set nearly 10 years ago on the basis of a MIT methodology that used cash as the alternative payment method. However, we also note that in the EU these levels continue to apply to CNP transactions that cross borders within the EEA, and that they continue to apply to CNP transactions within the UK. The more relevant question is whether extending the levels of 0.2%/0.3% to UK-EEA CNP transactions (pending the development of an appropriate methodology) would raise concerns. In the previous sections we addressed specific concerns raised by stakeholders.
- 4.91** For our assessment on the appropriate Stage 1 level, it remains particularly significant that the UK continues to be a member of SEPA and hence outbound transactions continue to be between two SEPA members.
- 4.92** Current levels (based on the card schemes 2019 Commitments for UK-EEA CNP IFs) are based on an estimate of the acceptance cost for merchants of means of payments funded via non-SEPA bank transfers. These payment solutions are not relevant in the UK-EEA context where SEPA bank transfers would be the relevant alternative to consider.
- 4.93** Prior to the SEPA regulation, cross-border credit transfers and direct debits often took a long time to be completed and incurred significant interbank fees. The SEPA regulation effectively created a new class of SEPA Credit Transfer (SCT)¹⁴¹ and SEPA Direct Debit (SDD)¹⁴² payments, completed in a guaranteed time with no deductions from the amounts transferred and much lower transaction fees for cross-border transactions. This improved the efficiency of financial transactions and allowed all merchants, including UK merchants and SMEs, to receive payments from SEPA countries on a similar basis to their domestic payments.

141 A credit transfer is an electronic payment from one payment account to another. The SEPA Credit Transfer (SCT) scheme makes the transfer of money in Europe easy and convenient. The SCT scheme can be used for payments in euros in 36 SEPA scheme countries. SEPA Instant Credit Transfer (SCT Inst) is an example of a SEPA Credit Transfer (SCT) launched in 2017 which allows near real time bank transfers in euros within Europe.

142 SEPA SDD is a pull-based payment scheme where creditors are authorised to initiate a payment from the debtor's bank account via a SDD mandate signed by both parties.

- 4.94** For example, all five UK major banks and the largest UK building society¹⁴³ do not charge their customers for initiating or receiving SEPA payments (in most instances)¹⁴⁴. Some of these, however, apply a charge for non-SEPA payments. It follows that the cost to UK merchants of accepting payments from EEA consumers (i.e., consumers from SEPA countries) cannot be as high as the cost they incur for accepting payments from consumers from non-SEPA countries, as the cost of SEPA bank transfers is lower than that of non-SEPA.
- 4.95** So, it is very likely that UK membership of SEPA implies lower costs for UK-EEA cross-border transactions compared to RoW/UK cross-border transactions. As such, if 1.15%/1.50% are the appropriate levels for RoW/UK transactions, they are likely to be 'unduly high' for EEA/UK transactions.
- 4.96** In our current view if 0.2%/0.3% applies for transactions between EEA SEPA members, it represents a legitimate benchmark for identifying an appropriate level (on a transitional basis while an appropriate methodology is being developed) for transactions between two SEPA members only one of which is in the EEA.
- 4.97** We are aware that the UK is not the only country within SEPA that is not in the EEA. As far as we are aware, the IFs payable for transactions between these countries and the EEA are 1.15%/1.5%. However, we found that these levels are unduly high for transactions between the UK and the EEA. The UK is not alone in looking in recent years at whether IFs are set appropriately. The European Commission set IFs for transactions within the EEA through the 2015 EU Interchange Fee Regulation, and accepted commitments setting caps for transactions between the EU and the rest of the world in 2019. In July 2024 the New Zealand Commerce Commission published a consultation paper on IFs¹⁴⁵, which seeks views on issues around reducing domestic IFs. It also notes that 'cards issued in Australia and used in New Zealand can have higher IFs than cards issued from outside of the Asia-Pacific region and used in New Zealand (for example, the United Kingdom)'¹⁴⁶ and seeks evidence related to these different fee levels. In 2021 the Reserve Bank of Australia concluded a review of retail payments regulation.¹⁴⁷ It looked at IFs charged on foreign cards, and decided that applying interchange caps to foreign card transactions was not warranted at that time, but said it would require schemes to publish these fees on their websites. In October 2024 it published an Issues Paper; in light of the transparency brought by its previous work it sought views on, amongst other things, capping IFs on foreign card transactions in Australia.¹⁴⁸

143 Five major UK banks by revenue based on 2023 data are: Barclays, HSBC, Lloyds, Natwest, Santander. The largest UK building society by revenue, based on 2023 data, is Nationwide.

144 Information correct as of 30 September 2024; Of the five banks and one building society listed in footnote 143 only Natwest has a charge of 45p per transaction for SEPA credit transfer via Bankline to non-business accounts. Natwest has no charge for SEPA credit transfers via online banking.

145 Retail Payment System: costs to businesses and consumers of card payments in Aotearoa New Zealand: Consultation Paper. https://comcom.govt.nz/_data/assets/pdf_file/0031/359491/Retail-Payment-System-Costs-to-businesses-and-consumers-of-card-payments-in-Aotearoa-New-Zealand-Consultation-Paper-23-July-2024.pdf

146 Ibid., paragraph 4.42

147 <https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/interchange-fees.html> retrieved 5 November 2024

148 Merchant Card Payment Costs and Surcharging – Issues Paper – October 2024, <https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2024/pdf/merchant-card-payment-costs-and-surcharging-oct-2024.pdf> page 12.

- 4.98** Given that, in our case, we have identified a significant detriment to service users, we believe it is appropriate for us to act in these circumstances to protect the interests of service users, and that it is not unusual for a jurisdiction to look in to, and address, issues it sees in both domestic and cross-border IFs.
- 4.99** Another consideration is the return to these levels also reflects a return to the pricing levels prior to the five-fold IF increases that gave rise to our concerns.
- 4.100** We also note that in an open letter addressed to the European Commission, the Treasury and us, key stakeholders (including the BRC and EDPIA) have indicated that 0.2%/0.3% would be an acceptable level for outbound IFs pending a fuller consideration of a solution to setting these fees.¹⁴⁹
- 4.101** For the reasons set out above, we do not accept that how and when the previous levels were set mean that we cannot use these levels for a stage 1 cap. Our current view is that 0.2%/0.3% could be an appropriate level for a stage 1 cap while we conduct the necessary work to develop a stage 2 cap. While those levels were set some time ago on the basis of a MIT methodology which used cash as the alternative payment method, they represent a return to a cap which, on the evidence we have seen, did not create negative impacts for businesses. However, we seek stakeholder views and evidence via this consultation as to whether these levels create any risk of negative unintended costs such that alternative levels, such as 0.5% / 0.6% or 1.15% / 1.5% would be more appropriate.

Credit cards should have a lower IF rate than debit cards

- 4.102** We note that EuroCommerce recommended that credit cards should have a lower IF than debit cards, because merchants have to bear the risk of chargebacks (see paragraph 4.36).
- 4.103** Section 75 of the Consumer Credit Act 1974 establishes that the credit card provider is jointly responsible with the merchant for any contractual breach or misrepresentation operated by that merchant. However, issuers are potentially exposed to additional risk with credit card transactions, compared to debit card transactions, because the issuer provides a line of credit to cardholders. Conversely, debit card transactions are linked to the cardholder's outstanding account balance and they will be rejected if funds are insufficient. In light of this, and given the additional likely disruption arising from such a different approach, our current view is that, in the context of a Stage 1 remedy, we do not consider it appropriate to change the balance of IFs between debit and credit cards.

Would negatively impact competition and disadvantage EEA issuers

- 4.104** We note that seven members of the European Parliament said that a price cap would negatively affect Fintech trying to compete with the card schemes (see paragraph 4.52). Similarly, six EEA issuer trade associations said that a price cap at 0.2%/0.3% would undermine the scope for new EU card based Fintech to start up or upscale (see paragraph 4.47) and would discriminate against EEA issuers compared with issuers in the UK, US or Rest of the World (see paragraph 4.45). While two of these European trade associations (Lithuanian Banking Federation and Financial Service Ireland) also said that innovation and competition would be adversely affected by the cap (see paragraph 4.48). An issuer [redacted] made the same points (see paragraph 4.41(a)-4.41(c)).

149 https://www.edpia.eu/wp-content/uploads/2023/05/26.05.23-DRAFT-EDPIA-UK-EU-Cross-Border-Interchange-Fee-Letter-FINAL_.pdf

- 4.105** We also note that the six EEA trade associations (Financial Services Ireland, the French Banking Federation, the European Banking Federation, Payments Europe, the Lithuanian Banking Association, and the Romanian Association of Banks) said that imposing a price cap only on EEA issuers (while cross border transactions involving UK and RoW issuers remain uncapped) will put existing EU payments companies at a disadvantage.¹⁵⁰ And in a related point three of these trade associations (Financial Services Ireland, the French Banking Federation, and the Lithuanian Banking Association) also argued that a price cap would distort the market in favour of three-party schemes.¹⁵¹ An issuer [X] made the same point.¹⁵²
- 4.106** We note that there is limited evidence of significant changes taking place in market share since Mastercard and Visa increased their outbound IF levels. We do note that in the period 2019 to 2022 (the period leading up to and including the changes in cross-border IF levels) American Express more than doubled its market share in this corridor. However, American Express still has a far smaller share in the UK-EEA outbound CNP cross-border space than Mastercard and Visa. Non-Visa and Mastercard schemes accounted for just 21% (by value) of total transactions in 2022, while Mastercard and Visa, together, accounted for the remaining 79%.¹⁵³ We have also seen no evidence that the introduction of the EU IFR in 2015 led to any competitive disadvantage to EEA issuers compared to American Express.
- 4.107** We have also considered whether a cap at this level, in the context of a stage 1 cap, on outbound IFs might put EEA issuers at a disadvantage versus peers in other markets such as the US or China. We consider that it is unlikely that EEA customers would be able to obtain such uncapped cards to use for cross-border transactions because of difficulties taking out a card without a residential address in that country. We therefore do not see EEA issuers facing a competitive disadvantage to retain these customers. We see no significant disadvantage to EEA issuers in this respect from having lower IFs than those for EEA transactions with the rest of the world.
- 4.108** We note that following the increases in IFs by Mastercard and Visa, UK merchants are at a competitive disadvantage for transactions with EEA customers relative to EEA merchants. It is of course open to the EU to reduce levels of inbound IFs should it wish to do so, which would lead to lower costs to EEA merchants and their customers. Finally, as regards transactions between the UK and rest of the world, we note that our terms of reference for this review are focussed on IFs for UK/EEA transactions (and whether the increases in such UK/EEA IFs were justified) and not UK/rest of the world transactions.
- 4.109** As noted in Chapter 5¹⁵⁴ and Annex 2¹⁵⁵ of our final report, the increased income from IFs does not appear to have been used for cross-border IF-specific improvements by issuers (UK or EEA) such as improved fraud prevention. We have not seen evidence to date to indicate that any price reduction through a price cap, including a stage 1 cap set at 0.2%/0.3%, would lead to reduction in competition or investment in innovation, or harm new entrants. We note that in principle a price that is set too low fails to balance the interests of service users on both side of the market (that is, both the issuing and acquiring

150 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), para 2.72

151 Stakeholder response to MR22/2.6 dated 17/08- 01/08/20924 [X]

152 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), para 9.100

153 PSR analysis of data on transaction values submitted by acquirers through the section 81 notice, and by Mastercard, Visa and American Express.

154 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), Chapter 5.

155 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), Annex 2.

side). As set out above, we are proposing to carry out further work to identify an appropriate level of the longer-term price cap so as to ensure that any potential distortions to competition described in this subsection are considered.

Not considering all network participants on both sides

4.110 We note an issuer [~~3~~], the two card schemes and Payments Europe said that we are only considering merchants and not considering the balancing role that IFs play. We disagree. As evidenced by this consultation, we are taking pains to consider the full range of affected stakeholders.

A flat fee would be more appropriate

4.111 As noted in paragraph 4.36, it was suggested that instead of a percentage cap, a flat fee would be more appropriate.

4.112 As explained in the final report, we have assessed the levels of UK-EEA outbound IFs within the existing commercial model (and taking account of how IFs are structured and regulated in other contexts, for example, domestic IFs). As such we have not gathered evidence to assess the merits of using a flat fee compared to the current model of IFs, nor what impact such an approach would have on the schemes' networks and their users.¹⁵⁶ There is no recent precedent for this approach and significant amount of work would need to be undertaken to understand its' implications (and to identify an appropriate level). As explained in section 3, the policy aim of a stage 1 remedy would be to address, on a forward looking basis, the service user detriment for a transitional period, which is inconsistent with carrying out the detailed analysis that this suggested remedy would require.

4.113 Therefore, our current view is the risk of unintended consequences caused by taking this approach would be too great without such detailed assessment and that a stage 1 cap set at a flat fee would be inappropriate.

Our assessment of setting a stage 1 cap at 0.2%/0.3%

4.114 We have considered whether returning to the levels that prevailed until 2021 would achieve an appropriate balance between the objectives outlined in paragraph 4.4, i.e.:

- a. to address, in an effective and timely manner, the detriment we have identified to service users in our final report; and
- b. to ensure that a price cap set at a different level from what would be calculated on the basis of a specific methodology does create a disproportionate cost, including for example through unintended consequences (and in particular the risk of unintended consequences to schemes or issuers).

4.115 If such levels were imposed, these would be the same levels that applied before the card schemes increased their outbound IF levels, and the same levels that still exist for domestic transactions in the UK and within EEA states, and for intra-EEA cross-border CNP transactions.

¹⁵⁶ For example, it is unclear what would be the burden that a flat fee would place on smaller merchants that typically undertake multiple low value transactions.

- 4.116** A stage 1 price cap set at such levels would reverse the increase in fees which gave rise to the issues we have identified in the final report and restore the conditions that prevailed between 2016 and 2021 which we have found did not present particular issues in terms of negative implications for service users.¹⁵⁷
- 4.117** We note that, for our assessment, it is particularly significant that:
- a. The UK continues to be a member of SEPA.
 - b. Outbound transactions continue to be between two SEPA members.
- 4.118** If 0.2%/0.3% applies for transactions between EEA SEPA members, it could equally be deemed appropriate for transactions between two SEPA members only one of which is in the EEA.
- 4.119** We are mindful that this option would require a return to levels that were set nearly 10 years ago on the basis of a MIT methodology that used cash as the alternative payment method. As such these levels may not be those ultimately determined for a stage 2 remedy. However, pending the development of a methodology to identify with more accuracy an appropriate level for UK-EEA outbound IFs, our current view is that, for a stage 1 price cap, levels set at 0.2 % / 0.3 % would achieve a good balance between the objectives outlined in paragraph 4.4.
- 4.120** We have considered representations made by stakeholders in response to our interim report, and noted the strong opinions held both for and against setting a price cap at 0.2%/0.3%. Despite inviting it, we have to date seen very little evidence that shows why the negative impacts cited by some stakeholders would in fact be likely to occur. Our current view is that the payment systems and all their participants would likely continue to operate, in all material aspects, the same as they did before and as they have done since the increases if we were to set the level of a stage 1 cap at 0.2%/0.3%.¹⁵⁸ This consultation offers respondents one more opportunity to provide us with evidence to back up the opinions on the possible consequences of imposing a stage 1 cap at 0.2%/0.3% or to support setting a stage 1 cap at a different level.

157 This option would implement a return to the fee levels that were introduced in 2016 by the 2015 EU IFR (which ceased to apply to the UK as of 31 January 2020 but continue to apply cross-border intra-EEA CNP transactions). Even after UK exit, these levels continued in practice to apply to UK-EEA CNP transactions until the increases implemented by Visa and Mastercard in 2021 and 2022. and therefore before.

158 This view is also in line with the European Commission's review of the effectiveness of the IFR, published in June 2020, that found no link between the drop in IF revenue for issuers resulting from the introduction of the IFR and a decline in what issuers offer to cardholders. European Commission, [Report on the application of Regulation \(EU\) 2015/751 on interchange fees for card based payment transactions](#), page 8 (29 June 2020).

Setting a stage 1 cap above or below 0.2%/0.3% but not at the current level

- 4.121** In our interim report, we highlighted that given our, at the time, preliminary view that current levels of IFs for CNP EEA-UK transactions were unduly high (a view we confirmed in our final report), other options for a level for an interim cap were available, including a level above or below 0.2% / 0.3%, and below the current level. We expressed the view that no clear alternative figure to 0.2% / 0.3% or compelling rationale for such a figure had been presented to us, although we remained open to reasoned representations regarding an appropriate alternative to 0.2%/0.3% as an interim remedy.
- 4.122** We also recognised the theoretical risk that UK merchants and, (to the extent of pass through) their customers could benefit from a stage 1 cap that is ultimately found to be lower than whatever stage 2 cap we may devise following a MIT or alternative methodology. However, our view is that UK acquirers and merchants will have suffered likely unduly high fees for at least three years by the time any stage 1 remedy might be implemented.

What acquirers told us

- 4.123** One acquirer [redacted] told us that ‘the PSR would be fully justified if a negative interchange was imposed to compensate merchants for the excessive fees they have been made to pay’.¹⁵⁹
- 4.124** However, the acquirer stated that a negative IF cap would be a more complicated remedy to implement than a straightforward zero cap.¹⁶⁰

What merchants told us

- 4.125** A trade association [redacted] representing the views of tech start-ups said it believed there is evidence that the cap should be set at a lower level than 0.2% for debit cards and 0.3% for credit cards to remediate the higher fees businesses have already paid.¹⁶¹
- 4.126** A large merchant [redacted] said it supported our proposal of a stage 1 remedy of capping CNP IFs at the previous levels of 0.2% for debit cards and 0.3% for credit cards, ‘subject to consideration of a further initial reduction in an interim period to account and allow recovery for merchant costs from the extended overcharge since 2021’.¹⁶²
- 4.127** Similarly, a trade association [redacted] representing small businesses said that its members supported our proposal of a 0.2%/0.3% interim price cap. However, it recommended that we should consider lowering the cap going forward. It said that while the 0.2%/0.3% price caps align with the current EU caps, we should consider a lower IF rate as in its view that would boost trade between the UK and EU. It said ‘given the sheer and growing volumes of card transactions occurring and the steps UK is taking to increase trade with the EU, we recommend that PSR consider a lower cap going forward to facilitate trade.’¹⁶³

159 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

160 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

161 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

162 Stakeholder response to MR22/2.6 dated 02/02/2024 [redacted]

163 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

Our assessment of setting a stage 1 cap above or below 0.2%/0.3% but not at the current levels

- 4.128** We note that feedback from merchants called for an IF cap below 0.2% / 0.3%, including as a reimbursement mechanism for the unduly high fee levels, already paid by them, that we identified in our interim findings. We do not view the stage 1 price cap, or the stage 2 price cap, as a mechanism that would be specifically designed to compensate service users for detriment they have already incurred. If imposed, a stage 1 price cap would be a remedy to address the detriment to service users we have identified on a forward-looking basis only.
- 4.129** We then considered whether setting an interim cap above 0.2%/0.3% but below current levels would be appropriate. In principle, a higher level for the price cap than 0.2% / 0.3% would be less impactful on issuers, to the extent that the reduction of these levels from current levels would be more limited.
- 4.130** Most objections to a 0.2%/0.3% stage 1 remedy cap focused on the cap being too low for issuers to recoup their costs of a transaction in this payment corridor. The card schemes, EEA (and UK) issuers and EEA issuer trade associations, said that issuer costs would not be recovered at a level of 0.2%/0.3%. Comments also reflected the fact that further work is planned to establish a longer term (stage 2) cap, and that this work may ultimately lead to a cap which is set at a higher level than 0.2%/0.3%.
- 4.131** There were suggestions that EEA issuers would increase fees to their EEA customers for general banking or payment services to cover the costs of payments made at UK merchants. It was also suggested that EEA issuers could reduce quality of service provision (for example, increased fraud levels and declined transaction), cut services and even offboard certain customers as a result of the reintroduction of 0.2% / 0.3% caps on a temporary basis.
- 4.132** We have not seen evidence that, to date, this would be the case. There is no evidence that the outbound IFs increases generated benefits for service-users¹⁶⁴. In addition, the European Commission's review of the effectiveness of the IFR, published in June 2020, found no link between the drop in IF revenue for issuers, resulting from the introduction of the EU IFR, and a decline in what issuers offer to cardholders.¹⁶⁵
- 4.133** Based on the data provided by an EEA issuer [redacted] (see Annex 2 Table 14), lower IF rates, (i.e., [redacted]) would be sufficient to cover their direct costs, net of rebates on the scheme and processing fees they receive from the card schemes. However, this issuer argued that other smaller issuers (with less bargaining power) probably receive less rebates (i.e., 50% or less)¹⁶⁶ and as such they would need higher rates to cover their costs. Assuming [redacted] assertion that smaller issuers receive smaller rebates is accurate and based on the data we have from [redacted] relating to its own costs, 0.5%/0.6% may give sufficient headroom to allow smaller issuers to cover their costs net of rebates in this payment corridor.

