

Response paper

# Lowering risks to NPA delivery: Final changes to Specific Directions 2 and 3

December 2021

# Contents

1	<a href="#">Executive summary</a>	3
	Our decisions to lower risks to NPA delivery	3
	Final changes to SDs 2 and 3	4
	Next steps	5
2	<a href="#">Introduction</a>	6
	The purpose of this document	6
	The rest of this document	7
3	<a href="#">Respondents' comments on proposed changes to SDs 2 and 3 and our response</a>	8
	Comments on proposed changes to SD2	9
	Comments on proposed changes to SD3	13
	Other comments	18
	Other considerations	21
4	<a href="#">Next steps</a>	22

# 1 Executive summary

**1.1** Our Specific Directions (SDs) 2 and 3 impose requirements on Pay.UK as the operator of Bacs and Faster Payments respectively. In July 2021, we published CP21/8, which:

- set out our decisions on lowering risks to successful delivery of the New Payments Architecture (NPA)
- consulted on the changes we proposed to make to SDs 2 and 3 to implement these decisions

**1.2** This document sets out our decisions on the changes we have made to SDs 2 and 3 following our consultation, including moving the compliance deadline for SD3 to 1 July 2026.

## Our decisions to lower risks to NPA delivery

**1.3** The NPA is the payment industry's proposed way of organising the clearing and settlement of most interbank payments in the future, including those currently using Bacs and Faster Payments. We support this initiative because, delivered well, it could help realise the outcomes we want to bring about in payments and facilitate our proposed long-term strategy. By strengthening competition and innovation in payment services and between payment systems, the NPA could provide better value and effective choice of payment options for people and businesses. The NPA could also improve the resilience of payments and, by including more data in payment messages, help reduce fraud.

**1.4** Pay.UK, the operator of Bacs and Faster Payments, is responsible for delivering the NPA. This includes procuring NPA central infrastructure services (CIS). Earlier this year we reached the view that there are unacceptably high risks that the NPA programme will not provide value for money and could delay or prevent the benefits of the NPA being delivered.

**1.5** In CP21/8, we set out a way forward for the NPA programme that lowers these risks. We decided to require Pay.UK to narrow the scope of the CIS contract by mandating that it:

- must, as a minimum, buy services needed to support single push payments
- may buy additional services and system functionality (beyond that required to support single push payments) if we do not object to their inclusion in the CIS contract

- 1.6** We also decided that Pay.UK’s obligation to carry out a competitive procurement would remain. It must also provide reports at specified intervals on its planning activity and subsequent steps taken to progress work on the future long-term strategy for Bacs.
- 1.7** In CP21/8, we proposed to implement our decisions to lower NPA delivery risks by giving directions (SDs 2a and 3a) varying SDs 2 and 3. These currently require Pay.UK to ensure that any central infrastructure contracts for Bacs and Faster Payments in place on or after 2 December 2023 (Bacs, SD2) and 30 June 2023 (Faster Payments, SD3) have been competitively procured. Pay.UK set out to comply with these requirements by running a competitive procurement for NPA CIS.
- 1.8** CP21/8 asked for views on the draft versions of SDs 2a and 3a. Ten stakeholders responded to our consultation: several large PSPs, a smaller PSP, a technology services provider, a consultancy, an individual, and Pay.UK. Most agreed or broadly agreed that the proposed changes to SDs 2 and 3 would effectively implement our decisions. We will publish non-confidential versions of these shortly.

## Final changes to SDs 2 and 3

- 1.9** Taking account of respondents’ views, we have amended the draft versions of SDs 2a and 3a that we consulted on in CP21/18, as shown in Table 1.