164 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024) page 72 paragraph 5.89

165 European Commission, [Report on the application of Regulation \(EU\) 2015/751 on interchange fees for card based payment transactions](#), page 8 (29 June 2020).

166 See Stakeholder letter to PSR dated 24/07/2024, submitted as part of the putback process [redacted]

- 4.134** To date, we have no evidence to substantiate [~~the~~] expectation that smaller EEA issuers receive smaller rebates. Nor do we have any data or other evidence beyond that provided to us by [~~the~~] regarding EEA issuers' costs in this payment corridor, despite asking EEA trade associations if they or any of the EEA issuers they represent would like to provide us with additional data and evidence relating to their costs and to otherwise substantiate the concerns they have expressed to us. This consultation offers one more opportunity for stakeholders to offer us such evidence.
- 4.135** It is not our understanding that when IFs were regulated, their stated purpose was to ensure an issuer can recoup the costs of a transaction in a payment corridor. This consultation offers the opportunity for stakeholders to provide us with evidence on why the question of costs requires different handling in the context of a stage 1 cap, where further work on a second stage cap is planned, and where there is uncertainty as to what level stage 2 cap may be. Additionally, it offers an opportunity for any stakeholders to provide evidence on whether another level, such as 0.5%/0.6% would be a more suitable cap to achieve our stated objectives for the stage 1 cap - and if so to provide evidence to underpin that argument.
- 4.136** The view set out in our interim report was that a stage 1 cap should be set at 0.2%/0.3%. In our draft Cost Benefit Analysis, we are currently minded to conclude that a stage 1 cap at 0.2% / 0.3% would achieve a good balance between our policy objectives. At this point in time, we are continuing actively to consider alternatives to 0.2%/0.3%, but on the basis of the evidence seen so far, we are currently inclined towards these levels as the most appropriate levels for a stage 1 cap, having regard to the objectives set out at paragraph 4.4. This view is, amongst other things, also informed by the analysis of potential costs and benefits contained within our draft CBA (see Annex 1).

Question 2: Do you think that for the stage 1 price cap, capping IFs at the previous levels for outbound transactions (0.2% for debit cards and 0.3% for credit cards) would be appropriate? If you have made representations on this issue to us before, do you have any further points to make to us? Please provide reasoning and evidence supporting your views.

Question 3: Do you consider any of the other levels would be more appropriate and, if so, why? In particular, please provide your views on 0.5%, 0.6% (which presents a more cautious approach relative to the potential for negative effects, including in relation to issuer costs), an alternative increment below 1.15%, 1.5%, or on a level of 1.15%, 1.5% (which would maintain current levels but prevent further increases). Please provide supporting evidence.

5 The design of a stage 1 price cap

5.1 In addition to the level of the potential price caps, we have next considered other key features of a potential stage 1 price cap remedy, specifically

- a. The implementation period for the stage 1 price caps, including communication and timelines.
- b. The duration of the stage 1 price caps.
- c. Monitoring and non-circumvention.

5.2 In this chapter, we set out our current views on key design features for a stage 1 price cap.

5.3 An initial draft general direction reflecting these features but leaving open the level of the stage 1 caps, is set out in full in Annex 2 to this document. We would welcome comments on this draft direction, including the details included within it that are covered in this chapter.

5.4 Our current view is that the proposed direction for implementing a stage 1 price cap remedy will apply to every operator of a four-party card payment system designated under FSBRA (i.e., every operator of a regulated payment system of a specified description). This enables us to use a general direction. At the current time, Mastercard and Visa Europe (as the operators of the Mastercard and Visa Europe four party regulated card payments systems respectively) would be covered by the proposed direction. The proposed caps will relate specifically to UK-EEA consumer outbound IFs applicable to CNP debit and credit card transactions.

Implementation of a stage 1 price cap

5.5 In our interim report we set out preliminary views on implementation of a price cap remedy, and asked for feedback on it, including on the operational changes that need to take place to implement the proposed price caps, and on the associated timelines and costs involved. In addition, following this feedback, we sent section 81 information notices to 14 acquirers, who collectively account for over 90% of UK card transactions by value¹⁶⁷ to gather further evidence specifically on these operational changes, timelines, and implementation costs.

What merchants told us

5.6 The BRC said that one month would be a sufficient amount of time to implement the stage 1 IF caps.¹⁶⁸ It also said we should consider how merchants will be reimbursed for the overpayment of fees and that this should be built into the intervention.¹⁶⁹

167 PSR analysis. [↗]

168 Stakeholder response to MR22/2.6 dated 26/01/2024 [↗]

169 Stakeholder response to MR22/2.6 dated 26/01/2024 [↗]

What acquirers told us

- 5.7** A trade association speaking on behalf of its UK acquirer members [redacted] said it had been told by several of its acquirer members that the cap will require significant operational changes and not a mere 'switch'. An example it provided was that acquirers may need to create a new region, as currently the UK-EEA flow of card transactions in both directions is treated as one region, but by treating one way of traffic differently to the other may require the acquirer to split the existing region into two. It said the change would impact IC++ and blended pricing and is a portfolio and platform issue and that this development work could take over 12 months. It told us acquirers who created new regions when the new cross border rates were created will either need to start again or make changes to the system again.¹⁷⁰
- 5.8** It [redacted] also said that, besides technical changes, repricing merchants is complicated and requires considerable analysis, meaning repricing has to be planned and scheduled.¹⁷¹ It told us that its acquirer members therefore requested a reasonable notice period of any new interchange caps being applied.¹⁷²
- 5.9** Following the initial responses to our interim report, we sent section 81 notices to 14 acquirers, representing 90% of the of UK card transactions by value. We asked about the process and nature of the changes that need to take place when Mastercard and/or Visa make changes to the level of IFs when EEA cards are used at UK merchants, including the likely costs and timescales involved.
- 5.10** The responses, in part, reflect the different pricing options open to merchants for card-acquiring services. The different pricing options are explained further in Chapter 3 paragraphs 3.12-3.19 of the final report.¹⁷³ The responses we received from the acquirers we contacted are summarised below.
- 5.11** In terms of potential changes that would need to be made to the contracts that acquirers have with their merchant customers and the notice periods involved:
- 5.12** Some acquirers stated that, for customers on IC+/IC++ contracts, there would be no contractual changes required (and no requirement to give notice of the change to merchant customers), as the contractual terms state that IFs would be passed through in line with the levels charged by card schemes [redacted].¹⁷⁴
- 5.13** One acquirer [redacted] said that it gave merchants on IC++ contracts 30 days written notice.¹⁷⁵
- 5.14** Another acquirer noted that a 2 months' written notice period was required to be given to merchant customers on IC++ contracts of any IF change [redacted].¹⁷⁶

170 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

171 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

172 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

173 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024)

174 Stakeholders response to PSR Information Request dated 07/05/2024 [redacted]

175 Stakeholder response to PSR Information Request dated 7 May 2024 [redacted]

176 Stakeholder response to PSR Information Request dated 7 May 2024 [redacted]

- 5.15** One acquirer [redacted] stated that it normally sends communications to all IC+ and IC++ merchants to notify them of upcoming interchange changes and the rationale behind them, although no specific notification of pricing change is contractually required for this cohort given pass through of IF is inherent in the pricing structure.¹⁷⁷
- 5.16** Another acquirer [redacted] said that it would seek to give [redacted] notice to all its merchants regardless of contract (i.e., IC++, IC+ and blended contracts), for standard changes in charges and fees. However, it said that if changes were made outside of its normal approach, it would seek to give as much notice as possible to its merchants on IC++ and IC+ contracts.¹⁷⁸
- 5.17** Feedback from the 14 acquirers we contacted indicated that reflecting a [material] change in IF level in relation to a blended contract can be complex and will take some time to complete.
- 5.18** In relation to blended contracts, some of the acquirers noted that an internal repricing review may be conducted if there was a material change to IF levels [redacted]¹⁷⁹ [redacted]¹⁸⁰, or where it was “commercially reasonable” to do so [redacted].¹⁸¹ This internal process could take around [redacted] months [redacted] or [redacted] months [redacted].¹⁸²
- 5.19** If the repricing of a blended contract was to take place, some acquirers noted that 2 months’ notice would be required to be given to the affected merchant customers notifying them of the updated pricing under the terms of their blended contracts [redacted].¹⁸³ One acquirer [redacted] said that 90 days’ notice is required if the change in IF has a material impact in increasing the blended fee.¹⁸⁴
- 5.20** Some acquirers told us that they typically would not make changes to pricing of blended contracts outside of the usual annual cycle [redacted]¹⁸⁵ while others said that repricing may not happen unless the merchant instigates this. For example, one acquirer said that “*Fees for merchants on blended pricing contracts are not proactively repriced when interchange fees change.*” [redacted].¹⁸⁶ While another acquirer [redacted] said that for merchants on a blended contract with negligible transaction volumes for the relevant corridor, it may not immediately make moves to change their blended rate unless the merchant instigated this conversation. It added that given the competitive nature of this sector, this could come if merchants are approached by other acquirers.¹⁸⁷

177 Stakeholders response to PSR information Request dated 7 May 2024 [redacted]

178 Stakeholder response to PSR Information Request dated 7 May 2024 [redacted]

179 Stakeholder meeting date April 2024 [redacted]

180 Stakeholder responses to PSR Information Request dated 7 May 2024 [redacted]

181 Stakeholder response to PSR Information Request dated 7 May 2024 [redacted]

182 Stakeholders responses to PSR Information Request dated 7 May 2024 [redacted]

183 Stakeholders responses to PSR Information Request dated 7 May 2024 [redacted]

184 Stakeholder response to PSR Information Request dated 7 May 2024 [redacted]

185 Stakeholders response to PSR Information Request dated 7 May 2024 [redacted]

186 Stakeholder response to PSR Information Request dated 7 May 2024 [redacted]

187 Stakeholder meeting date April 2024 [redacted]

- 5.21** On the issue of overall timing to implement a change in IF:
- a. Two acquirers said they could implement changes in under 6 months. One acquirer [redacted] said that relatively straightforward IF changes (such as updating the price point for existing IF) can typically be made in 30-90 days. [redacted] only uses IC++ contracts with its UK merchants.¹⁸⁸ Another acquirer [redacted] said that it would carry out a review for customers on blended contracts, which would take about 2 months to complete and that any change would need to be notified to customers giving 2 months' notice.¹⁸⁹
 - b. The majority, 8 acquirers, said that around 6 months would be usual for such changes [redacted].¹⁹⁰
 - c. 4 acquirers [redacted], said that a minimum notice period of 6 months was required with 3 of these acquirers [redacted] suggesting that a longer period would be preferred, typically between 6 - 12 months. One acquirer suggested that, in circumstances where repricing changes are required, a minimum notice period of 12 months would be reasonable [redacted].¹⁹¹ Another acquirer [redacted] said a period greater than 6 months [redacted] months would be needed if it needed to build a new logic and rule.¹⁹²

5.22 In terms of when reviews/changes to IFs, including the level, typically take place for customers on blended contracts, of the acquirers that responded on this point:

- a. 2 acquirers said that such changes are generally made once per year [redacted].¹⁹³
- b. 4 acquirers said that such changes typically occur twice per year in April and October [redacted].¹⁹⁴
- c. 1 acquirer said that their process to update interchange models is conducted quarterly [redacted].¹⁹⁵

What issuers told us

5.23 An issuer [redacted] said that our actions could cause disruption and costs for the industry, especially if the IF was to be changed twice in close succession. It would prefer that we expedite the process of determining an enduring cap level and therefore only change the fee level once.¹⁹⁶

188 Stakeholder response to PSR information request dated 7 May 2024 [redacted]

189 Stakeholder response to PSR information request dated 7 May 2024 [redacted]

190 Stakeholder responses to PSR information request dated 7 May 2024 [redacted]

191 Stakeholder responses to PSR information request dated 7 May 2024 [redacted]

192 Stakeholder responses to PSR information request dated 7 May 2024 [redacted]

193 Stakeholder responses to PSR information request dated 7 May 2024 [redacted]

194 Stakeholder responses to PSR information request dated 7 May 2024 [redacted]

195 Stakeholder responses to PSR information request dated 7 May 2024 [redacted]

196 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

What the schemes told us

- 5.24** Visa highlighted its understanding that ‘consistent with previous IF changes (including in Visa’s previous commitments decisions with the EC), at least six months would be required to implement the technical changes involved in reflecting any IF changes in Visa’s, acquirers’ and issuers’ systems.’¹⁹⁷

Our current views

Implementation factors, including communication and timelines

Communication

- 5.25** As set out in Chapter 6 given our assessment of the nature and functioning of the contracts between acquirers and merchants, we expect the benefits of the price cap to be largely passed through to merchants (that is, consistent with our findings in Chapter 6 of the final report, in excess of 90% pass-through). However, to ensure this outcome, we are proposing to take measures to ensure that merchants are made aware of the existence and level of the price cap. UK merchants may need to approach their acquirer directly to seek a repricing of their contact in the event of a price cap. This is particularly the case for UK merchants on blended contracts. Although these contracts only represent a relatively low transaction volume in the UK-EEA corridor, this would most likely apply to smaller merchants.¹⁹⁸
- 5.26** Mastercard and Visa could each be required to notify promptly their respective relevant acquirers that there will be a change in the level of IFs applicable to outbound transactions from the date specified for implementation in the direction. The direction could also require Mastercard and Visa to request acquirers to notify each of their relevant UK merchant customers of the upcoming change in levels of IF.
- 5.27** In addition, Mastercard and Visa could each be required to publish in a clearly visible and easily accessible manner directly on their websites all UK-EEA consumer CNP outbound IFs applicable to UK-EEA consumer CNP outbound debit and credit card transactions subject to the direction (noting in this respect that the levels of Mastercard and Visa outbound IFs are already publicly available on the Mastercard and Visa websites¹⁹⁹). This requirement would continue for the duration of the direction.
- 5.28** If imposed, in practice, the stage one price cap remedy would compel the schemes to ensure that issuers do not charge – and acquirers do not offer – IF levels for Mastercard or Visa CNP EEA- UK outbound transactions above the level decided upon for credit or debit transactions.

Timelines

- 5.29** In terms of the period that would be appropriate to implement any change to the fee levels, we aim to avoid unnecessary delay (since this would also delay the benefits of the cap) while recognising the benefits of an orderly and effective implementation. Our current view therefore is that the implementation period for the stage 1 remedy should allow reasonable time for acquirers to plan and schedule the introduction of a new cap on outbound IFs.

197 Stakeholder response to MR22/2.6 dated 14/02/2024 [3-].

198 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024), chapter 6.

199 Stakeholder response to MR22/2.6 dated 14/02/2024 [3-]

5.30 Based on the information and feedback we gathered from stakeholders to date, and consistent with most respondents, our current view is that an implementation period of up to six months would be a reasonable time scale for implementing the stage 1 price cap. We note however that a number of respondents have indicated that there would be practical benefits in aligning the entry into force of the cap with the next bi-annual price change window to implement the stage 1 cap (that is, 1 April or 1 October). While we understand there might be benefit to this, our current view is that this would not justify delaying implementation beyond a period of six months. We would however welcome views as to whether a shorter implementation period would be preferable if it permitted to align with one of these two dates (while still ensuring sufficient time for implementation). We do not agree with [2] that creating a new region should take 12 months.

Duration of the stage 1 price cap

5.31 As explained in chapter 3, we propose to develop a methodology for setting the level of the second stage price cap.

5.32 In our interim report we considered initial representations on the time it would take to develop an appropriate methodology (MIT or other), to determine the level of the stage 2 remedy and at the time we estimated that process could take up to 18 months. We currently estimate this process including issuing a ToR, developing the methodology, consulting on that methodology, and conducting the necessary work could take longer.

5.33 Our current intention therefore is for the stage 1 price cap to remain in place for up to 30 months. This is because:

- a. We currently consider that a duration of up to 24 months will allow us sufficient time to carry out the necessary work (including consultations) to adopt an appropriate methodology for a second stage price cap, calculate that price cap and, if appropriate, issue a new direction to set the level of that price cap at the new level.
- b. Based on evidence gathered as part of our consultation we anticipate that implementation of that new level would require a similar period of time as with the stage 1 price cap (that is, up to six months) from issuance of the new direction.

5.34 In view of the above, based on current projections, which includes an expectation of reasonable cooperation by the schemes, we propose to limit the duration of the proposed direction to around 30 months. Further, in order to give sufficient clarity to the industry, we propose to include in the proposed direction a commitment to announce our policy intentions for stage 2 of the price cap remedy (and issue any direction as appropriate) no later than within around 24 months from the commencement of the proposed direction.

5.35 Our intention is to consult on and issue within 24 months a new direction announcing a new level to implement the stage two price cap (and making all the necessary changes to the terms of the remedy in the proposed direction, including setting out a new duration and any review mechanism which might be deemed necessary).

5.36 If within the specified time period, such as 24 months from the proposed direction, we have not identified an appropriate approach for setting the level of the stage two price cap on a more lasting basis, we will consider whether it is appropriate to issue a direction to extend or vary the proposed direction (for example if we are not in a position to complete the abovementioned work within the proposed timeframe), or to let it lapse.

- 5.37** Before issuing any new direction as per the above, we would consult on the proposed approach and would assess the effectiveness and proportionality of any such decisions.
- 5.38** Our current view is that this approach should give clarity to the industry as to the transition between the two stages of the proposed price cap remedy.

Compliance monitoring and non-circumvention

- 5.39** We set out below our current thinking on monitoring to ensure full compliance with any stage 1 remedy. To reduce any risk of Mastercard or Visa being able to circumvent the remedy, for example by imposing a new fee or charge (or increasing an existing one) with an equivalent object or effect of maintaining or achieving a higher overall merchant service charge, we propose to include non-circumvention provisions similar to the EU IFR. These clauses would explicitly prohibit Mastercard and Visa from imposing new (or increase existing) fees or charges with an equivalent object or effect to UK-EEA IFs.
- 5.40** We note that the EU IFR – which applies to domestic IFs in EEA member states – contains:
- provisions requiring competent authorities to monitor compliance with the IFR
 - a non-circumvention clause designed to pre-empt such circumvention risk.

Stakeholder feedback on compliance monitoring

- 5.41** A trade association [redacted] said that it is in support of the stage 1 remedy cap at 0.2%/0.3%, and stated that “the PSR should impose strict anti-circumvention rules to protect against increases on other direct or indirect interchange fees”.²⁰⁰
- 5.42** Another trade association [redacted] also said that ‘the PSR should double down on strict anti-circumvention rules to protect against increases on other direct or indirect interchange fees used to compensate issuers for this reduction.’²⁰¹

Our proposed approach to compliance monitoring

- 5.43** Our current view is that we should include in a direction imposing any stage 1 price cap a number of mechanisms to ensure that appropriate information and data are available to enable us to assess compliance with the requirements of the proposed direction effectively. Specifically, Mastercard and Visa would be required to:
- 5.44** Submit annually, on the anniversary of the date the caps are required to take effect, a report containing the information outlined in the section below on annual reporting.
- 5.45** Provide us on an annual basis (from the first anniversary of the date the caps are required to take effect) with a statement of compliance, signed by the Chief Executive Officer or another person of similar seniority, confirming that the relevant information provided to us in relation to the direction is complete and accurate and in accordance with the requirements imposed by the direction and/or by us.

200 Stakeholder response to MR22/2.6 dated 14/02/2024 [redacted]

201 Stakeholder response to MR22/2.6 dated 31/01/2024 [redacted]

- 5.46** To provide from time to time any information that we may require in connection with the operation of the direction including to monitor compliance with the direction.

Annual data report for compliance monitoring

- 5.47** Our current view is that we would direct Mastercard and Visa to provide, on an annual basis, monthly data relating to relevant transactions, as follows (for the list hereafter transactional data should exclude all zero rate IF transactions).
- a. Outbound IF values and corresponding transaction volumes for approved transactions for all outbound cross-border UK-EEA consumer debit/credit card transactions carried out under the relevant card scheme (Visa or Mastercard), paid in the currency used to calculate the amount of IF payable, broken down by card present (CP), card-not-present (CNP) transactions, and by IF rates.
 - b. Declined transaction volumes and values for all outbound cross-border UK-EEA consumer debit/credit card transactions carried out under the relevant card scheme (Visa or Mastercard), paid in the currency used to calculate the amount of IF payable, broken down by card present (CP) and card-not-present (CNP) transactions.
 - c. Total values and volumes of chargebacks won by EEA issuers against UK merchants for outbound cross-border UK-EEA CNP transactions on consumer debit and credit cards paid in the currency used to calculate the amount of IF payable. Provide any fees incurred by the issuer or acquirer for the chargebacks and their total values. State if any IF is to be refunded and if it is, the percentage of the IF refund and total values of refunds in the currency used to calculate the amount of IF payable.
 - d. Total values for transactions refunded for all outbound cross border UK-EEA consumer debit/credit card paid in the currency used to calculate the amount of IF payable, broken down by CP and CNP transactions. State if any IF is refunded and, if it is, the percentage of the interchange refund and total values.
- 5.48** We have considered whether any direction that imposed a stage 1 price cap should enable us to appoint a monitoring trustee to assist us to monitor compliance by Mastercard and Visa with such a stage 1 price cap and the terms of a direction that would impose it. Based on our current experience in monitoring the IFR, we have reached the view that appointing a monitoring trustee is currently unnecessary. However, depending on the circumstances, this view may change during the lifespan of a stage 1 remedy. Therefore, our current thinking is that we should include a provision in any direction that might impose a stage 1 price cap pursuant to which we may, if it considers it necessary and appropriate, require Mastercard and/or Visa to appoint an independent monitoring trustee (approved by us) to monitor and report to us on Mastercard and/or Visa's compliance with the terms of that direction. Any such appointment would be at the expense of Mastercard and/or Visa. We will use the particular monitoring and investigatory tool that it considers the most appropriate and proportionate at the time.
- 5.49** Our current view is that the information above would be necessary to monitor compliance, assess policy effectiveness and any unintended consequences. As appropriate, and as we developed further experience monitoring price caps (which would occur if a two staged approach to a price cap was taken and a stage 1 price cap were imposed), we will consider whether additional information is necessary to monitor compliance effectively (and as appropriate we will decide whether to require the schemes to provide such information under the proposed direction).

Question 4: Do you agree we should implement the stage 1 cap 6 months after the direction? If not, should we (i) set a specific implementation date (for example, 1 October or 1 April) for entry into force of the price cap (even if this were to reduce the implementation period to less than six months); or (ii) set a date which is longer than 6 months? In either case, please provide supporting evidence for your recommendation.

Question 5: Do you agree that the stage 1 price cap should be implemented through a general direction made on Mastercard and Visa as the operators of the Mastercard and Visa Europe regulated payment systems?

Question 6: Do you have any comments on the draft direction at Annex 2? In particular:

- a. do you have any views regarding the obligations the draft general direction would place on the schemes to notify their acquirers about any change in IFs mandated by the draft general direction (paragraphs 3.3 and 3.4 of the draft general direction)?
- b. do you have any views about our current view that retaining the right to require the schemes to appoint a monitoring trustee if we deem it necessary (as set out in paragraph 10 of the draft general direction) would be a proportionate and appropriate approach?
- c. Aside from timescales for implementation (see question 5 above), do you have any views regarding other potential timescales set out in the draft direction, for example, the duration of the draft general direction and timescales for its review and amendment, or revocation?
- d. Do you have any views on the draft circumvention provisions (paragraph 6 of the draft general direction)? For example, do you think they could be strengthened in any way?
- e. Do you consider any clauses / provisions to be missing or any ambiguity that requires clarification?

6 A summary of our current view regarding a Stage 1 price cap

- 6.1** In our final report we found that current levels of cross -border IFs are unduly high and that the only effective form of remedy to address the detriment arising from this is a price cap.
- 6.2** As set out above in Chapter 3, we intend to develop a methodology for setting the level of the price cap on a more lasting basis, which we expect will take up to 24 months to develop.
- 6.3** In this context, we have considered what the aim of such a transitional intervention would be, given the ongoing detriment to service users, and the timeframe for introduction of a price cap remedy calculated on the basis of a methodology as described above. Our current view is that any stage 1 price cap should have the aim of addressing that ongoing service user detriment. We have then considered whether imposing a price cap for the transitional period would be effective and proportionate to that aim, having regard to the burden or costs imposed on stakeholders.
- 6.4** Within this context, we have considered:
- the need to advance the policy aims of the stage 1 price cap as stated above, namely addressing, on a forward-looking basis, the service user detriment we have identified that would highly likely continue pending the imposition of the longer lasting price cap absent any intervention;
 - the possibility that the level at which a stage 1 price cap might be set might be higher or lower than the level which would be set applying a methodology as described above, and the associated risk of unintended consequences.
 - Balancing the need to develop an approach to setting the level of the price cap with the need to address the service user detriment identified in a timely manner, our current view is that we should intervene in two stages:
 - **Stage 1:** This would consist of an initial, time-limited cap, set for a transitional period while an appropriate methodology for determining the most appropriate level of the price cap is developed and implemented.
 - **Stage 2:** During the stage 1 period, we would undertake work to develop an appropriate and longer-lasting cap (to be subject to regular reviews), which might be higher, lower or the same as the cap set during the stage 1 period (with a consultation on both the methodology and the cap to be set pursuant to that methodology).
- 6.5** Our current view is that this two-stage approach would be the most appropriate way for us, so far as possible, to address the features of concern identified in the market review and advance the service user and competition objectives, and to do so in a timely manner. We are therefore consulting on whether we should have both a stage 1 and a stage 2 cap, as well as on the level of the stage 1 cap.

- 6.6** We have heard representations made by stakeholders, and noted the strong opinions held both for and against setting a price cap at 0.2%/0.3%. Despite inviting it, we have to date seen very little evidence that shows why the negative impacts associated with this level cited by some stakeholders would be likely to occur. This consultation provides one more opportunity for stakeholders to provide evidence that might support their views on the appropriate levels for a stage 1 cap, as well other issues such as the timeframe for implementation.
- 6.7** We want to hear views, with supporting evidence, on whether we should impose a stage 1 price cap, and if we did, what the level of a stage 1 cap should be. At this point in time, we are continuing to actively consider whether to impose a stage 1 price cap and alternative levels for a stage 1 price cap, in particular, those set out in this document (at paragraphs 2.21-2.23). While we are currently inclined towards imposing a stage 1 price cap at 0.2 % / 0.3% on the basis of the evidence we have seen so far, we seek stakeholder views and reasoning, with underlying data, in support of different approaches to a price cap remedy, which may include setting a stage 1 price cap at one of the other levels set out in this document, or at a different level.
- 6.8** The draft direction has been designed so as to avoid unnecessary burden and to create sufficient predictability by including a sunset of (currently) 30 months and limiting information requirements to what is necessary to monitoring compliance, policy effectiveness and unintended consequences (see paragraphs 5.32 - 5.33 and 5.48). As set out in more detail in the draft CBA, our current view is that this remedy would likely result in improved outcomes for users that outweigh the potential costs of intervention.
- 6.9** On that basis, and having considered the regulatory principles set out in Section 53 FSBRA, our current view is that the draft direction:
- a. would be effective in pursuing its statutory objectives of promoting effective competition and ensuring that payment systems are operated in a way that takes account of, and promotes the interests of those who use them;
 - b. is proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction;
 - c. is consistent with supporting sustainable growth in the economy of the UK;
 - d. represent an efficient use of our resources in view of the impact of the proposed cap.²⁰²

²⁰² Having had regard to the other regulatory principles set out in section 53 FSBRA (d to g), we have reached the provisional view that the proposed direction does not conflict with any of these principles. We also consider that the PSR has exercised its functions as transparently as possible by undertaking a two-year market review and consulting extensively the schemes and other stakeholders.

7 Next steps

- 7.1** We invite comments from stakeholders on our current views as explained in this document that:
- a. We adopt a two-stage approach to a price cap remedy,
 - b. On the basis of the evidence, we have seen so far, the most appropriate level for a stage 1 cap would be 0.2%/0.3%, absent other evidence that might justify one of the higher levels we have considered, or other level;
- 7.2** We also invite comments on:
- a. the cost-benefit analysis which assesses the economic impacts that would likely result from the implementation of a stage 1 price cap at different levels (at Annex 1).
 - b. the draft direction that would impose such a stage 1 price cap (at Annex 2).
- 7.3** The consultation will end at **5pm on 7 February 2025**.
- 7.4** Next steps will depend on our conclusions after having considered feedback to this consultation.
- 7.5** If our view remains that a two-staged approach to a price cap is appropriate, we will publish a further consultation setting out our reasons for that view together with the proposed level for and design of a stage 1 price cap and an updated proposed direction.
- 7.6** If our view changes, we will publish reasons why we have changed our view and will clarify next steps.
- 7.7** Regardless of whether we ultimately decide a two staged approach to a price cap is appropriate or not, we are progressing with our work on developing a stage 2, or longer-term, remedy. We intend to consult on the methodology for assessing outbound IFs during early 2025 and the outcome of that consultation will inform our next steps thereafter.

Consultation questions

Question 1: In light of our analysis of feedback received to date, do you agree that we should implement a price cap on CNP UK-EEA cross-border IFs in two stages, with the stage one cap being implemented whilst we develop and implement a methodology to calculate a stage 2 cap? Please provide reasoned views and supporting evidence for your response.

Question 2: Do you think that for the stage 1 price cap, capping IFs at the previous levels for outbound transactions (0.2% for debit cards and 0.3% for credit cards) would be appropriate? If you have made representations on this issue to us before, do you have any further points to make to us? Please provide reasoning and evidence supporting your views.

Question 3: Do you consider any of the other levels would be more appropriate and, if so, why? In particular, please provide your views on 0.5%, 0.6% (which presents a more cautious approach relative to the potential for negative effects, including in relation to issuer costs), an alternative increment below 1.15%, 1.5%, and/or on a level of 1.15%, 1.5% (which would maintain current levels but prevent further increases). Please provide supporting evidence.

Question 4: Do you agree we should implement the stage 1 cap 6 months after the direction? If not, should we (i) set a specific implementation date (for example, 1 October or 1 April) for entry into force of the price cap (even if this were to reduce the implementation period to less than six months); or (ii) set a date which is longer than 6 months? In either case, please provide supporting evidence for your recommendation.

Question 5: Do you agree that the stage 1 price cap should be implemented through a general direction made on Mastercard and Visa as the operators of the Mastercard and Visa Europe regulated payment systems?

Question 6: Do you have any comments on the draft direction at Annex 2? In particular:

- a. do you have any views regarding the obligations the draft general direction would place on the schemes to notify their acquirers about any change in IFs mandated by the draft general direction (paragraphs 3.3 and 3.4 of the draft general direction)?
- b. do you have any views about our current view that retaining the right to require the schemes to appoint a monitoring trustee if we deem it necessary (as set out in paragraph 10 of the draft general direction) would be a proportionate and appropriate approach?
- c. Aside from timescales for implementation (see question 5 above), do you have any views regarding other potential timescales set out in the draft direction, for example, the duration of the draft general direction and timescales for its review and amendment, or revocation?
- d. Do you have any views on the draft circumvention provisions (paragraph 6 of the draft general direction)? For example, do you think they could be strengthened in any way?
- e. Do you consider any clauses / provisions to be missing or any ambiguity that requires clarification?

Question 7: Have we missed any adverse potential consequences of an interim remedy at 0.2%/0.3%, 0.5%/0.6% or 1.15%/1.5%? if so, please provide reasoned explanation and supporting evidence.

Question 8: Do you agree with the potential impacts (costs and benefits) of a stage 1 price cap remedy we identified in our cost-benefit analysis? If not, which impacts do you consider to be unlikely to materialise or which likely impacts do you think we have not covered?

Question 9: Do you agree with our assessment of the likely scale of the potential impacts (costs and benefits) in our cost-benefit analysis? Where you disagree with our assessment of likely impacts, please provide any evidence to support your points.

Question 10: Do you agree with our assessment on potential unintended consequences? If you consider one or several of the potential unintended consequences to be of more significance than indicated by our current analysis, please provide evidence as to why.

Annex 1

Draft cost-benefit analysis

Background

The four-party model

1.1 Visa and Mastercard operate what are known as ‘four party’ card payment systems or card schemes. These include the following groups:

- **Merchants:** organisations that accept card payments.
- **Acquirers:** banks or other organisations licensed by card payment system operators to process debit and credit card payments on behalf of merchants.
- **Card payment system operators (such as Mastercard and Visa):** organisations that manage the ‘scheme rules’ on card payments and set the terms on which issuers, acquirers, merchants, cardholders and other parties participate in the card payment system.
- **Issuers:** banks or other organisations licensed by card payment system operators to provide cards to cardholders. The issuer pays an acquirer the money a merchant is owed for a transaction (retaining interchange fees) and debits a cardholder’s account.

1.2 The main fees between parties in a four-party card payment system are:

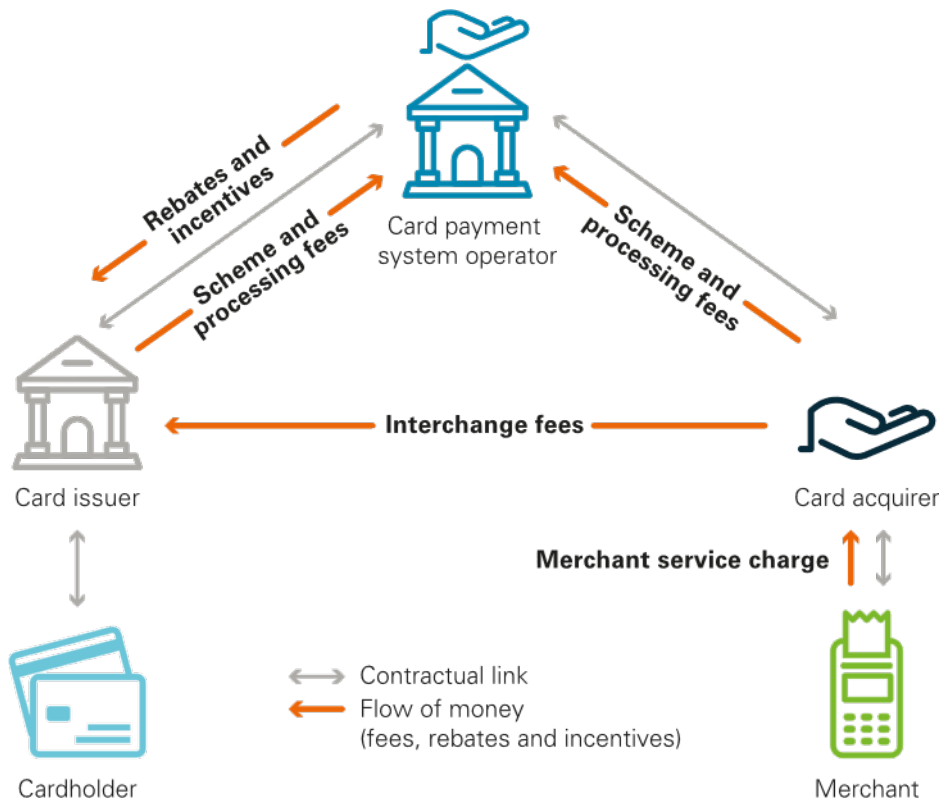
- **Interchange fees (IFs)**, which acquirers pay to issuers each time a card is used to buy goods or services;²⁰³ these per-transaction fees are usually a percentage of the transaction value²⁰⁴
- **scheme and processing fees (S&P fees)**, which are set by Mastercard and Visa
- **merchant service charge (MSC)**, which is the total amount merchants pay to acquirers for card-acquiring services; this comprises IFs, scheme and processing fees, and acquirer net revenue.

203 The IF is typically deducted from the transaction amount that is paid by the issuer to the acquirer. Acquirers then typically pass the IF on to merchants through the MSC, so it represents a cost to merchants for accepting card payments.

204 Mastercard and Visa set the default IF level (the multilateral IF, MIF) that merchant acquirers pay to issuers and, in turn, merchants pay through the MSC to their acquirers. While issuers and acquirers can bilaterally negotiate lower IFs, this happens rarely.