**Table 1: How we have amended the draft versions of SDs 2a and 3a**

SD	Proposal in CP21/8	How we’ve amended our proposal
<b>SD2a</b>	Require quarterly reporting on work to develop the Bacs strategy from 30 June 2022	Require submission of a plan for developing the Bacs strategy by 31 March 2023 and then submission of subsequent reports within nine months of the previous one
	Remove Section 4, which permitted Pay.UK to apply to amend the SD2 compliance deadline where this is required by NPA implementation	Reinstate Section 4, amended to reflect today’s circumstances
<b>SD3a</b>	Move the SD3 compliance deadline to 1 April 2026	Move the SD3 compliance deadline to 1 July 2026
	Remove Section 4, which permitted Pay.UK to apply to amend the SD3 compliance deadline where this is required by NPA implementation	Reinstate Section 4, amended to reflect today’s circumstances

- 1.10** Some respondents raised concerns about the complexity of SD2 reporting requirements and the burden they impose. We have decided to change these to require Pay.UK to submit the first report on its work to develop the Bacs strategy by 31 March 2023 rather than 30 June 2022. Moving this date lets Pay.UK focus in the short term on delivering the procurement and build of services to support single push payments, which was the intent of our decisions to lower risks to NPA delivery. It also takes account of a likely application from Pay.UK next year to expand the scope of the CIS contract to include functionality that could materially affect the breadth and nature of options available for the Bacs strategy.
- 1.11** We expect subsequent reports to be event driven but to ensure there is adequate visibility of Pay.UK's work, it must submit a report within nine months of the previous one regardless of whether a milestone has been reached.
- 1.12** There were mixed views on our proposal that the SD3 compliance deadline should move to 1 April 2026. Some said it was reasonable, but others had reservations about Pay.UK's ability to meet the proposed deadline. Pay.UK said uncertainty meant it was unclear if all Faster Payments transactions would be migrated to the NPA in time. We proposed a compliance deadline of 1 April 2026 because that was the date by when we reasonably expected payments will no longer be processed by the Faster Payments central infrastructure based on Pay.UK's baseline NPA programme plan, allowing for some contingency. Pay.UK has since told us it is updating this plan.
- 1.13** We have decided to move the SD3 compliance deadline to 1 July 2026, three months later than we proposed in CP21/8. This provides for some additional contingency given feedback we have received and taking into account the number of dependencies in the plan.
- 1.14** We agree with Pay.UK that, with a programme of the size and scale of the NPA, factors outside of its direct control could arise that mean it is unable to meet the compliance deadlines in SD2 (once set) and SD3. Therefore, we are reinserting Section 4 in SDs 2 and 3 (amended to reflect today's circumstances). This allows Pay.UK to apply to us to extend the compliance deadline where this is required because of the implementation of the NPA.
- 1.15** Table 1 sets out the substantive changes to the draft versions of SDs 2a and 3a that we consulted on in CP21/8 but we made a number of other changes, for example inserting additional recitals into SDs 2 and 3 to explain why they have been varied and summarise the key changes.

## Next steps

- 1.16** We have given SDs 2a and 3a to Pay.UK and published them alongside this response document. These SDs come into force on 1 January 2022, and we will monitor Pay.UK's compliance with them.

## 2 Introduction

---

In this document, we set out our decision on the contents of SDs 2a and 3a, varying SDs 2 and 3, following the consultation we held on drafts of them. SDs 2a and 3a implement our July 2021 decisions on lowering the risks to successful delivery of the NPA.

---

### The purpose of this document

**2.1** In July 2021, we published CP21/8<sup>1</sup>, which set out our decisions on lowering risks to successful delivery of the NPA. It also consulted on the changes we proposed to make to SDs 2 and 3 to implement these decisions (see Table 1).

**2.2** This document:

- considers views we received on our proposed changes to SDs 2 and 3 to implement our decisions on lowering risks to delivery of the NPA
- confirms the content of SDs 2a and 3a to be given to Pay.UK (as the operator of Bacs and Faster Payments) to implement the required changes

**Table 2: The key changes we proposed to make to SDs 2 and 3 in CP21/8**

---

<b>Specific Direction 2</b>	<ul style="list-style-type: none"><li>• Removing the deadline for compliance and replacing it with a power for us to set a new deadline. Pay.UK would not be able to extend or award a contract for the supply of Bacs central infrastructure without a decision from us on whether or not to prevent this by objecting.</li><li>• Requiring Pay.UK to report to us at specified intervals on its planning activity and subsequent steps taken to progress work on the Bacs strategy. We may require Pay.UK to publish these reports or publish them ourselves.</li></ul>
-----------------------------	---

---

<sup>1</sup> PSR CP21/8, *Lowering risks to delivery of the New Payments Architecture* (2021). See: <https://www.psr.org.uk/publications/consultations/cp21-8-lowering-risks-to-delivery-of-the-new-payments-architecture/>