1.3 Figure 1 summarises the four-party model and its main flow of funds:

Figure 1: Simplified structure of a four-party card payment system



Interchange fees (IFs)

Defining IFs

1.4 IFs are transaction fees paid by acquirers, on behalf of their merchants, to issuing banks and other issuers. They vary by:

- the card product (debit or credit) used for the transaction
- the transaction environment – ‘card present’ (CP) or ‘card not present’ (CNP) transactions²⁰⁵
- the category of card – consumer or commercial
- the region the card is issued in; and
- the region where the transaction takes place

1.5 The stage 1 price cap we assess within this draft CBA is concerned solely with consumer outbound CNP IFs, where a consumer uses an EEA-issued Visa or Mastercard to make payments to merchants located in the UK. In the remainder of this draft CBA, unless specified otherwise, we thus use the term ‘IFs’ when we refer to IFs in general and ‘outbound UK-EEA cross-border IFs’ to mean specifically such UK-EEA consumer CNP outbound IFs in scope of this draft CBA and considered policy options.

205 CP largely occurring in a retail shop setting with CNP transactions being largely online

The economic effects of IFs

- 1.6** In Chapter 4 of our final report, we set out the economic role of IFs in the context of a two-sided market and the theoretical factors that affect card schemes' decisions when it comes to setting MIF levels. We do though also establish that we consider competitive pressures on the acquiring side to be ineffective, which in turn affects the card schemes' setting of the MIF in practice (see also Annex 1 of the final report). In this scenario, schemes do not need to compete for acquirers and merchants, and it will make sense for them to increase fees on the acquiring side to the maximum level that acquirers and merchants will tolerate.
- 1.7** Four-party card schemes are two-sided networks, serving users on both sides of the payment system they operate: issuers and cardholders on one side (the issuing side), and acquirers and merchants on the other side (the acquiring side).
- 1.8** As well established by the relevant economic literature, such markets are defined by the existence of indirect network effects / externalities. Both sides of the market benefit from increased participation on the other side: the more merchants accept a specific card, the higher the incentives on the issuing side to use that method; and the more people hold a specific card, the higher the economic incentive for merchants to accept said card.
- 1.9** IFs are a tool used by network operators (in this instance Visa and Mastercard) to cause market participants to internalise relevant externalities and balance the economic incentives on both sides of the market to maximise relevant card usage. It is worth noting though that the level of IFs does not affect the network operators' revenue directly.
- 1.10** The level of IFs chosen by a network operator will in theory depend on a variety of factors (such as, for example, the costs and availability of alternative options for each side of the market) which will determine the degree to which one side of the market will in effect subsidise the other side of the market. However, as established in chapters 4 and 5 of our final report, it is not clear in practice, based on evidence provided to us, what factors are most relevant to the card schemes especially in a setting where we consider there to be a lack of competitive constraint on one side of the platform (on the acquiring side), and where we logically might expect schemes to focus solely on the interests and incentives of the competitive side of the platform.

Policy context

- 1.11** We launched a [market review into UK-EEA consumer cross-border interchange fees](#) in October 2022 and published our [interim report](#) in December 2023. The consultation period on that interim report closed on 31 January 2024 for third parties and on 15 February 2024 for the card schemes.
- 1.12** Our final report²⁰⁶ builds on the interim report. Taking into account stakeholder comment and evidence gathered during the consultation period, we conclude in our final report that restricting the maximum level of outbound UK-EEA cross-border IFs by introducing a price cap remedy is the only effective form of remedy open to us.
- 1.13** We continue to consider a two-stage approach to implement the price cap so that we can address existing user detriment in a timely manner while acknowledging that assessing the

206 MR22/2.7 Market review of UK-EEA cross-border interchange fees final report (December 2024)

level of a longer-term price cap set at an appropriate competitive level will require additional time. In the consultation document to which this draft CBA is annexed, we are consulting:

- a. on the principle of using a two-stage approach to a price cap remedy; and
- b. on the level of a stage 1 price cap.

1.14 As set out in the main body of this consultation document, following this consultation on the principle of a two-stage approach and different levels for a potential stage 1 price cap, we will consider stakeholder responses and if we still consider a stage 1 cap is appropriate, return with a specific provisional policy decision with regards to a stage 1 price cap. At that point, an updated CBA will reflect any substantial new information we might receive in the meantime.

Scope of this draft CBA

1.15 This draft CBA is concerned only with the assessment of the likely impacts of a potential stage 1 of our price-cap remedy for outbound UK-EEA cross-border IFs. In this draft CBA we assess the economic impacts that would likely result from the implementation of a stage 1 price cap at different levels. The draft general direction in Annex 2 of this consultation document sets out a framework of how a stage 1 price cap remedy could be implemented (for example, it sets out our thinking around the length of a stage 1 price cap remedy as well as on data and information requirements that might be required to enable us to monitor policy effectiveness) with leaving open, at this stage, the level of the stage 1 price cap.

1.16 Our draft direction specifies that a stage 1 price cap of any level would apply for a maximum of 30 months and that we will issue a decision as to a stage 2 price cap within 24 months to allow for a six-months implementation period.²⁰⁷ At the point of its implementation, the stage 2 price cap would supersede and replace the stage 1 price cap (and, as mentioned, we expect this to happen within a maximum of 30-months). We will assess the likely impacts of the stage 2 price cap within a separate CBA when we consult on the stage 2 price cap remedy itself.

1.17 This means that this draft CBA assesses the likely economic impacts of a stage 1 price cap on outbound cross-border IFs for UK-EEA debit and credit card transactions against the counterfactual of no regulatory intervention (no stage 1 price cap) over a period of up to 30 months. That assessment includes the likely impact of a **potential stage 1 cap** itself but also an assessment of **potential auxiliary policy elements** included within the draft direction. These are: a) information requirements on card schemes largely to help ensure acquirers and merchants are informed and sufficiently aware of changes, and b) reporting requirements on card schemes to enable our compliance monitoring and policy evaluation efforts (see paragraph 5.46).

Do-nothing counterfactual

1.18 We think that outbound UK-EEA cross-border IFs would likely remain at their current levels of 1.15% and 1.5% over that 30-months period in the absence of regulatory intervention. Given the incentives described in the final report and within this draft CBA, there is, however, a risk that this counterfactual is too conservative and that outbound UK-EEA cross-border IFs could rise even further.

²⁰⁷ As explained in the main remedies consultation, should we decide to move forwards with a stage 1 price cap, we intend to publish a proposed methodology for setting a stage 2 price cap at a later date.

- 1.19** Our final report establishes that we do consider that only a price cap remedy can address the identified detriment to users. This means that we consider that the ‘do-nothing’ counterfactual for the purpose of this draft CBA applies only to the stage 1 price cap, meaning that a stage 2 price cap remedy would still be implemented after a maximum of 30 months in the ‘do nothing’ scenario.²⁰⁸

Current market outcomes

- 1.20** Chapter 3 of the final report provides a detailed summary of the regulatory landscape of IFs as well as a history of changes in IF levels over time. Within that chapter, the report also provides a detailed analysis of the current market outcomes in terms of fee levels and transactions volumes. In the following, we provide a short summary of that analysis so that a reader can follow the draft CBA in isolation. But we refer to the more detailed evidence established in chapters 3 to 5 of the final report.

Cross-border IF levels and transactions volumes

- 1.21** The EU IF regulation (EU IFR), which came into force in 2015, applied to the UK before its withdrawal from the EU.²⁰⁹ The EU IFR introduced price caps on the IF levels for domestic transactions and for transactions across the different countries in the EEA (intra-regional IFs). These caps fixed the maximum level of IF payable by merchants when accepting certain card payments.
- 1.22** In putting the EU IFR in place, the European Commission aimed to address the problem of ‘high and divergent’ IFs in the EEA, while facilitating cross-border card payment services.²¹⁰ One concern was that high IFs were leading to higher final prices for goods and services at the expense of consumers. The price caps came into effect on 9 December 2015, and the majority of provisions relating to business rules were effective from 9 June 2016.
- 1.23** While the UK was part of the EU, the EU IFR provisions applied caps for IFs on UK domestic and UK to EEA / EEA to UK (inbound and outbound) card transactions at the same levels as within the EEA: 0.2% of the value of consumer debit card transactions and 0.3% of the value of consumer credit card transactions.
- 1.24** Following the UK’s withdrawal from the EU, UK domestic IFs, for payments made at UK merchants using UK-issued cards, are regulated by the EU IFR as retained EU law.²¹¹ The UK IF regulation (UK IFR) came into effect on 31 December 2020, meaning that UK domestic transactions are currently subject to the same caps as they were under EU IFR previously; namely 0.2% and 0.3% for debit and credit transactions respectively.

208 In turn, any CBA for a proposed stage 2 price cap will assess impacts against the ‘do nothing’ of outbound UK-EEA Cross-border IFs at the time.

209 Official Journal of the European Union, [Regulation \(EU\) 2015/751](#) of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions (Text with EEA relevance).

210 Official Journal of the European Union, [Regulation \(EU\) 2015/751](#) of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions (Text with EEA relevance), paragraph 13.

211 The EU IFR was retained and incorporated into UK Law by the European Union (Withdrawal) Act 2018 and ‘onshored’ by the Interchange Fee (amendment) (EU Exit) regulations 2019 (SI 2019/284), which amended provisions so that they operated effectively following the UK’s withdrawal from the EU.

1.25 However, outbound UK-EEA cross-border IFs we are considering within this CBA as transactions that are not intra-regional are not in scope of the retained EU IFR and are thus currently uncapped. Shortly after the removal of pre-existing caps on the UK-EEA cross-border IFs at the end of 2020, Visa and Mastercard announced and implemented increases from the previously capped levels of 0.2% and 0.3% to 1.15% and 1.5%.²¹²

Table 1: Caps for UK and EEA consumer CNP transactions

Regions	Location of issuer	Location of merchant	IF levels pre the UK's withdrawal from the EU	IF levels now	Are they capped?
UK domestic	UK	UK	0.2%/0.3%	0.2%/0.3%	Yes (UK IFR)
EEA to UK (inbound) IF²¹³	UK	EEA	0.2%/0.3%	1.15%/1.5%	Yes (2019 Commitments) ²¹⁴
UK to EEA (outbound) IF	EEA	UK	0.2%/0.3%	1.15%/1.5%	No
EEA domestic	EEA	EEA	0.2%/0.3%	0.2%/0.3%	Yes (EU IFR)

Transactions and additional UK-EEA cross-border IF volumes since 2019

1.26 We gathered data from Mastercard and Visa on the transaction volumes and values as well as total outbound UK-EEA cross-border IFs paid to EEA issuers. The data covers the years 2019 to 2023.

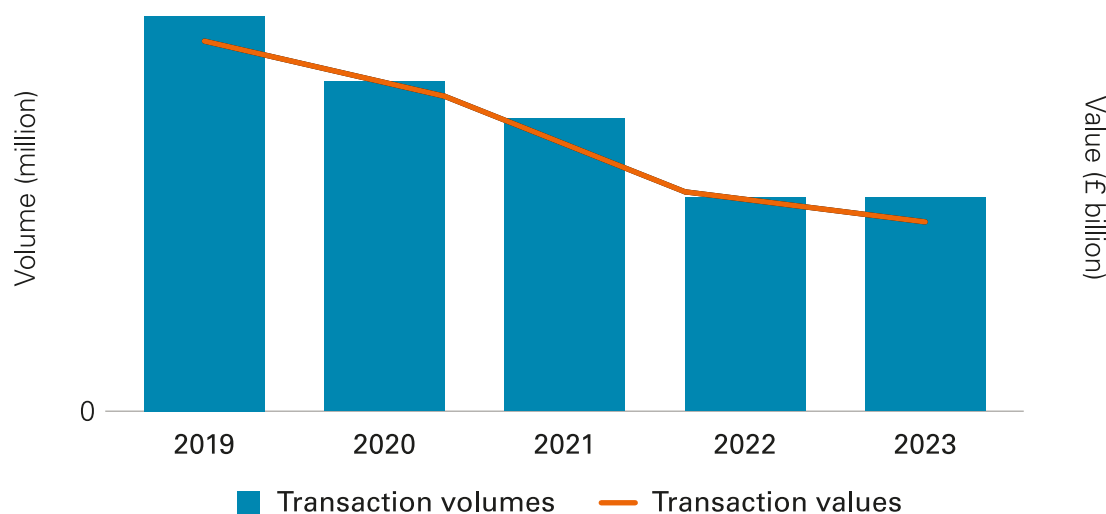
1.27 Figure 2, replicated from our final report, shows transaction volumes and values for 2019 to 2023 where the card used is issued in the EEA and the merchant is located in the UK. A steady decline of transaction values can be seen between 2019 and 2021 (showing a total drop of 41%). A further, but significantly smaller decrease in transactions values took place between 2021 and 2023. The trend is different in the case of transaction volumes: after experiencing a sustained decline between 2019-2022 (a drop of approximately 46%), transaction volumes stabilise and show no significant change between 2022 and 2023.

212 Mastercard announced these changes first for inbound cross-border IFs at the end of 2020, which became effective in October 2021. In March 2021 Visa announced these increases for both inbound and outbound Cross-border IFs. These also came into effect in October 2021. Finally, in April 2022 Mastercard also implemented these increases for outbound Cross-border IFs.

213 Our final report sets out our decision not to take any further steps with regards to inbound Cross-border IFs. Their current levels are presented here for completeness, but the decision not to take further steps with regards to inbound Cross-border IFs is otherwise out of scope of this CBA.

214 In 2019, in response to the European Commission's competition law investigation into inter-regional IFs, Mastercard and Visa offered commitments to the European Commission to cap IFs on transactions involving non-EEA-issued cards and EEA merchants (the 2019 Commitments) which were accepted by the Commission.

Figure 2: EEA cards used at UK merchants, transaction volumes and values 2019 to 2023



Source: PSR analysis of data from Mastercard and Visa (2024).

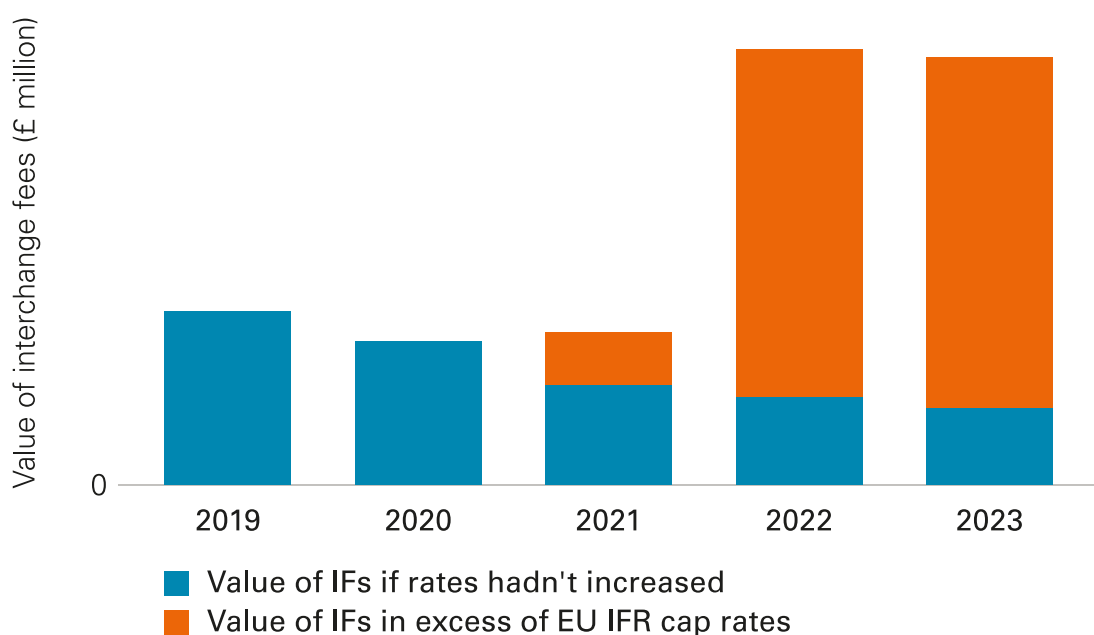
Note: The figures for transaction volumes and values take account of any relocation that has already happened (see Chapter 4 of our final report). We have removed numerical values from the axes to avoid disclosing potentially sensitive information.

1.28 This analysis suggests that the relevant transaction volumes and values were declining while previous caps applied due at least in part to macroeconomic factors (such as increased trade friction following the UK’s withdrawal from the EU). Transaction values have continued to decrease slightly while volumes stabilised over 2022/2023.

1.29 Figure 3, also replicated from our final report, shows that the total amount of outbound UK-EEA cross-border-IFs has significantly increased since Visa and Mastercard raised the relevant MIFs (in October 2021 and April 2022, respectively). The blue bars in the figure show what IFs would have been if MIFs had stayed at IFR levels (0.2% for debit cards and 0.3% for credit cards). The orange bars, from 2021 onwards, show the additional interchange revenue resulting from the outbound UK-EEA cross border IF increase. The actual interchange revenue generated by card transactions after the increase in outbound UK-EEA cross-border-IFs can be obtained by summing up the blue and the orange bars. The data shows that, in 2022 and 2023, the additional interchange revenue amounted to between £150 to £200 million per year.²¹⁵ Observed total interchange in 2022 and 2023 has been circa 150% higher than in 2019 and is roughly five times higher than what interchange would have been had outbound UK-EEA cross-border IF levels remained at 0.2%/0.3%.

215 PSR analysis of data submitted by Mastercard and Visa.

Figure 3: Outbound UK-EEA cross-border IFs 2019 to 2023



Source: PSR analysis of data from Mastercard and Visa.

Note: The figures for outbound CNP IFs take account of any relocation that has already happened. We have removed numerical values from the axis to avoid disclosing potentially sensitive information.

Competitive landscape

1.30 As set out in Chapter 2 of the final report (see paragraph 2.3), cards are the most popular non-cash method for people to make retail payments in Europe. They are also an increasingly popular way for domestic consumers to buy products and services. This increasing popularity is due to a combination of increasing digitisation, the growing use of contactless payments, mobile and online banking, and changes in consumer behaviour during the Covid lockdown periods.