---

**Specific Direction 3**

- Adding a requirement for the CIS contract to, as a minimum, provide for the services and system functionality needed to process single push payments.
  - Should Pay.UK wish to procure other, additional services and system functionality beyond this minimum, requiring them to tell us so we can decide whether to prevent this by objecting.
  - Amending the deadline for compliance – Pay.UK must take the actions necessary to ensure that any CIS contract in place by 1 April 2026 has been competitively procured.
- 

## The rest of this document

**2.3** The rest of this document is structured as follows:

- Chapter 3 summarises and responds to comments we received on our proposed changes to SDs 2 and 3, and other topics.
- Chapter 4 sets out our next steps.

**2.4** Alongside this document we publish SDs 2a and 3a, which we have now given to Pay.UK.<sup>2</sup>

---

<sup>2</sup> <https://www.psr.org.uk/publications/general/specific-direction-2/>  
<https://www.psr.org.uk/publications/general/specific-direction-3/>

# 3 Respondents' comments on proposed changes to SDs 2 and 3 and our response

---

CP21/8 proposed to give directions (SDs 2a and 3a) varying SDs 2 and 3 to implement our decisions on lowering risks to NPA delivery. Taking account of the responses we received to CP21/8, we have since amended the draft versions of SDs 2a and 3a that we consulted on by:

- changing the SD2 reporting requirements we proposed so that Pay.UK must submit a plan for developing the Bacs strategy by 31 March 2023 and then submit subsequent reports within nine months of the previous one
  - moving the SD3 compliance deadline we proposed from 1 April 2026 to 1 July 2026
  - reinserting a mechanism into SDs 2 and 3 that allows Pay.UK to apply to us to extend the compliance deadline where this is required because of the implementation of the NPA
- 

**3.1** Of the 10 responses we received to CP21/8, nine commented on our proposed changes to SDs 2 and 3. Most respondents agreed or broadly agreed that these changes would effectively implement our decisions. One respondent did not provide a view on the amended SDs or our July decisions, but instead focused its comments on the transparency and accountability of Pay.UK. Some respondents also included general comments about the progression of the NPA programme.

**3.2** In the remainder of this chapter, we summarise and respond to comments on:

- our proposed changes to SD2
- our proposed changes to SD3
- other comments relating to the NPA programme



## Comments on proposed changes to SD2

### The future of Bacs

#### Respondents' views

- 3.3** Two large PSPs welcomed our decisions on lowering risks to successful NPA delivery. They also supported our decision to require Pay.UK to report at specified intervals on its planning activity and steps taken to progress work on the future long-term strategy for Bacs because this would help ensure transparency and keep the matter high on the industry's agenda. Both PSPs also welcomed the removal of the compliance deadline for SD2 because this would allow the industry to focus on procuring services that will support single push payments.
- 3.4** One large PSP said we should be mindful of not impacting thinking or analysis on the future of Bacs via the changes we make to SDs 2 and 3, as this work should be allowed to develop in line with industry developments.
- 3.5** A consultancy and a technology services provider were concerned by the absence of a clear timeline in SD2 for the procurement of services enabling the migration of Bacs transactions to the NPA. These respondents also said there was an urgent need to consider the future of Bacs. They believe this should form part of the work in the short term to deliver the procurement and build of services to support single push payments.

#### Our response

- 3.6** Future work will be needed by Pay.UK and its stakeholders on the future strategy for Bacs, which includes considering whether, and if so when and how, Bacs transactions should migrate to the NPA. We agree that Pay.UK should take account of industry and market developments when carrying out this work. The changes we are making to SD2 do not restrict its ability to do so.
- 3.7** We note the concerns about the absence of a deadline for compliance with SD2. We have not set a compliance deadline because, as explained in CP21/8, we want Pay.UK and the industry to focus in the short term on delivering the procurement and build of services to support single push payments. Pay.UK will not be able to buy services or system functionality specifically to support a future migration of Bacs transactions (unless it asks and we do not object). This helps reduce the complexity of the NPA programme, making it easier for Pay.UK to secure a CIS contract that provides value for money and enables some NPA benefits to be realised sooner. Moreover, it provides a window of opportunity for the market to bring forward services that could facilitate the organic migration of Bacs volumes.
- 3.8** We acknowledge, though, the importance of developing a strategy for the future of Bacs transactions without undue delay. This is why we have introduced requirements in SD2 that provide a structure for Pay.UK to report to us on their work in this area, and for us or Pay.UK to publish these reports.