- Data from UK Finance shows that, in 2022, debit and credit cards accounted for 59% of total payment volumes in the UK. UK Finance forecasts that cards will account for 65% of all payments in the UK by 2032.²¹⁶
- Focusing on retail transactions in particular, data from the British Retail Consortium (BRC) shows that, in 2023, consumer credit and debit cards accounted for 86% of the total value of retail transactions in the UK, and 76% of the total number of retail transactions.²¹⁷
- In 2022, Mastercard and Visa together accounted for around 99% of all UK debit and credit card payments, both by volume and by value.²¹⁸
- Data from the European Central Bank (ECB) shows that, in 2023, card payments accounted for 54% of the total number of non-cash transactions in the Eurozone.²¹⁹

216 UK Finance, [UK Payment Markets Summary 2023](#) (September 2022), page 11.

217 BRC, [Payments survey 2024](#), pages 7 and 8.

218 UK Finance, [UK Payment Statistics 2022](#), tab 8.1.

219 European Central Bank (ECB), [Payments statistics: first half of 2023](#).

- In 2022, in the Eurozone, card payments represented 51 % of all online payments in terms of volumes and 47% in terms of values.²²⁰
- In 2022, 3.6% of all card transactions at UK merchants were UK-EEA cross-border card transactions.²²¹

1.31 The role played by Mastercard and Visa in this space is important – the vast majority of EEA-issued cards, including co-badged ones, are either from Mastercard or from Visa and cross-border acceptance of EEA co-badged cards relies entirely on these international card schemes.²²² In addition, EEA issuers, in particular banks, are increasingly issuing cards that only come from these two international card schemes.²²³

1.32 This evidence highlights that cards are ‘must-take’ payment options for many UK merchants, meaning that there is no effective downward pressure on IFs from UK merchants. This degree to which cards are ‘must-take’ for UK merchants in the case of cross-border transactions is exacerbated by the schemes’ Honour All Cards (HAC) rule, which states that merchants who accept Mastercard and Visa consumer debit or credit cards domestically cannot refuse to accept these cards in a cross-border context. The large majority of UK merchants, for whom revenue derived from relevant UK-EEA transactions is a small proportion of revenue derived from domestic transactions, is unlikely to alter behaviour in a way that could negatively impact their ability to accept cards in a domestic setting.

1.33 There is also little response by UK acquirers to increases in outbound UK-EEA cross-border IFs. This is because the vast majority of any increased cost to acquirers caused by increases in IFs is passed on to UK merchants, leaving UK acquirers largely unaffected overall. Analysis of acquirer data for 2022 that we present in more detail in chapters 4 and 6 of our final report suggests that approximately 95% of all the relevant IF increases were passed on to UK merchants either immediately (80%) or at some point (15%). We estimate that only around 5% of these increases were ‘absorbed’ by UK acquirers.²²⁴

Resulting rationale for intervention

1.34 The analysis of current market outcomes and trends presented in our final report suggests that there is a lack of competitive constraint on the acquiring side of the market for UK-EEA consumer outbound CNP transactions (see chapter 4 and Annex 1 of the final report for the detailed assessment). As a result, Visa and Mastercard face a commercial incentive to raise outbound UK-EEA cross-border IFs in order to maximise incentives on the issuing side.

1.35 Our current evidence suggests that the roughly five-fold increase of UK-EEA cross-border IFs we have observed over the last years is a result of these commercial incentives and is not caused by fundamental changes in market structure, costs for processing these payments or service improvements such as increased fraud prevention. We have so far not received any substantial evidence from stakeholders that would show otherwise (that is, evidence that the cost of facilitating cross-border EEA to UK CNP transactions has changed substantially). In the absence of such evidence, we currently do not think that

220 ECB, [Study on the payment attitudes of consumers in the euro area](#) (2022) – Chart 9.

221 PSR analysis of data on transaction values submitted by acquirers through the s81 notice, and by Mastercard, Visa and American Express.

222 European Commission, [Study on the application of Interchange Fee Regulation](#) (2022), page 64.

223 ECB, [Card payments in Europe – current landscape and future prospects](#) (2019).

224 PSR analysis of UK acquirer data for 2022.

processing those transactions is substantially different (if at all) from intra-EEA transactions or from UK-EEA transactions in the past.

1.36 The increase in outbound UK-EEA cross-border IF levels has resulted in a substantial additional IF revenue of £150m to £200m per year for EEA issuers at the direct cost of the UK acquiring side.²²⁵ We do not consider that these increases are reflective of levels for outbound UK-EEA cross-border IFs that would result in a market with appropriate competition on the issuing and the acquiring side. In particular, we do not consider that these increased costs to UK service users on the acquiring side have resulted in offsetting benefits in the form of improved service quality. As such, the current market outcomes are detrimental to the interest of UK merchants and, to the extent they are passed through, their customers.

1.37 By considering the introduction of a stage 1 price cap, we are seeking to address in a timely manner the user detriment that arose from recent increases in outbound UK-EEA cross-border IFs as a result of a lack of competitive constraint on the acquiring side of the market, while also minimising the risk of unintended consequences (see paragraphs 1.81-1.99 in this CBA for an assessment of these). Such unintended consequences could arise from setting a stage 1 cap that differs substantially from the appropriate, long-term stage 2 cap yet to be determined.²²⁶

Intended policy outcomes

1.38 The primary longer-term aim of introducing a price cap is a reduction in outbound UK-EEA cross-border IF levels to a level more in line with what would arise in a market with more effective competition on all sides of the market. As mentioned, however, this CBA is not concerned with the outcomes of a stage 2 price cap but with the assessment of a possible stage 1 price cap. A price cap (either stage 1 or stage 2) in itself does not aim to create more competition but to mitigate the effect of a lack of competition on users. In the case of a stage 1 cap, it seeks to do that while balancing the risk of unintended consequences that could be caused by setting a level that is either higher or lower than what we eventually consider to be the appropriate stage 2 level.

1.39 This outcome we are seeking to achieve is aligned with our statutory service-user objective *'to ensure that payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who are likely to use services provided by payment systems'*.²²⁷ As set out in our objectives guidance, we expect payment systems to be 'good value' and 'efficient' for service users.²²⁸ The outcome is also aligned with our competition objective because a stage 1 price cap would help move current market outcomes closer to outcomes we would expect to observe in a market with effective competition.

225 In our final report we set out how we derive that figure. We are not providing the point estimate as this would risk disclosure of commercially sensitive information.

226 As explained in our final report and the remedies consultation we consider that establishing an appropriate methodology and thereafter an appropriate stage 2 cap will require further analysis and time.

227 Our payment systems objectives are outlined in the Financial Services (Banking Reform) Act 2013 (FSBRA), section 50 to 52.

228 Objectives guidance, March 2015. Paragraph 6.2. Available at: <https://www.psr.org.uk/media/5acls2h0/psr-objectives-guidance-docx.pdf>

- 1.40** In addition, MSCs (and IFs as part of these) create a differential between prices of goods and services paid by EEA customers and the effective price received by UK merchants. A reduction in these costs faced by UK merchants and the resulting differential should thus, at the margin, help reduce consumer prices and facilitate more efficient trade.

Policy options

Rejected options – non price cap options

- 1.41** In our final report, we consider a variety of other options (such as surcharging and other steering mechanisms or changes to scheme rules to permit cross-border acquiring and/or classify transactions on acquirer location rather than merchant location) to achieve the intended policy outcomes. In chapter 9 of our final report, we present these options, stakeholder views on them, and why we do not consider these as viable alternatives to achieve the intended outcomes.
- 1.42** To avoid unnecessary repetition and because of the immediate scope of this CBA – an assessment of a stage 1 price cap against the counterfactual of no intervention – we refer the reader to chapter 9 of the final report for our assessment of why alternatives other than a price cap could not address the detriment to UK service users identified in a timely and effective manner. While the price cap (in particular the stage 1 price cap in scope of the assessment of this CBA) cannot immediately affect the likely core cause behind the increase in outbound UK-EEA cross-border IFs (namely the lack of competition to cards on the acquiring side), it can help reduce the user-detriment that results from it in a timely and effective manner.

Level of the stage 1 price cap

- 1.43** Our intention is to develop a methodology designed to set an appropriate level for outbound UK-EEA cross-border IFs on a lasting basis (subject to regular reviews). However, developing this methodology will require time and we have therefore considered different options for settling the level while a methodology to set the level on a lasting basis is being developed, so as to tackle the detriment identified in the final report in a timely manner. IFs can fulfil a specific purpose in balancing the interests of participants on both side of the market, and IF levels that are either too high or too low can have negative consequences on the functioning of the market. For the choice of a potential stage 1 cap, we thus need to balance off the reduction of existing UK user detriment against potential unintended consequences associated with choosing a level that is substantially different (either higher or lower) than what the appropriate stage 2 level would be.
- 1.44** At this stage we are consulting on three options for a potential stage 1 price cap level against the 'do nothing' counterfactual set out in paragraphs 2.21 and 2.23:
1. Price cap at previous cap level of 0.2%/0.3%
 2. Price cap at 0.5%/0.6%
 3. Price cap at current levels of 1.15%/1.5%
- 1.45** We have considered setting a stage 1 price cap at 0.0% (or below 0.2%/0.3% levels). We are not presenting it as one of the options we are consulting on at this stage. Our current view is that setting a stage 1 price cap at a level below 0.2%/0.3% (that is the previous levels for UK-EEA cross-border IF and the current levels for domestic IFs) would likely go beyond the

objective of addressing, on a forward-looking basis, the service user detriment caused by the increases to IFs and, as such, would carry higher risks of unintended consequences.

1.46 Chapter 4 of the main consultation document sets out our current assessment of the options in detail, including a summary of stakeholder responses and our assessment of these. We refer to that detailed assessment and provide a summary of our current thinking on the likely effectiveness of the different options in achieving the desired aim set out above.

Price cap at 0.2% / 0.3%

1.47 We refer to paragraphs 1.77 to 1.107 for our current assessment of likely costs and benefits of this option, including our current analysis of possible unintended consequences.

1.48 In summary, based on the current evidence available to us, we are currently minded to conclude that a stage 1 cap at 0.2% / 0.3% would achieve a good balance between our policy objectives.

1.49 A stage 1 cap at 0.2% / 0.3% would temporarily restore the level of outbound UK-EEA cross-border IFs to the fee level pre-Brexit, with currently no **clear** evidence that the fee level at the time had negative impacts on user outcomes on either side of the market. It would restore the level of outbound UK-EEA cross-border IFs to the same level that is currently applied to intra-EEA transactions. Our current evidence suggests that UK-EEA transactions are not substantially (if at all) different from intra-EEA payments when it comes to the cost of their facilitation and associated factors such as related fraud risks.

Price cap at 0.5% / 0.6%

1.50 Any level above a cap of 0.2% / 0.3% would result in a lower reduction of outbound UK-EEA cross-border IF charges for UK acquirers and merchants. While we estimate that a cap at 0.2% / 0.3% would result in a reduction of outbound UK-EEA cross-border IFs paid by UK acquirers and merchants by £150m to £200m annually, we estimate that the reduction would be £100m to £150m in the case of a stage 1 cap at 0.5% / 0.6%.

1.51 On the other hand, a cap at 0.5% / 0.6% could help further reduce potential unintended consequences described in chapter 4. At this stage, before we have established the appropriate lasting cap levels, it is difficult to assess given the significant uncertainty on whether a stage 1 cap at 0.2% / 0.3% would be closer to that appropriately competitive level than a cap at 0.5% / 0.6%. However, the evidence currently available to us, does not indicate the previous 0.2% / 0.3% levels were associated with negative market outcomes, and so we at least have no evidence of negative consequences associated with those known and trialled levels. Furthermore, given that our current evidence suggests that UK-EEA transactions are not substantially (if at all) different from intra-EEA payments when it comes to the cost of their facilitation and associated factors such as related fraud risks, it is unclear at this stage why a temporary cap on outbound UK-EEA cross-border IFs should be set at a higher level.

1.52 Even if we accepted IFs were a means for issuers to cover their costs for a given payment corridor, based on the data provided by an issuer, speaking as an EEA issuer, who is concerned that a low cap on outbound UK-EEA cross-border IFs would not cover costs, lower IF rates (of around 30 basis points) would be sufficient to cover its direct costs considering the value of rebates in scheme and processing fees it receives from the schemes. However, this issuer argued that other smaller issuers (with less bargaining power) probably receive smaller rebates and as such they would need higher rates to cover their costs. We currently think that cross-border IFs at 0.5% / 0.6% would also allow

such smaller issuers to cover their net costs. There is thus an argument that imposing a stage 1 cap at this level would be a more cautious approach while we undertake the work to determine the stage 2 cap. However, we currently think that this more cautious approach would help mitigate against a risk that we, based on current evidence, consider to be marginal even at 0.2% / 0.3% levels, which do in comparison address more fully the current detriment to UK users.

Price cap at current levels of 1.15% / 1.5%

- 1.53** Compared to the counterfactual set out in paragraphs 1.18 and 1.19, this option would eliminate any risk that outbound UK-EEA cross-border IF levels would rise beyond current levels over the 30-month appraisal period. It would thus only protect against a further increase in user detriment without reducing the ongoing detriment until the appropriate stage 2 cap is established and comes into force.
- 1.54** While capping outbound UK-EEA cross-border IFs at their current level would prevent user detriment to UK acquirers and merchants from any future increases from occurring, it would not address the conclusion of our final report that current outbound UK-EEA cross-border IF levels are unduly high. Based on the existing evidence we currently do thus think that this option would likely fail to deliver against our intended policy outcome.

Costs and benefits – economic impacts

- 1.55** In this section we provide our current assessment, based on the evidence currently available to us, of the likely impacts and uncertainties of a stage 1 price cap for up to 30 months against the counterfactual scenario.
- 1.56** In our assessment of costs and benefits in and of potential unintended consequences, we provide a qualitative and quantitative analysis to assess the relative likelihood of the individual impacts materialising as well as their likely scales. We have quantified the most significant and largest impact (reduction in IFs paid by acquirers to EEA issuers) but in line with FSBRA s.104(8)(b) at this stage do not consider it reasonably practicable to provide a quantified estimate for other, more minor impacts. This is because additional quantification would likely require considerable additional resource and effort that would be disproportionate to the scale of those impacts (relative to the main impact we identified and quantified), and because resulting estimates would likely be subject to significant uncertainties such that quantitative estimates would not add to the overall assessment.

Costs

- 1.57** Table 2 summarises the main identified costs of a stage 1 price cap against the 'do nothing' counterfactual.

Table 2: Main identified costs of a stage 1 price cap

Type of cost	Affected party	Description	Likely impact
Administrative implementation ²²⁹	Card schemes	Direct compliance cost, for example arising from the need to update processes and systems to implement the required change in UK-EEA cross-border	Small
	EEA issuers		Marginal
	Acquirers		Marginal
	UK merchants		N/A
Loss of IF revenue	EEA issuers	Direct impact on IF revenue derived by EEA issuers as a result of a cap on outbound UK-EEA cross-border	<u>0.2% / 0.3% cap</u> £150m - £200m per year ²³⁰
			<u>0.5% / 0.6% cap</u> £100m - £150m per year
			<u>1.15% / 1.5% cap</u>
			Zero
Loss of revenue from reduced card activity	Card schemes	Possible indirect impact on revenue to card schemes that could result from changes in card activity, such as changes possibly driven by reduced incentives on the issuing side	<u>0.2% / 0.3% and 0.5% / 0.6 caps</u> Likely marginal (no clear evidence that this potential, theoretical impact would likely arise in practice).
			<u>1.15% / 1.5% cap</u>
			No effect

Administrative implementation costs

1.58 Our existing evidence based on previous changes to IF levels and on stakeholder responses suggests that at least six months' notice would be required to communicate the changes and then implement the necessary technical changes across scheme, acquirer and issuer systems, but that, if that notice is provided, necessary changes can largely be incorporated into regular business activities. We thus currently assess that this basic cost associated with updating the necessary systems is likely negligible for the affected parties if sufficient notice is provided.

²²⁹ The level of administrative implementation costs are largely independent of the level of price cap considered, i.e. would be largely identical for all cap levels we are consulting on.

²³⁰ The ranges provided here should primarily not be interpreted as a confidence interval. Instead, we are providing a ranged figure in order to avoid potential disclosure of commercially sensitive information provided to us.

Card schemes

- 1.59** In addition to the marginal one-off administrative costs summarised in paragraph 1.58 above, our draft direction indicates that the schemes should be subject to relatively basic information requirements:
- to notify promptly their respective relevant acquirers in writing that there will be a change in the level of IFs applicable to outbound transactions from the date specified for implementation in the direction.
 - to request acquirers to notify each of their relevant UK merchant customers of the upcoming change in levels of IF.
 - to publish in a clearly visible and easily accessible manner directly on their websites all UK-EEA consumer CNP outbound IFs applicable to UK-EEA consumer CNP outbound debit and credit card transactions subject to the direction.
- 1.60** Finally, we are currently minded to include within the direction (see annex 2 for the draft direction) relatively basic reporting requirements for the purpose of compliance monitoring. These would for now apply over the duration of a potential stage 1 price cap, but we would also expect such (or similar requirements) to apply to an eventual stage 2 price cap. These are²³¹:
- a. Submit annually, on the anniversary of the date the caps are required to take effect, a report containing key relevant data (see paragraph 5.46 for the type of data).
 - b. Provide us with a statement of compliance, confirming that the relevant information provided to us in relation to the direction is complete and accurate and in accordance with the requirements imposed by the direction and/or us on an annual basis (from the first anniversary of the date the caps are required to take effect).
 - c. Provide from time to time any information that we may require in connection with the operation of the direction including to monitor compliance with the direction.
- 1.61** Given the largely one-off and simple nature of the information requirements and the fact that the data required to satisfy the reporting requirements should be readily available, we currently do not estimate any associated costs to be substantial.

EEA issuers

- 1.62** A stage 1 price cap would reduce outbound UK-EEA cross-border IFs EEA issuers receive from UK acquirers (as long as the price cap is chosen at a level below the current UK-EEA cross-border IF level), but there is no specific action EEA issuers will have to take for this to be implemented (beyond the assessment provided above). As such, we do not foresee any non-marginal administrative implementation costs for EEA issuers.

UK acquirers

- 1.63** For Interchange+/Interchange++ contracts implementation happens largely automatically, and we thus consider there to be no administrative implementation cost beyond acquirers informing UK merchants of the changes. This is because these contracts are built on a passthrough model where changes in cost constituents (such as IFs) are directly and

231 As mentioned in paragraph 5.47 of the main consultation document, we have also considered appointing, at the cost of card schemes, a monitoring trustee. Based on our experience in monitoring the IFR, we have reached the view that appointing a monitoring trustee is currently unnecessary.

immediately passed on to merchants. For blended contracts (contracts that apply a fixed percentage to the transaction value and thus protect merchants from cost swings in the underlying constituent components, such as IFs) acquirers will have to assess the impacts of IF changes and amend contracts accordingly. We think such a process will in many instances form part of regular contract negotiations that would occur in any way, in particular when allowing for a six-month implementation period. While we think that initial implementation costs might be marginally higher for acquirers than for example for issuers, because of the additional need to engage with merchants for blended contracts, we do not expect there to be material implementation costs overall, also given the experiences of previous IF changes and our understanding of the existing, well-established process to implement such changes.

UK merchants

- 1.64** We do not expect there to be any implementation costs to merchants from the implementation of a stage 1 remedy since any adjustments to outbound UK-EEA cross-border IFs (be it automatic or at contract renewal) will take place digitally via the appropriate adjustment to the acquirer's software. For most merchants outbound UK-EEA cross-border IFs will form part of overall MSCs, and merchants do not have to take any particular action as a result of a stage 1 cap.