## SD2 compliance deadline

### Respondents' views

- 3.9** In CP21/8, we proposed to amend SD2 to give us the power to set a new compliance deadline by which Pay.UK must ensure any central infrastructure contract for Bacs has been competitively procured. Pay.UK suggested that SD2 should specify a minimum notice period between us using this power and the deadline we set, recommending that section 2.1 of SD2 be amended to say: 'such date as the PSR may notify the operator of in writing, such date being not less than [one/two year(s)] from the date of notification'.

### Our response

- 3.10** We have not introduced a minimum notice period as Pay.UK suggested. This is not necessary. We will give sufficient notice of any new compliance deadline that we set for SD2, taking into account all relevant circumstances at the time in deciding what notice period is appropriate. Setting a notice period in the direction risks setting one that ultimately does not fit with the circumstances.
- 3.11** In CP21/8, we consulted on removing the compliance deadline for SD2 and replacing it with a power for us to set a new one. We are retaining this change for the reasons set out in CP21/8 and summarised in paragraph 3.7. If we exercise the power to set a compliance deadline for SD2, we recognise that factors outside of Pay.UK's direct control could arise that mean it is subsequently unable to meet this deadline. For this reason, we are reintroducing a mechanism that allows Pay.UK to apply to us to change the SD2 compliance deadline (once set) where this is required because of the implementation of the NPA.
- 3.12** This mechanism is based on the current<sup>3</sup> Section 4 in SD2, which permitted Pay.UK to apply to us before 31 May 2018 to change the SD2 compliance deadline. CP21/8 proposed to remove Section 4 because the deadline for making an application had passed. We have now reinserted Section 4, with amendments to reflect today's circumstances, including to make clear we want Pay.UK to tell us about its engagement with stakeholders on any possible extension.
- 3.13** Under the revised Section 4, we also permit Pay.UK to make more than one application for an extension to the deadline (the current Section 4 allows only one). We recognise there could be grounds for more than one extension, for example if the migration of Bacs transactions to the NPA takes several years.

---

<sup>3</sup> SDs 2a and 3a, varying SDs 2 and 3, come into force on 1 January 2022. Therefore, where we refer to 'current' provisions in SDs 2 and 3, we mean the provisions in those directions at the date of this document and before SDs 2a and 3a come into force.

## SD2 reporting requirements

### Respondents' views

- 3.14** Pay.UK said that SDs 2 and 3 (as amended by SDs 2a and 3a) set out, in its view, extensive reporting requirements that are likely to be complex and difficult for both us and Pay.UK to track and manage. On SD2 specifically, it asked us to consider lighter reporting and suggested a more proportionate approach would be for us to require it to submit a plan for developing the Bacs strategy that it would report against.
- 3.15** One large PSP said that Pay.UK needs the freedom to respond flexibly to market developments and that the revised SDs risked restricting its ability to meet these needs. It also said further consideration should be given to the proposed changes to the directions, which they said was relatively prescriptive, especially in relation to the reporting requirements for Bacs.
- 3.16** One large PSP said we should be mindful of the reporting requirements we put on Pay.UK. It said that, as there is no minimum notice period for us to make changes to these requirements, we could cause disruption to Pay.UK by making significant changes to them at short notice.
- 3.17** A consultancy and a technology services provider said that the first reporting date (June 2022) was too far in the future, and that reporting should be required earlier.
- 3.18** One large PSP said there are significant inefficiencies in the manual processes within Bacs, which give rise to operational and resilience risks. It also said we should consider increasing reporting requirements by incorporating a requirement to ensure Pay.UK has to provide regular updates on improvements being made to Bacs in advance of any migration of transactions to the NPA.