Loss of IF revenue

EEA issuers

- 1.65** Based on analysis of data provided by Visa and Mastercard (presented in Figure 2 and Figure 3 above), we estimate that a stage 1 cap on outbound UK-EEA cross-border IFs at 0.2% and 0.3% would result in a reduction of IF revenue to EEA issuers (a cost to EEA issuers) of £150m to £200m per year over the lifetime of the stage 1 cap with an equivalent figure between £100m to £150 for a cap at 0.5% / 0.6%. A cap at current outbound UK-EEA cross-border IF levels would not affect the IF revenue derived by EEA issuers compared to the status quo.
- 1.66** We derived these estimates by assuming that relevant IF transaction values remain at similar level to 2022/2023 and then calculating the differential between IF revenue generated under current outbound UK-EEA cross-border IF levels and the considered cap levels.²³²

Loss of revenue from reduced card activity

Card schemes

- 1.67** While IFs are not a direct revenue source to card schemes, card schemes will in theory set MIFs at levels that balance cross-market network effects in a way that maximises card issuance and usage in a way to help optimise revenue from scheme and processing fees.
- 1.68** However, as we have shown in our final report, there is no evidence that overall card activity reacts significantly in response to changes in outbound UK-EEA cross-border IFs, especially for changes that are as marginal (compared to overall IF revenue from all sources) as proposed here. We currently see no strong evidence that there would be a significant response on the issuing side of the market that could in turn result in a

²³² Our analysis of historic values and volumes in the final report shows that these did not appear to respond much to the increases in UK-EEA Cross-border IFs within the ranges we are considering here, and so there is little evidence to suggest that they would respond much to a change in outbound UK-EEA IFs that reverses IF levels to previous levels.

reduction of revenue to card schemes. This lack of responsiveness of activity levels in response to changes in outbound UK-EEA cross-border IFs is likely at least partially a reflection of the fact that the revenue derived from UK-EEA cross-border IFs is a very small proportion of overall IF revenue; and so changes to UK-EEA cross-border IF levels in isolation are unlikely to cause large changes in issuer or card holder behaviour.

Benefits

1.69 Table 3 summarises the main identified benefits of a stage 1 price cap against the 'do nothing' counterfactual.

Table 3: Main identified benefits of a stage 1 price cap

Type of benefit	Affected party	Description	Likely impact
Reduced IF charges	Acquirers / UK merchants / consumers	Direct impact on IFs paid by UK acquirers and merchants to EEA issuers	<u>0.2% / 0.3% cap</u> £150m - £200m per year ²³³ <u>0.5% / 0.6% cap</u> £100m - £150m per year <u>1.15% / 1.5% cap</u> Zero
Increased trade efficiency due to more cost-reflective pricing	UK merchants / consumers	With costs of payments to UK merchants being more in line with prices under competitive conditions, we would expect a reduction in trade inefficiencies	<u>0.2% / 0.3% cap</u> Small <u>0.5% / 0.6% cap</u> Small <u>1.15% / 1.5% cap</u> No effect
Dynamic competition benefits	Market-wide	Affecting incentives of issuers to explore and develop alternative cross-border payment solutions	<u>0.2% / 0.3% cap</u> Marginal <u>0.5% / 0.6% cap</u> Marginal <u>1.15% / 1.5% cap</u> No effect

Reduced IF charges

1.70 The implementation of a stage 1 price cap at a level of 0.2% / 0.3% would likely reduce the amount of outbound UK-EEA cross-border IFs received by EEA issuers and paid by UK acquirers/merchants by £150m to £200m per year. This constitutes a direct benefit to UK acquirers in the first instance. For comparison, we estimate that a cap at 0.5% / 0.6% would reduce IF charges by £100 to £150m per year, while a cap at 1.15% / 1.5% would result in no reduction of outbound UK-EEA cross-border IF charges.

²³³ The ranges provided here should primarily not be interpreted as a confidence interval. Instead, we are providing a ranged figure in order to avoid potential disclosure of commercially sensitive information provided to us.

- 1.71** Our analysis of 2022 data from acquirers²³⁴ shows that around 80% of relevant transactions, by value, were on pricing options for card-acquiring services with automatic pass-through of any changes to IFs.²³⁵ This means that around 80% of the benefit will be passed through to UK merchants immediately and automatically. However, our analysis also shows that previous changes to IFs have also been passed through to merchants, may it be less automatically and immediately (usually as part of periodic renegotiations), in the large majority of the remaining 20% of transactions that were on standard or fixed pricing options (commonly referred to as 'blended pricing' options).
- 1.72** Overall, we thus estimate that 80% of the benefit will be passed through to UK merchants immediately while an additional 20% may be passed through eventually. The analysis in chapter 6 of the final report and summarised here estimates that about three quarters of contracts on blended pricing options (that is, of the 20%) did experience pass-through for the previous IF increases, meaning that there would be pass-through for an additional 15% (0.75×0.2) of cases, bringing the total to 95%. We do acknowledge that due to asymmetric incentives for acquirers the achieved pass-through for IF decreases could be less complete.
- 1.73** While we thus expect the vast majority of benefits to be passed through to UK merchants, we do note that our market review into the supply of card-acquiring services²³⁶ found that although IC++ pricing accounts for the largest proportion of transactions by value, the vast majority of merchants (95%) have standard pricing. While most benefits by value will be passed through immediately, especially smaller merchants are likely to see more delayed and less complete pass-through compared to larger merchants on IC+ or IC++ pricing. That said, we expect smaller merchants to be the primary beneficiaries of a price cap remedy in the first place. Many larger merchants have already been able to mitigate the impacts of the increase in outbound UK-EEA cross-border IFs, for example via setting up and operating via EEA-based subsidiaries. The merchants currently still experiencing the largest user detriment are those that have not been able to mitigate the increase in outbound UK-EEA cross-border IFs.
- 1.74** We would also expect some of the savings to UK merchants to be reflected in prices and thus passed through to consumers. The degree to which this will occur depends predominantly on the relative price elasticities within the individual markets for the underlying goods and services. Where merchants reacted to previous increases in relevant IFs with increasing prices, they might reverse these. And where merchants absorbed previous changes, they might no longer do so. We have at this stage not attempted to estimate potential price impacts for goods and thus pass-through of benefits to consumers. Our service-user objective and resulting welfare objective applies to merchants and consumers, and so the question of the degree of pass-through from merchants to consumers is not of immediate consequence for that objective.

Increased trade efficiency due to more cost-reflective pricing

- 1.75** We expect the large majority of benefits to be passed on to UK merchants in the form of reduced costs. This means that, following the implementation of a cap on outbound UK-EEA cross-border IFs at a level closer to what would likely be the level under competitive conditions, the costs of taking the relevant payments to UK merchants should be closer to their true social costs than is currently the case. This in turn, to the extent that cost

234 Detailed analysis in chapter 6 of our final report.

235 Interchange fee plus (IC+) or interchange fee plus plus (IC++) pricing

236 MR18/1.8 [Market review into the supply of card-acquiring services: final report](#) (November 2021).

savings are passed through to some extent, should be reflected in prices for underlying goods and services. Even though this impact might be relatively small given the magnitudes observed for the relevant transactions, this should in principle result in more efficient trade as the prices that consumers pay and the effective price that UK merchants receive are more aligned (with the difference likely being more reflective of the true costs of facilitating the relevant payments).

Dynamic competition benefits

- 1.76** Current market structures likely perpetuate the lack of competition to cards for consumer cross-border transactions by distorting incentives of issuers to develop and explore alternative solutions. As stated, our view is that a price cap does not itself create competition to cards on the acquiring side, but it can change existing incentives at the margin.
- 1.77** We do acknowledge that any such effect on issuer incentives is likely lower in the context of cross-border transactions compared to the domestic case due to higher technical constraints to the development of alternative payment solutions and more limited transaction volumes/values of UK-EEA cross border transactions. This is why, based on our current evidence, we have assessed this positive competition impacts as 'marginal'.

Analytical uncertainty and unintended consequences

- 1.78** In the previous section we assessed the likely magnitude of costs and benefits we think are likely to occur in principle, and there is uncertainty around the validity of the analytical assumptions underlying our qualitative and quantitative assessments. There is also the potential for unintended consequences if a price cap remedy was to result in impacts that we did not foresee or assessed as unlikely to occur to a degree of relevance.

Analytical uncertainty

- 1.79** The main impacts we have assessed quantitatively may turn out to be substantially different from what we currently estimate. However, we consider this likelihood to be limited in nature as the dominant primary impact is a direct effect of the stage 1 price cap. The magnitude of the primary impact, the reduction of outbound UK-EEA cross-border IFs paid by UK acquirers to EEA issuers, which we, for example, estimate to be £150m and £200m per annum for the case of a cap at 0.2%/0.3%, depends largely on the degree of economic activity (that is, the value of relevant annual card transactions).
- 1.80** While we have seen a fall in the volume and value of these transactions over the last years (plateauing over the last couple of years), we consider it unlikely that, in the absence of unforeseen significant macroeconomic shocks, the level of transactions will differ significantly from current levels over the 30-months appraisal period. We also have not seen any clear evidence that a reduction in outbound UK-EEA cross-border IFs in itself would lead to a substantial change in transaction volumes and values. We thus consider it unlikely that this impact will differ substantially from our current estimates.

Potential unintended consequences

- 1.81** In our final report (in particular within chapter 9), we summarise stakeholder comments on a price cap remedy and set out our responses. Within that we summarise in detail potential unintended adverse consequences raised by stakeholders; largely issuers and the card schemes, who were not in support of our proposals as well as our assessment of these. We refer to the final report for the detailed assessment and have provided an assessment in summary format here, designed to be most relevant to the scope of this CBA.

Possible adverse consequences of the price cap

- 1.82** Stakeholders mentioned several possible adverse effects that could be caused by an imposition of a price cap remedy that are relevant for the assessment of a stage 1 price cap that is in scope of this CBA.

Competitive disadvantage to non-EEA issuers and other services

- 1.83** A stage 1 price cap (in particular if chosen at relatively low levels) and resulting reduction of IF revenue for EEA issuers could put them at a disadvantage to non-EEA issuers who will continue to receive current (and thus higher) IF rates and to other competitors such as American Express.

- 1.84** We note that there is limited evidence of any significant market changes taking place since the initial increase in outbound UK-EEA cross-border IFs. American Express' market share has been relatively consistent and did not fall in response to previous increases in IFs. There is thus no evidence to suggest that its market share is necessarily directly negatively related to outbound UK-EEA cross-border IFs and that it would thus increase substantially in response to the imposition of a stage 1 cap.

- 1.85** Non-Visa and Mastercard schemes also remain relatively small overall, accounting for just 21% (by value) of such transactions in 2022, while Mastercard and Visa, together, accounted for 79%.²³⁷ We see little evidence that the market share of non-Visa and Mastercard schemes is related with changes to IF levels.

- 1.86** With respect to non-EEA issuers, it is unlikely that EEA customers could take out non-EEA cards to use for cross-border transactions because of difficulties taking out a card without a residential address in that country. We thus don't envisage there will be a competitive disadvantage vis a vis non-EEA issuers.

Reduced entry, innovation and competition in the UK-EEA market

- 1.87** Some stakeholders have indicated that the reduction in outbound UK-EEA cross-border IF revenue could result in reduced entry, innovation and competition in the relevant market for EEA-UK payment methods.

- 1.88** While a reduction in outbound UK-EEA cross-border IFs could create a commercial challenge to some EEA issuers and their existing offers, we note that none of the considered options for a level of stage 1 price cap would bring outbound UK-EEA cross-border IFs down to a level below the level observed before 2022 where there was no evidence that previous levels had clear negative impacts on innovation and competition in the market. It is thus not clear why reverting to, for example, previous outbound UK-EEA cross-border IF levels should result in such negative outcomes at a significant level. For most EEA issuers the interchange from outbound UK-EEA cross-border IFs is likely a small proportion of their overall interchange and overall revenue.

²³⁷ PSR analysis of data on transaction values submitted by acquirers through the section 81 notice, and by Mastercard, Visa and American Express.

1.89 While some issuers mentioned that reverting to previous UK-EEA cross-border IF levels might not allow some issuers to recoup their costs, resulting in such providers potentially exiting relevant services, only one issuer provided specific evidence on costs. We cover the perceived risk to viability of the business model of a small number of issuers in paragraph 4.73 and 4.74. In summary, while a stage 1 cap, depending on the chosen level, might challenge and substantially reduce the financial profitability of a small number of activities, we have yet to receive clear evidence that it would make any business models unviable, or, even if it did, result in negative outcomes to ultimate service users.

Reduction in service quality

1.90 Some stakeholders have argued that a reduction in relevant interchange revenue to EEA issuers will result in potential reductions in service qualities along several characteristics.

1.91 Some have argued that the recent observed increase in outbound UK-EEA cross-border IFs is not, as proposed by us, a reflection of a market with limited competition, but that the increase reflects a change in underlying costs and market characteristics. Stakeholders argued that facilitating cross-border payments became more expensive following the UK's exit from the EU, and that the increase in outbound UK-EEA cross-border IFs largely reflected the higher fraud risks for these transactions and managing the costs associated with that fraud risk. These stakeholders argue that a reduction in outbound UK-EEA cross-border IF revenue would necessitate a reduction in investment in fraud prevention and result in an increase in instances of fraud and/or an increase in rejected transactions.

1.92 In section 5 of our final report, we provide detailed analysis that sets out why our existing evidence does not support this alternate explanation for the increase in outbound UK-EEA cross-border IFs (i.e. that IFs are set to reflect relative fraud risks), and why we thus also do not expect a reduction in outbound UK-EEA cross-border IFs to have potentially negative impacts on fraud levels and investment into fraud protection.

1.93 This evidence includes, for example, analysis of internal documents that by and large does not show contemporaneous evidence that [redacted]. It also includes data submitted by schemes that showed that [redacted] and that showed no evidence that the previous increases in UK-EEA cross-border IFs resulted in a reduction of fraud instances in UK-EEA CNP transactions.

1.94 Furthermore, issuer responses²³⁹ to our market review indicate that many issuers make anti-fraud investment decisions²³⁹ on a portfolio level and do not consider IF revenue by corridor when making such strategic investment decisions (especially considering that revenue from UK-EEA cross-border IFs is a small proportion of revenues for most EEA issuers). Our current evidence is thus consistent with our assessment that IF levels set for different corridors do not currently reflect relative fraud risks and that changes to outbound UK-EEA cross-border IF levels are unlikely to affect investment into fraud-protection and ultimately fraud cases.

239 See annex 2 to our final report.

1.95 A stakeholder also indicated that the reduction in IF revenue could also result in issuers, absent this funding, reducing access to credit to those with limited credit history. We see no clear evidence that a stage 1 cap would lead to a significant reduction in credit access. Caps on outbound UK-EEA cross-border IFs existed until 2021, with no indication that this had an adverse impact on access to credit or that access to credit has increased since. We currently see no evidence to suggest that changes in outbound UK-EEA cross-border IF levels would affect access to credit or financial inclusion.

Increased costs to cardholders

1.96 EEA issuers might react to the reduction in UK-EEA cross-border IF revenue by passing through costs to cardholders either directly via increased cardholder fees or reduced cardholder benefits.

1.97 It is though not clear that IF caps automatically reduce cardholder offerings and benefits. Indeed, the European Commission's review of the effectiveness of the EU IFR caps said that the resulting drop in IF revenue for issuers had not led to a significant decline in the quality of what issuers offer to cardholders.²³⁹ Moreover, we consider any hypothetical potential reduction in cardholder benefits/rewards would likely be counterbalanced by the reduced cost burden for merchants (and to the extent of pass-through) and their consumers.

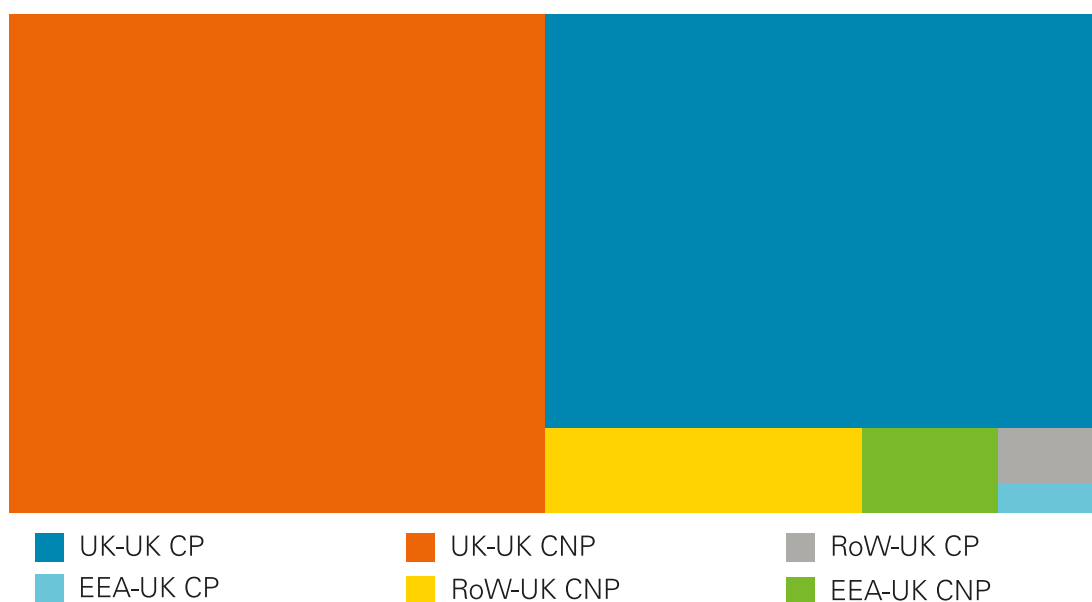
Regulatory interventions in other jurisdictions

1.98 We received some feedback that our regulatory action might trigger regulatory responses elsewhere. For example, two stakeholders raised the possibility that the EU might consider our potential intervention as harmful to EEA issuers (if a cap was chosen at lower levels and thus reducing their IF revenue) and that it might thus consider implementing a similar cap for UK-EEA inbound transactions (i.e. purchases using a card made by UK consumers at EEA merchants) that could result in a reduction to IF revenue for UK issuers.

1.99 While we acknowledge that the reduction in IF revenue could be substantial for a small number of EEA issuers should we decide to propose a stage 1 cap especially at 0.2% / 0.3%, this impact is very minor for most EEA issuers given that IF revenue derived via this specific type of transaction is a small proportion of the IF derived overall. Figure 4 below, reproduced from chapter 4 of our final report, highlights how relatively small the value of EEA-UK CNP transactions is in the context of the total transaction value acquired in the UK. While we cannot currently present the same analysis for transactions acquired in the EEA, we would expect the size of equivalent corridors to be comparable. This evidence once again shows that the magnitude of changes to issuer revenue (relative to revenue derived from IF for other payment corridors) is likely too small to cause significant response.

²³⁹ European Commission, [Report on the application of Regulation \(EU\) 2015/751 on interchange fees for card-based payment transactions](#), page 8 (29 June 2020).

Figure 4: Shares of transaction values acquired in the UK in 2023, for Mastercard and Visa only, for UK domestic transactions (UK-UK), transactions made with cards issued in the EEA (EEA-UK), and transactions made with cards issued in the rest of the world (RoW-UK).