### Our response

- 3.19** We have amended the SD2 reporting requirements proposed in CP21/8 relating to Pay.UK's development of a future long-term strategy for Bacs. We now require that Pay.UK:
- submits its first report by 31 March 2023 setting out its intended plan and timetable for developing the Bacs strategy
  - submits subsequent reports within nine months of the previous report
- 3.20** We now require Pay.UK to submit its first report by 31 March 2023 rather than 30 June 2022. This is to avoid the report distracting it from the short-term priority of delivering the procurement and build of services to support single push payments. The deadline for submitting the first report falls three months after Pay.UK is due to sign the CIS contract.

- 3.21** We also note the possibility that Pay.UK will apply to us during 2022, in accordance with SD3 as amended by SD3a, to seek our non-objection to its inclusion in the CIS contract of some additional services and system functionality beyond SD3's prescribed minimum scope. This could include services and system functionality that would have a bearing on the breadth and nature of strategic options for the potential future migration of Bacs transactions to the NPA. Pay.UK will be able to develop more robust project plans for creating its Bacs strategy once it knows the outcome of any applications it decides to make to us to include additional services or system functionality in the CIS contract.
- 3.22** After the first report, we expect subsequent reports to be event driven, reflecting achievement of certain major milestones in the project plan. We also recognise, however, that there will remain a need to maintain industry visibility and confidence in the work to create the Bacs strategy. While we would expect that any given year of Pay.UK's project plan may contain a number of major milestones (and thus contain a trigger for a progress report), we have retained the requirement that in any event, regardless of whether any major milestone has been reached, a report must be delivered to us within nine months of the previous report. We have also given ourselves the power to require Pay.UK to submit a report by reference to an event to ensure we can receive reports on events we consider are significant.
- 3.23** This more event-driven approach is a change from having a six-monthly, date-driven reporting approach. It also realises the benefits of reporting against milestones (in that it reflects changes as they occur), while still providing the regular insight required both by us and interested stakeholders.
- 3.24** We do not agree that our SD2 reporting requirements restrict Pay.UK's ability to develop the Bacs strategy in line with market developments and service-user<sup>4</sup> needs. Pay.UK must report on its progress with this work. We are not mandating what its strategy should be, nor do our revised requirements state exactly when reports must be delivered, other than that it should be no longer than nine months after the previous one.
- 3.25** We have not brought forward the first reporting date, as requested by two respondents, because we want Pay.UK to focus in the short term on discharging its SD3 obligations for the reasons explained in CP21/8 and outlined in paragraph 3.7. We amended the draft version of SD2a to extend the deadline for the first report, to ensure that during 2022 Pay.UK can focus on meeting the requirements of SD3 (see paragraph 3.15).
- 3.26** We agree that the NPA should avoid use of manual processes and we can also see benefit to removing such processes from Bacs in the interim. The latter, though, is outside the scope of the changes needed to implement our decisions to lower risks to NPA delivery. As such, we are not asking Pay.UK to report on specific incremental changes to the existing systems. To the extent that Pay.UK is considering any incremental changes to Bacs, we would expect it to engage with and keep interested parties informed through existing governance arrangements.

---

4 'Service-users' are those who use, or are likely to use, services provided by payment systems. They include Payment Service Providers and 'end users' (such as individual consumers).

- 3.27** We note the request to introduce a minimum notice period for any changes to the reporting requirements. This is not necessary. As set out in paragraph 3.10, we will give sufficient notice of any changes to reporting requirements in line with our public law duties. Giving a notice period in the direction risks setting a period that ultimately does not fit with the circumstances.