Source: PSR internal analysis of figures submitted by Mastercard and Visa (2023).

1.100 Furthermore, a possible stage 1 price cap is motivated by our objective to protect service users of payment systems, which in the first instance (in this context) are UK merchants. But, as we highlight in this document, it is likely that some of that benefit will be passed on to consumers. Given that the magnitudes of transaction values for inbound and outbound transactions have been very similar over recent years, we would expect that the impacts of a comparable step being taken by the EU would result in a loss of revenue to UK issuers that is of a similar magnitude to what any potential stage 1 cap implemented by us would be for EEA issuers, while it could be beneficial for consumers (depending largely on the degree of passthrough).

Risk to policy effectiveness - circumvention

1.101 Separate to specific risks raised by stakeholders, there may be a risk that a stage 1 price cap is not effective in achieving its policy objectives if, for example, card schemes could increase S&P fees to leave overall MSCs for merchants unchanged and distributed resulting revenue back to issuers. A stage 1 price cap is not in itself aimed at creating more competition, rather it mitigates the detriment to UK users that arises from outbound UK-EEA cross-border IF levels resulting from a market without effective competitive constraints on the acquiring side. As the competitive landscape remains unchanged (with cards remaining ‘must-take’ for many UK merchants), a price cap could in theory be circumvented via adjustments in other fees and benefits.

1.102 While this risk exists in principle, we are mitigating it with the inclusion of a non-circumvention provision in our draft direction (see annex 2). Any residual risk of circumvention we do not consider as significant in the case of a stage 1 price cap. Due to the time-limited nature of the stage 1 cap such dynamic effects are unlikely to occur in the timeframe considered. Furthermore, we do not consider that the scale of effects identified is significant enough to incentivise such major adjustments.

Draft overall assessment

- 1.103** At this stage we see no evidence that the potential costs of introducing a stage 1 cap will be greater than the benefits. We are not proposing a specific option at this stage, but, based on the evidence available to us, we are minded to propose a stage 1 cap at 0.2% / 0.3% at the next consultation stage unless we receive robust evidence in support of the other options.
- 1.104** Our analysis of the current evidence shows that a stage 1 price cap will have one dominant direct impact; namely the reduction of UK-EEA cross-border IF charges to the UK acquiring side (mainly UK merchants) which we estimate to be around £150m-200m annually were a cap to be applied at 0.2% / 0.3%. Some part of this benefit may then in turn be passed on to consumers, but we do not currently have evidence to suggest the degree of this potential pass-through. This benefit to the acquiring side is technically an equal cost to EEA issuers (a loss of IF revenue). It follows that the impact of this intervention consists mainly in a reallocation of resources between participants to the schemes' payment systems, that is, from the issuing to the acquiring side.
- 1.105** We have furthermore identified a small potential positive benefit to UK merchants and consumers as a result of more cost-reflective prices for underlying goods and services. We have at this stage not aimed to quantify this impact.
- 1.106** All other identified costs and benefits, such as administrative implementation costs or costs that could arise from behavioural and market adaptations in response to the stage 1 price cap we currently estimate to be likely limited and marginal over the 30-months period.
- 1.107** Given this assessment of costs and benefits, we think that a stage 1 price cap would be effective in achieving our stated policy objectives and aligned with our statutory service-user objective *'to ensure that payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who are likely to use services provided by payment systems'*
- 1.108** We also note that we consider that this additional IF revenue resulting from recent increases in outbound UK-EEA cross-border IFs has been the result of a lack of competitive constraint on the acquiring side of the market in the first place. It is the stated intended policy outcome to return the levels of outbound UK-EEA cross-border IFs back to levels likely more aligned with levels we would observe in an appropriately competitive market.

Equality impacts

- 1.109** Section 149 of the Equality Act 2010 requires us to consider the likely equality impacts of our policy on the public, including on people with the following relevant protected characteristics: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marital status.
- 1.110** A stage 1 price cap remedy would not directly affect private individuals and to the degree they might affect for example consumers indirectly, we do not consider there would be specific disproportionate impacts on specific groups or individuals with protected characteristics that would require mitigating.

Evaluation & monitoring plan

- 1.111** We think that any potential stage 1 remedy assessed within this CBA will be temporary in nature with a maximum lifespan of 30 months. We would continue to monitor market outcomes during that period while we develop a proposed methodology for our stage 2 remedy, and eventually a proposed stage 2 price cap.
- 1.112** Our draft direction includes a number of information and reporting requirements on card schemes that we would expect to implement independent of the chosen level of a price cap. The information gathered via these requirements would enable our ongoing monitoring efforts and better enable us to evaluate policy effectiveness. These information requirements we would currently expect to apply to any stage 1 cap but also to be applied for a stage 2 cap. When we bring forward our proposals for a stage 2 remedy, we will provide more detail with respect to how we will monitor, evaluate and review policy effectiveness.

FCA CBA Panel engagement on draft CBA

- 1.113** In the course of the development of this draft CBA we engaged with the FCA CBA Panel, and we are very thankful for the advice and comment it provided to us, which we have carefully considered. A summary of the advice the Panel provided to us will be made public on the FCA CBA Panel's website.
- 1.114** We fully support the transparency provided by the FCA CBA Panel publishing its advice. Given that the advice is publicly available, we are not replicating it here in detail but instead summarise some of its key themes and how we have taken (or intend to) take them into consideration.
- 1.115** The Panel mentioned that its ability "to evaluate important aspects of the CBA (for example, its conclusions regarding the lack of competition in the market, and the effect this has on pricing)" was limited due to it not having received the consultation paper itself. We aim to develop CBAs that are standalone in nature but understand that additional context and evidence developed in a consultation paper (and in this instance our final report) could at times be helpful. In this particular instance, we were not able to provide the Panel with the consultation paper or final report before its publication [of the comments on the draft CBA] as this would have put at risk our delivery timetable and risked accidental disclosure of sensitive information. However, while our statutory requirement does not go beyond the CBA itself, we will work with the Panel to identify ways of sharing documents that provide additional context for the CBA in the future.
- 1.116** The Panel also commented that an updated CBA at the next consultation stage should aim to provide more detail and granularity on:
- option analysis, particularly in articulating more clearly how a chosen option approximates a competitive outcome; and
 - data and quantified impact estimation, for example by providing more of a breakdown and distributional analysis of how the reduction in outbound EEA-UK cross-border IFs caused by a stage 1 price cap would affect/be shared across different affected parties.

- 1.117** We have incorporated comments provided by the FCA CBA Panel as part of this formal review but also as part of our earlier informal engagement within the current CBA. For example, we have aimed, in our drafting (in the CBA but also in the main consultation paper), to be clearer about the rationale for the proposed two-stage price cap approach, and we have aimed to provide a clearer explanation as to why we are not taking forward a 0.0% stage 1 price cap as a formal option for consultation. We have also aimed to provide a better qualitative sense of how we expect impacts to vary for different merchants and how we expect the impacts of a reduction in UK-EEA Cross-border IFs to be shared across different affected parties.
- 1.118** As mentioned, this is not the final consultation stage, and any final policy proposals will be accompanied by an updated CBA that will reflect further on any comments and evidence provided by stakeholders, including comments provided by the FCA CBA Panel that we might not have been able to incorporate at this stage. We will submit a revised CBA to the FCA CBA Panel before publication alongside our final consultation. At this stage the FCA CBA Panel will have access to the final report, as well as further materials pursuant to the consultation. To gather comment from stakeholders, which might also help us further address comments made by the FCA CBA Panel, we have included specific consultation questions (questions 8 – 10) within the main consultation document that ask stakeholders to provide comment about the content of the CBA.

Annex 2

Draft legal instrument for stage 1 remedy

Draft General Direction [XX]:

UK-EEA Consumer CNP
Outbound Interchange Fees
price caps

[Month] 2025

Draft General Direction [XX]: UK-EEA Consumer CNP Outbound Interchange Fees price caps

1 Recitals

Whereas:

- 1.1** Mastercard and Visa each operate a Four-Party Card Scheme which, among other things, make provision for the transfer of funds by cardholders with EEA issued cards to merchants in the UK in relation to consumer Card-Not-Present Transactions.
- 1.2** At the time of this general direction Mastercard and Visa are the only Regulated Payment Systems designated under FSBRA operating Four-Party Card Payment Systems.
- 1.3** Every time a consumer initiates a UK-EEA Consumer CNP Outbound Transaction with a Mastercard or Visa-branded card, the Acquirer pays an interchange fee to the card Issuer, such as a bank or other financial services firm. The Interchange Fee rate is set by Visa and Mastercard.
- 1.4** The PSR formally launched its cross-border Interchange Fees market review in October 2022. For the reasons set out in its cross-border interchange fee market review final report¹ the PSR concluded that Interchange Fees paid by UK Acquirers to EEA Issuers in relation to Mastercard and Visa's Four-Party Card Scheme and in respect of Card-Not-Present Transactions that are consumer cross-border transactions between the UK and the EEA using EEA issued cards to make payments to merchants located in the UK were unduly high.
- 1.5** For the reasons set out in the [Decision to impose a cap²] published alongside this general direction, the PSR has decided to cap the level of Mastercard and Visa UK-EEA Consumer CNP Outbound IFs for Debit Card and Credit Card transactions. This general direction sets the levels of the Caps for an initial period of time. The Caps and associated provisions set out in this general direction may be amended or replaced pending the outcome of our work on a potential stage 2 remedy.

1 XXX 2024

2 XXX 2025

2 Powers exercised and purpose

- 2.1** The PSR gives this general direction in accordance with section 54(1) and (2) of FSBRA. In accordance with section 54(3)(b)(i), this general direction applies to every Operator of a FSBRA designated Four-Party Card Payment System.
- 2.2** The Mastercard Payment System and Visa Europe Payment System are each designated by the Treasury as Regulated Payment Systems under section 43 of FSBRA for the purposes of Part 5 of FSBRA.
- 2.3** Mastercard is the Operator of the Mastercard Payment System and has responsibility for managing and operating it. Visa is the Operator of the Visa Europe Payment System and has responsibility for managing and operating it.
- 2.4** In making its decision to use its section 54 FSBRA powers, the PSR had regard in particular to sections 49 to 53 of FSBRA (the PSR's general duties of the in respect of payment systems). The PSR has also considered whether it would be more appropriate to proceed under the Competition Act 1998.
- 2.5** The purpose of this general direction is to cap the level of Mastercard and Visa UK-EEA Consumer CNP Outbound IFs for Debit Card and Credit Card transactions and to set out associated terms necessary to give effect to the PSR's decision.

Draft Direction

NOW the PSR gives the following general direction to each Operator of a Four-Party Card Scheme designated under FSBRA. The current four-party card schemes designated under FSBRA are:

Mastercard, and

Visa

3 Caps on Interchange Fees for UK-EEA Consumer CNP Outbound Debit and Credit Card Transactions

- 3.1** Each Directed Operator must not set their respective UK-EEA Consumer CNP Outbound IFs above the applicable Caps for the duration of this general direction (including any extensions and/or amendments). This obligation starts six Months from the Commencement Date. The applicable Caps are:
- a. [xx]% of the value of the transaction for any Debit Card CNP transactions
 - b. [xx]% of the value of the transaction for any Credit Card CNP transactions.
- 3.2** For the purposes of the application of the Caps referred to in paragraph 3.1 above, any agreed remuneration (including Net Compensation) with an equivalent object or effect as an IF, received by an Issuer from either Mastercard or Visa, an Acquirer or any other intermediary in relation to payment transactions or related activities shall be treated as part of the IF.
- 3.3** At the latest, by the end of twelve Working Days beginning on the Commencement Date, each Directed Operator must send a notification in writing directly to each of their respective Acquirers of UK-EEA Consumer CNP Outbound Transactions in accordance with paragraph 3.4 below.
- 3.4** Each Directed Operator must notify their Acquirers of the Caps and request that their Acquirers, in turn, notify promptly their respective UK Based Merchant Customers and/or any intermediary acting on their behalf, stating that:
- a. this general direction has been adopted; and
 - b. in respect of the Mastercard Payment System and/or Visa Europe Payment System as appropriate, UK-EEA Consumer CNP Outbound IFs will be capped for all future UK-EEA Consumer CNP Outbound Transactions using Credit Cards and Debit Cards from a specified date (which is within six Months from the Commencement Date) for the duration of this general direction or until this requirement is amended, replaced or revoked by the PSR.

- 3.5** No later than twelve Working Days from the Commencement Date, each Directed Operator must publish in a clearly visible and easily accessible manner directly on their respective websites (and any portals with Acquirers) all UK-EEA Consumer CNP Outbound IFs applicable to UK-EEA Consumer CNP Outbound Transactions using Credit Cards and Debit Cards. This obligation shall remain in force throughout the duration of this general direction or until this requirement is amended, replaced or revoked by the PSR.

4 Commencement, Duration and Amendment of the Caps

- 4.1** This general direction commences on the day of its publication on the PSR's website (the Commencement Date) regardless of whether publication takes place within Business Hours.
- 4.2** This general direction shall cease to be in force from midnight thirty Months after the Commencement Date, unless, prior to that date it is amended, replaced, or revoked by the PSR. The amendment, replacement or revocation of this general direction shall not affect the validity or enforceability of any rights or obligations that arise prior to such amendment, replacement or revocation.
- 4.3** The PSR will decide, after consultation, on an appropriate methodology for the purposes of reaching a level for potential price caps for a second period (referred to as the Stage 2 Price Caps).
- 4.4** Within twenty four Months from the Commencement Date, the PSR will issue a decision, after consultation, on whether to amend, replace or revoke this general direction. If appropriate, this decision will be accompanied by a proposed general direction to implement any changes, including potentially imposing Stage 2 Price Caps.
- 4.5** In the event that, after consultation, the PSR changes one or more of the Caps referred to in paragraph 3.1 above, then, within twelve Working Days from the date notified by the PSR in writing to the Directed Operators, save as otherwise stipulated by the PSR, each Directed Operator must:
- a. send a notification in writing to their respective Acquirers of UK-EEA Consumer CNP Outbound Transactions informing them of the changes and when they take effect;
 - b. request that their Acquirers, in turn, notify promptly their UK Based Merchant Customers of the changes and when they take effect; and
 - c. publish in a clearly visible and easily accessible manner directly on their respective websites the changed levels of UK-EEA Consumer CNP Outbound IFs applicable to UK-EEA Consumer CNP Outbound Transactions using Credit Cards and Debit Cards subject to this general direction.
- 4.6** If this general direction is extended and/or amended pursuant to paragraph 4.4 above to introduce Stage 2 Price Caps, the PSR shall, within five Years from the implementation of the Stage 2 Price Caps, complete a review of the application of this general direction.

4.7 The review referred to at paragraph 4.4 above, shall consider the application of this general direction (as extended, amended or replaced) and may, at the PSR's discretion, include consideration of the following factors:

- a. the appropriateness of the levels of UK-EEA Consumer CNP Outbound IFs applicable at that time, and of the methodology used to calculate these as per paragraph 4.3 above, taking into account for example evidence of changes to the use and cost of the various means of payments and the level of entry of new players, new technology and innovative business models on the market;
- b. the development of fees for payers; and
- c. evidence of changes to the level of competition among payment card providers and payment card schemes.

4.8 If appropriate, following either of the reviews referred to at paragraphs 4.4 and 4.6 above, the PSR will consult on a proposed amendment, replacement, or revocation of this general direction.

5 Monitoring implementation of the Caps

5.1 Each Directed Operator must promptly report to the PSR in writing when each of the requirements at sub-paragraphs 3.1 – 3.4 above have been complied with. The report shall be in the format specified by the PSR from time to time.

5.2 Each Directed Operator must report to the PSR as soon as reasonably practicable, and not later than 2 Working Days after becoming aware, in the event that it anticipates that it will not, or may not, meet any of the deadlines set out in paragraph 3 and explain the reason for (and anticipated duration of) the delay.

5.3 The PSR may, in response to a reasoned written request from a Directed Operator, or otherwise at its own discretion, grant an extension to any time period in section 3 or exempt a Directed Operator from an obligation imposed on them under section 3. In such an event, as a condition of granting any such extension or exemption, the PSR may at its discretion impose such additional and/or amended obligations on (or prohibit the taking of certain actions by) the requesting party in connection with section 3 as it considers appropriate. Any such extension or exemption shall be notified to the requesting party in writing.

6 Non circumvention

6.1 Each Directed Operator shall not circumvent or attempt to circumvent this general direction directly or indirectly by any act or omission. In particular, as of the Commencement Date, the Directed Operators must each refrain from all practices that have the equivalent object or effect as UK-EEA Consumer Outbound CNP IFs. This includes specifically but not exclusively implementing programs or new rules or charges

(or changing existing programs, rules or charges) whereby Mastercard and/or Visa transfers scheme fees or other fees or charges imposed on UK Acquirers to EEA Issuers.

7 Reporting and monitoring

7.1 Each Directed Operator must provide to the PSR, within five Working Days of each anniversary of the Implementation Date, for the duration of this general direction, an annual report in the format set out in Schedule A to this general direction (or any other format specified by the PSR in writing from time to time). The first annual report should cover the Year after the Implementation Date. Each subsequent annual report should cover the Year preceding each subsequent anniversary of the Implementation Date. In each annual report, each Directed Operator must include the following information (unless specified otherwise in writing by the PSR from time to time):

- a. Confirmation that (subject to any matters reported under paragraph 7.1 (b) below), during the preceding Year:
 1. It has complied with this general direction, including section 3 and the non-circumvention provision at section 6 above.
 2. No breach of this general direction has occurred.
 3. No action has been taken by it that might prejudice compliance with this general direction.
- b. Confirmation, if applicable, that the PSR has been informed of any breaches of this general direction that have occurred during the relevant Year.
- c. The monthly data set out below covering the preceding Year:
 1. In respect of their own system, details of the UK-EEA Consumer CNP Outbound IF values and corresponding transaction volumes for all UK-EEA Consumer Outbound Transactions using Credit Card and Debit Cards (in the currency used to calculate the amount of IF payable) carried out under the relevant Card Scheme, broken down by CP transactions, CNP transactions and by IF rates,
 2. In respect of their own system, details of the values (in the currency used to calculate the amount of IF payable) and volumes of declined transactions for all UK-EEA consumer Outbound Transactions using Debit Card and Credit Cards carried out under the relevant Card Scheme, broken down by CP transactions and CNP transactions;
 3. Unless otherwise specified by the PSR, the information in paragraphs 7.1 (c) (1) and 7.1 (c) (2) above should exclude information relating to:
 - a. all zero rate IF transactions,
 - b. any other payments made to Issuers by Acquirers or by Mastercard or Visa as appropriate, and

- c. any other payments made by Acquirers to Issuers or to Mastercard or Visa as appropriate.
 4. In respect of their own system, the total values (in the currency used to calculate the amount of IF payable) for chargebacks won by EEA Issuers against UK merchants for UK-EEA Consumer Outbound CNP Transactions us Debit Cards and Credit Cards. This section of the annual report should also detail any fees incurred by the Issuer or Acquirer for such chargebacks and their total values (in the currency used to calculate the amount of IF payable). The annual report should also detail if any IF has been (or is to be) refunded in relation to these transactions and if it is, the percentage of the IF to be refunded and total values of refunds (in the currency used to calculate the amount of IF payable).
 5. In respect of their own system, the total values (in the currency used to calculate the amount of IF payable) of transactions refunded in respect of all UK-EEA Consumer Outbound Transactions using Credit Card and Debit Cards, specifying whether these are CP Transactions or CNP Transactions. This section of the annual report should also detail whether the applicable IF in relation to these transactions has been (or is to be) refunded and, if so, the percentage of the total IF that has or is to be refunded and the total value of such refunded IFs for the relevant year.
- d. Any other information required by the PSR having given Mastercard and/or Visa at least one Month's notice in writing before the date an annual report under section 7 is due.

7.2 The PSR may, in response to a reasoned written request from a Directed Operator, grant an extension to any time period in section 7 or exempt a Directed Operator from an obligation imposed on them under section 7. In such an event, as a condition of granting any such extension or exemption, the PSR may at its discretion impose such additional and/or amended obligations on (or prohibit the taking of certain actions by) the requesting party in connection with section 7 as it considers appropriate. Any such extension or exemption shall be notified to the requesting party in writing.

7.3 If a Directed Operator has any reason to suspect that this general direction might have been breached it must immediately notify the PSR (and any Monitoring Trustee) in writing as soon as reasonably practical (and no later than two Working Days from becoming aware of the possible non-compliance). In such an event, the party making the notification, must provide to the PSR information concerning the nature and duration of the possible non-compliance.

7.4 Each Directed Operator must comply in so far as they are able with such instructions as the PSR may from time to time give for the purpose of carrying out or securing compliance with this general direction.

8 Provision of information

- 8.1** Each Directed Operator may be required by the PSR to keep and produce those records specified in writing by the PSR for the purposes of monitoring the Directed Operators' compliance with this general direction.
- 8.2** Within five Working Days of the Commencement Date, each Directed Operator must provide to the PSR in writing details of all of the entities involved (whether wholly or partially) in managing and/or operating the Mastercard Payment System or Visa Payment System (as appropriate) including:
- a. the full name, registered address, place of incorporation (if relevant) and registration number (or equivalent) of the entities involved;
 - b. their position within the Mastercard or Visa corporate group (as appropriate) and details of their direct and indirect parent or holding entities; and
 - c. contact details of the senior responsible person for each entity involved.
- 8.3** In relation to the entities and/or senior responsible persons identified at paragraph 8.2 above, in the event of any change to the information provided to the PSR pursuant to paragraph 8.2 above, the relevant Directed Operator, must notify the PSR in writing of the details of any such change at the latest within two Working Days of the change taking effect. In addition, each Directed Operator must provide to the PSR in writing details of any new entities involved (whether wholly or partially) in managing and/or operating the Mastercard Payment System or Visa Payment System (as appropriate), including the information specified in paragraph 8.2 above.
- 8.4** Without prejudice to the PSR's power to request such documents and information under section 81 FSBRA or under an alternative paragraph of this general direction, and to the extent not already provided to the PSR, each Directed Operator must provide promptly to the PSR such information (including clarification) as the PSR considers necessary and requests in writing of them in relation to or in connection with:
- a. the operation of this general direction or the implementation and/or enforcement of each of the Directed Operators' compliance with this general direction (or any provision of this general direction); and
 - b. monitoring the effectiveness and appropriateness of this general direction (or any provision of this general direction), including for the purposes of any work carried out in connection with section 4.
- 8.5** Each Directed Operator must provide the information requested of them by the date given to them by the PSR.
- 8.6** Subject to section 91 FSBRA, the PSR may publish any information or documents that it has received in connection with the monitoring or the review of this general direction or

any provisions of this general direction for the purpose of assisting the PSR in the discharge of its functions under or in connection with this general direction.

9 Assurance of information

9.1 Each Directed Operator must ensure that the reports and other information they provide to the PSR from time to time under this general direction (including paragraphs 5.1, 5.2, 7.1, 7.3, 8 and 10) are assured by a letter, signed by their Chief Executive Officer, or Chief Financial Officer (or a person in an equivalent position at the relevant Directed Operator, as appropriate, approved in advance by the PSR), confirming that the information provided is complete and accurate and that it has prepared the information in accordance with:

- a. this general direction; and
- b. any requirements the PSR makes known to them in writing from time to time.

9.2 The letter at paragraph 9.1 above must be provided to the PSR:

- a. within five Working Days of the first anniversary of the Implementation Date in respect of all information provided in the period from the Commencement Date up to and including the first anniversary of the Implementation Date, and
- b. in respect of the period after the first anniversary of the Implementation Date, annually within five Working Days of each subsequent anniversary of the Implementation Date in respect of the information provided during the preceding Year.

10 Monitoring trustee

10.1 Without prejudice to the PSR's power to appoint a skilled person under section 82 FSBRA, the PSR may, upon giving written notice of five Working Days (or such longer period as the PSR may reasonably agree in writing), require each and any Directed Operator to appoint a Monitoring Trustee to monitor and report to the PSR on that Directed Operator's compliance with the terms of this general direction. Any such appointment will be made in accordance with the written instructions of the PSR from time to time and at the expense of the relevant Directed Operator. The PSR may amend, replace or revoke any requirement so given.

10.2 The appointment of a Monitoring Trustee by a Directed Operator is subject to the approval of the PSR as to the identity of the Monitoring Trustee and the terms and conditions of appointment in their entirety.

10.3 The Monitoring Trustee may be required to:

- a. monitor the relevant Directed Operator's compliance with all or part of this general direction on such basis as the PSR may determine;
- b. report in writing to the PSR on any matter related to the relevant Directed Operator's compliance with all or part of this general direction;

- c. propose to the relevant Directed Operator such measures as the Monitoring Trustee considers necessary to ensure compliance with this general direction;
- d. reply to the questions from the PSR with additional information or its views, in writing or otherwise, for the purpose of assessing the relevant Directed Operator's compliance with this general direction; and/or
- e. where appropriate, propose to the PSR such measures or requests for additional documents as the Monitoring Trustee considers reasonably necessary to monitor and/or ensure the relevant Directed Operator's compliance with this general direction.

10.4 The Directed Operator must cooperate fully with the Monitoring Trustee, in particular by providing the Monitoring Trustee with all cooperation, assistance and information as the Monitoring Trustee may reasonably require in order to discharge its functions, including but not limited to:

- a. the provision of full and complete access to all personnel, books, records, documents, facilities, information, data and IT infrastructure (including servers, databases, internal systems and tools, processes, platforms and portals) as the Monitoring Trustee may reasonably require; and
- b. the provision of such office and supporting facilities as the Monitoring Trustee may reasonably require.

10.5 The PSR may, on its own initiative or at the request of the Monitoring Trustee, give any orders or instructions to the Monitoring Trustee in order to ensure compliance with the general direction.

11 Giving notice and time limits

11.1 Unless specified otherwise by the PSR in writing from time to time:

- a. any notice or other communication given by a Directed Operator under or in connection with this general direction to the PSR must be in writing in English and sent by email to [*PSR mailbox address*] and/or such other email address that may be notified by the PSR to Mastercard and/or Visa from time to time.
- b. any notice or other communication given by the PSR to a Directed Operator under or in connection with this general direction must be in writing in English and sent by email to the email address nominated from time to time by each Directed Operator and approved in advance by the PSR for this purpose. In the event there is no approved nomination in place, a valid email address at the relevant Directed Operator deemed appropriate by the PSR may be used.
- c. this paragraph does not apply to the service of any proceedings or other documents in any legal action in connection with this general direction.

- 11.2** Any notice or other communication made under or in connection with this general direction by a Directed Operator shall be deemed to have been received at the time of transmission to the appropriate email address, or, if this time falls outside Business Hours, when Business Hours resume.
- 11.3** Unless specified otherwise in this general direction or by the PSR from time to time:
- a. an act required pursuant to this general direction to be done by a Directed Operator on or by a particular day shall be done before the expiry of Business Hours on that day.
 - b. where a period expressed in days, weeks or Months in this general direction is to be calculated from the moment at which an event occurs or an action takes place, the day during which that event occurs or that action takes place is not to be counted as falling within the period in question.
 - c. a period expressed in weeks or Months in this general direction ends with the expiry of whichever day in the last week or Month is the same day of the week or falls on the same date in the Month, as the day during which the event or action from which the period is to be calculated occurred or took place; and if, in a period expressed in Months, the day on which it should expire does not occur in the last Month, the period ends with the expiry of the last day of that Month.
 - d. where the time prescribed for doing any act expires on a day that is not a Working Day, the act is in time if done on the next Working Day.

12 Application

- 12.1** This general direction applies to every Operator of a Four-Party Card Scheme designated as a Regulated Payment System under FSBRA.

13 Citation

- 13.1** This general direction may be cited as general direction [xx] 2025 (UK-EEA Consumer CNP Outbound Interchange Fees price caps).

14 Interpretation

- 14.1** The headings and titles used in this general direction are for convenience and have no legal effect.
- 14.2** The Interpretation Act 1978 applies to this general direction as if it were an Act of Parliament except where words and expressions are expressly defined.
- 14.3** References in this general direction to any statute or statutory provisions shall be construed as references to that statute or statutory provision as amended, re-enacted or modified, whether by statute or otherwise.

- 14.4** In this general direction, the words "including", "in particular", "for example" or similar expressions shall be interpreted as illustrative and without limitation or prejudice to the generality of any description, definition, term or phrase preceding those expressions.
- 14.5** Reference in this general direction to a government department or non-departmental public body or organisation or person includes a reference to its successor.
- 14.6** A reference in this general direction to a "company", "corporate entity" or "entity" shall include any company, corporation or other body, wherever and however established or incorporated.
- 14.7** A change of name of an organisation, company or entity shall not affect any rights or obligations of that organisation, company or entity under this general direction or render defective any legal proceedings against it.
- 14.8** No delay, failure, forbearance or omission by the PSR in exercising any right or power under this general direction shall impair such right or power, nor shall any single or partial exercise of any such right or power, preclude any further exercise thereof or the exercise of any other right, or power.
- 14.9** The rights and remedies provided under this general direction are in addition to, and not exclusive of, any rights or remedies provided by law.
- 14.10** Schedules to this general direction form part of this general direction and shall have effect as if set out in full in the body of this direction. Any reference to this general direction includes the Annex.
- 14.11** The following definitions apply in this general direction:
- **Acquirer** means a payment service provider contracting with a one or more merchants to provide **Card-Acquiring Services** for card-based payment transactions.
 - **Business Hours** means 9.00am to 5.30pm UK time on a **Working Day**.
 - **Cap** or **Caps** means the maximum amount an **Operator** of a designated **Card Scheme** can charge for **UK-EEA Consumer CNP Outbound IFs**.
 - **Card-Acquiring Services** means services to accept and process card transactions on behalf of a merchant which result in a transfer of funds to the merchant.
 - **Card-Based Payment Instrument** means any payment instrument, including a card, mobile phone, computer or any other technological device which enables the payer to initiate card-based payment transaction.
 - **Card Payment System** or **Card Scheme** is a **Payment System** which enables people and organisations to make payments by card by providing a network that joins up: cardholders, who use the cards as a way to make payments. issuers, which make payment cards available to cardholders.

- **Commencement Date** means the date specified in paragraph 4.1.
- **CNP Transaction** or **Card-Not-Present Transactions** are all transactions with a **Card Based Payment Instrument** other than a **CP Transaction**.
- **CP Transaction** or **Card Present Transaction** means a card transaction in which the cardholder is present at the outlet and presents the payment card.
- **Credit Card** means a card that allows the cardholder to make purchases or withdraw cash up to a prearranged ceiling, where the amount of the transaction is debited in full or in part by the end of pre-agreed period or can be settled in part, with the balance taken as extended credit, with or without interest.
- **Debit Card** means a card enabling the holder to have their purchases directly charged to funds in their account.
- **Designation Order** has the meaning given by section 43 **FSBRA**.
- **Directed Operators** means **Mastercard** and **Visa**. A reference to 'Directed Operator' means either **Mastercard** or **Visa** as the context requires.
- **EEA** means the European Economic Area.
- **Four-Party Card Payment System** or **Four-Party Card Scheme** means a card payment system in which card-based payment transactions are made from the payment account of a payer to the payment account of the payee through the intermediation of a card scheme, an **Issuer** and an **Acquirer**.
- **FSBRA** means the Financial Services (Banking Reform) Act 2013.
- **Implementation Date** means the date after which each **Directed Operator** must not set their respective **UK-EEA Consumer CNP Outbound IFs** above the applicable **Caps**, as required by section 3, being the date which is six **Months** from the **Commencement Date**.
- **Inbound Transactions** means consumer cross-border **Card-Not-Present Transactions** between the **EEA** and the **UK** using **UK** issued cards to make payments to merchants located in the **EEA**.
- **Interchange Fee** or **IF** means a fee that **Acquirers** pay to **Issuers** directly or indirectly (i.e., through a third party) each time a card is used to buy goods or services.
- **Issuer** means a bank or other organisation licensed by **Mastercard** and/or **Visa** or other card **Payment System Operator** to provide cards to cardholders. The **Issuer** pays an **Acquirer** the money a merchant is owed for the transaction (retaining the **IF**) and debits a cardholder's account.
- **Mastercard** means the collective entities within the Mastercard corporate group with responsibility for managing and/or operating the **Mastercard Payment System**, including **Mastercard Europe Services Limited**, **Mastercard Europe SA** and its

ultimate parent company **Mastercard Incorporated**, and their successors and assigns, their connected undertakings, subsidiaries, divisions, and groups.

- **Mastercard Europe SA** means the corporate entity registered in Belgium with company number 0448.038.446 and registered address at Chaussee de Tervuren 198A, Waterloo, 1410 Belgium.
- **Mastercard Europe Services Limited** means the company registered in England and Wales with company number 09210818 and registered office at 7th Floor, 1 Angel Lane London EC4R 3AB.
- **Mastercard Incorporated** means the corporation incorporated in the State of Delaware, USA with number 3390142 with principal executive office at 2000 Purchase Street, Purchase, New York, USA.
- **Mastercard Payment System** means the **Regulated Payment System** designated by the **Mastercard 2015 Order**.
- **Mastercard 2015 Order** means the Order designating Mastercard as a **Regulated Payment System** made by HM Treasury under section 43 of **FSBRA** on 19 March 2015.
- **Monitoring Trustee** means an independent monitoring trustee appointed pursuant to section 10 of this general direction.
- **Month** means a calendar month.
- **Net Compensation** means the total net amount of payments, rebates or incentives received by an **Issuer** from the **Mastercard Payment System** or **Visa Europe Payment System**, an **Acquirer** or any other intermediary in relation to card-based payment transactions or related activities.
- **Operator** has the same meaning as under section 42(3) of **FSBRA** in relation to the **Mastercard Payment System** and **Visa Europe Payment System**.
- **Outbound Transactions** means consumer cross-border **Card-Not-Present Transactions** between the **UK** and the **EEA** using **EEA** issued cards to make payments to merchants located in the **UK**.
- **Payment System** has the same meaning as under section 41(1) of **FSBRA**.
- **Payment Systems Regulator** or **PSR** is the body corporate established under section 40 of **FSBRA**.
- **Regulated Payment System** means a **Payment System** designated as a regulated payment system by a designation order made by HM Treasury under section 43 **FSBRA**.
- **Stage 2 Price Caps** means potential price caps for a second period referred to in paragraph 4.3.
- **UK** means the United Kingdom.

- **UK Based Merchant Customer** means either (i) a merchant customer which has a fixed place of business in the **UK**, regardless of its website or server locations, or (ii) if the merchant customer does not have a fixed place of business, the address for which the merchant customer holds a valid business licence and through which the card transaction is completed is in the **UK**.
- **UK-EEA Consumer CNP Outbound IFs** means consumer cross-border **IFs** for **CNP Transactions** between the **UK** and the **EEA** using non-**UK** issued cards to make payments to merchants located in the **UK**. A consumer card transaction for the purpose of this definition means a transaction made using a **Card-Based Payment Instrument** issued to a natural person that is not limited to business expenses.
- **UK-EEA Consumer CNP Outbound Transactions** means consumer **CNP Transactions** between the **UK** and the **EEA** using non-**UK** issued cards to make payments to merchants located in the **UK**. A consumer card transaction for the purpose of this definition means a transaction made using a **Card-Based Payment Instrument** issued to a natural person that is not limited to business expenses.
- **UK-EEA Consumer Outbound Transactions** means consumer **CP** and **CNP Transactions** between the **UK** and the **EEA** using non-**UK** issued cards to make payments to merchants located in the **UK**. A consumer card transaction for the purpose of this definition means a transaction made using a **Card-Based Payment Instrument** issued to a natural person that is not limited to business expenses.
- **Visa** means the collective entities within the Visa corporate group with responsibility for managing and/or operating the **Visa Europe Payment System**, including **Visa Europe Limited** and its ultimate parent company **Visa Inc.**, and their successors and assigns, their connected undertakings, subsidiaries, divisions, and groups.
- **Visa Europe Limited** means company registered in England and Wales with company number 05139966 and registered office at 1 Sheldon Square, London, W2 6TT.
- **Visa Europe Payment System** means the **Regulated Payment System** designated by the **Visa 2015 Order**.
- **Visa Inc.** means the corporation with number 4233619 incorporated in the State of Delaware, USA with principal executive office at P.O. Box 8999, San Francisco, California 94128-8999.
- **Visa 2015 Order** means the Order designating Visa Europe as a **Regulated Payment System** made by HM Treasury under section 43 of **FSBRA** on 19 March 2015.
- **Working Day** means any day of the week other than a Saturday or a Sunday, Christmas Day, Good Friday or any other day that is a bank holiday in England and Wales under the Banking and Financial Dealings Act 1971.
- **Year** means any period of twelve consecutive months.

Made on *[date]*

[David Geale]
Managing Director
Payment Systems Regulator

Schedule A

Format of report pursuant to paragraph 7.1 of this general direction

I, [name], confirm on behalf of [Mastercard/Visa], that:

1. [*Include if relevant* – Subject to any matters reported under paragraph (2) below,] In the period from [date] to [date] (the Relevant Period):
 - a. [Visa/Mastercard] has complied with general direction [x], including, without limitation, compliance with paragraph 3 and the non-circumvention provision at paragraph 6;
 - b. [*Include if relevant* – No breach of the general direction has occurred;] and
 - c. No action has been taken by [Mastercard/Visa] that might prejudice compliance with the general direction.
2. [*Include if relevant* – Pursuant to the general direction, the PSR has been informed of any breaches of the general direction that have occurred during the Relevant Period.]
3. [*Insert responses to paragraphs 7.1 (c) and (d) as appropriate*]

Signed for and on behalf of [Mastercard/Visa]:

.....

[Name and title]

On: [Date]

At: [Place]

Status of directions

Directions give rise to binding obligations. Breaching a requirement of a direction is a compliance failure which makes a party liable to regulatory sanction.

PUB REF: CP24/14

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