## Comments on proposed changes to SD3

### SD3 compliance deadline

#### Respondents' views

- 3.28** Nearly all respondents agreed or broadly agreed that the draft changes to SD3 would effectively implement our decisions. There were mixed views, though, on whether our proposal to move the deadline for complying with SD3 to 1 April 2026 was reasonable.
- 3.29** One large PSP and one small PSP said the proposed compliance deadline was reasonable, though the latter queried if we should allow for more contingency and said that timescales should be continually reviewed to ensure the deadline remains achievable as the NPA programme progresses.
- 3.30** Two large PSPs said they did not have enough information from Pay.UK to assess whether the proposed deadline for SD3a is achievable. Both said that they did not have sight of any draft rules, requirements, or business artefacts, and that the risks and impacts on end users are not yet understood. These PSPs said there was a risk to setting a deadline on Pay.UK now, without a clear understanding of the steps needed to deliver the NPA. They also raised concerns about the amount of work that Pay.UK still needs to do, and whether Pay.UK was able to complete this by the proposed deadline.
- 3.31** Pay.UK said the proposed compliance deadline aligned with the current NPA programme baseline plan but that its ability to meet the deadline was conditional on either it procuring, or the market supplying, the services required for the migration of Faster Payments transactions to the NPA. Pay.UK also said that ongoing uncertainty, including around the scope of the CIS contract and any non-objection process, meant it was not clear if all Faster Payments transactions would be migrated by the proposed compliance deadline. Therefore, Pay.UK argued we should introduce a mechanism to allow us to change the deadline based on market developments. Pay.UK has since told us that it is updating the NPA programme baseline plan.
- 3.32** One large PSP said it had significant reservations about Pay.UK's ability to meet the proposed SD3 deadline. The respondent argued that the NPA programme should be paused and the proposed deadline extended by at least 12 months. This would allow Pay.UK to carry out activities the large PSP considers crucial to success, including setting clear economic outcomes and embedding effective governance. If the NPA programme is not paused, the large PSP said we should make provision in our reporting requirements for a 'formal gateway process' that requires Pay.UK to seek our approval for an agreed industry plan setting out how Pay.UK will deliver economic outcomes.

To allow time for this to be developed, the respondent suggested the SD3 compliance deadline should be moved to October 2026.

**3.33** Some respondents said the NPA programme should be mindful of other regulatory deadlines and wider domestic and international payments developments. A consultancy and a technology services provider said we should ensure there is a robust NPA programme plan.

### Our response

**3.34** We proposed that the SD3 compliance deadline should move to 1 April 2026 because it was the date when we reasonably expected payments will no longer be processed by the Faster Payments central infrastructure based on Pay.UK's baseline plan, allowing for some contingency. According to Pay.UK's baseline plan, the NPA will go live in mid-2024 and a formal industry migration lasts up to 18 months.

**3.35** We have moved the compliance deadline in SD3 to 1 July 2026, three months later than we proposed in CP21/8. This provides for some additional contingency given there is less certainty about the baseline plan upon which the deadline is based and the potential for factors outside of Pay.UK's control to affect the achievability of the deadline (see paragraph 3.37).

**3.36** Pay.UK should be able to comply with this deadline because:

- By narrowing the scope of the CIS contract, we are reducing the complexity of the actions Pay.UK needs to take in the short term (relative to existing obligations under SDs 2 and 3).
- We have not changed existing obligations on Pay.UK under SD3 as regards the approach to procurement (other than to extend the date for compliance).
- The new compliance deadline for SD3 takes account of Pay.UK's baseline plan and the known delays to it, with a contingency period of six months added.

**3.37** In CP21/8, we proposed removing Section 4 of SD3, which permitted Pay.UK to apply to us to extend the compliance deadline, as the date for making such applications (31 May 2018) has passed. We acknowledge that, with a programme of the size and complexity of the NPA, factors outside of Pay.UK's direct control could arise that mean it is unable to meet the SD3 compliance deadline. For example, participants may need longer than anticipated to prepare to safely migrate transactions from Faster Payments to the NPA. The NPA programme also has dependencies with other industry change programmes, particularly the RTGS Renewal Programme.<sup>5</sup>

**3.38** As with SD2 (see paragraph 3.11), we have reintroduced a mechanism that allows Pay.UK to apply to us to change the SD3 compliance deadline. It can do so where this is required because of the implementation of the NPA.

---

<sup>5</sup> The RTGS renewal programme will deliver a renewed Real-Time Gross Settlement (RTGS) service.

- 3.39** We have adapted Section 4 (as compared to the current version) to reflect today's circumstances including making clear we want Pay.UK to tell us about its engagement with stakeholders on any possible extension. We also permit Pay.UK to make more than one application (whereas under the current Section 4 it could make only one) given there could be grounds to extend the SD3 compliance deadline more than once over the course of the multi-year NPA programme.
- 3.40** Pay.UK's CIS procurement process has been paused since 2019. Since then, Pay.UK has been taking steps to build further its capabilities to deliver the NPA. We have been monitoring this work, including by seeking assurances before the procurement restarts about the design, procurement and implementation of the NPA. If Pay.UK does not provide the assurance we have requested, we will take action to ensure that the NPA programme delivers outcomes that support our statutory objectives.
- 3.41** We agree that Pay.UK's NPA programme should be mindful of other key industry changes. We encourage stakeholders to work with Pay.UK to help identify and manage interactions with these changes and avoid overloading participants.

## SD3 non-objection process

### Respondents' views

- 3.42** Pay.UK said our introduction of a potentially lengthy non-objection process, which would be triggered if it wanted to expand the scope of the CIS contract to buy additional services and system functionality beyond that required to support single push payments, was likely to have implications for NPA programme timing. Pay.UK said if it were to conclude through the 'gap-fit<sup>6</sup> process' that a wider scope is in the best interests of end users, then seeking our non-objection could introduce delays because it would need time to prepare the necessary evidence and we might object. Pay.UK also said that an onerous application of the non-objection process for potentially relatively small increases in scope might not be proportionate and would not allow it the necessary flexibility to respond to end-user needs effectively and efficiently.
- 3.43** A large PSP said that there were no timings for the procedural steps to be taken if Pay.UK applies to us to expand the scope of the CIS contract, and that timelines and parameters should be provided.
- 3.44** A large PSP said we could clarify how Pay.UK should consult with industry and end users when seeking our non-objection. It also suggested there should be specific focus on how all stakeholders can support Pay.UK in effective governance of the NPA.

---

<sup>6</sup> The 'gap-fit process' forms part of the procurement and involves Pay.UK comparing bidders' services against its CIS requirements.

## Our response

- 3.45** As set out in CP21/8, a key driver of our decision to narrow the scope of the CIS contract is to reduce the complexity of the NPA programme. Buying additional services and system functionality (beyond that required to support single push payments) could add complexity, making it harder for Pay.UK to secure a contract that provides value for money and potentially slowing the NPA programme. Expanding the scope of the CIS contract could stifle competition and innovation by procuring from a single provider services that could be developed and provided competitively.
- 3.46** We remain of the view that the non-objection process provides an appropriate mechanism for ensuring that Pay.UK justifies buying additional services or system functionality, and that doing so does not create risks to the successful delivery of the NPA programme. We will take account of a number of matters in deciding whether to object, including the implications for competition between payment systems and the adequacy of Pay.UK's stakeholder consultation.
- 3.47** We note concern about the potential duration of the non-objection process. This process need not delay the NPA programme unnecessarily provided Pay.UK makes a good case for each additional service or system functionality it wishes to include in the CIS contract. We would not expect Pay.UK to seek to expand the scope of the CIS contract unless it has gathered sufficient evidence for its own purposes, including through discussion with stakeholders, that this is a necessary or better course of action.
- 3.48** Therefore, our non-objection process should not require Pay.UK to generate additional analysis on top of the robust evidence base it should have created anyway. Moreover, our decision to move the date by which Pay.UK must submit its first report on the work to develop the future long-term strategy for Bacs (see paragraph 3.17) allows it to focus in the short term on delivering the procurement and build of services to support single push payments, including preparation of any submission requesting the scope of the CIS contract to be expanded.
- 3.49** As set out in the revised SDs, we will consider the adequacy of Pay.UK's engagement with stakeholders when deciding, for example, on whether additional services and system functionality can be included in the CIS contract under SD3. We will, therefore, expect Pay.UK to provide details of which stakeholders it consulted and how, and how it took their views into account. We expect Pay.UK to engage with interested parties. If we consider PSPs or other interested parties have not had adequate opportunity to input, we may, if necessary, take action to remediate this.



## Scope of the CIS contract

### Respondents' views

- 3.50** A small percentage of respondents said the minimum mandated scope of the CIS contract could prevent some Faster Payments transactions from migrating to the NPA, and constrain innovation and competition benefits.
- 3.51** One large PSP asked for further detail on what type of Faster Payments transactions would remain on the legacy infrastructure, why, and for how long. This respondent said the compliance date for SD3 should set the date by which most Faster Payments transactions are made using the NPA rather than the date by which central infrastructure must be competitively procured. The same respondent also said any legacy Faster Payments services should be paid for by those that use them. It suggested we review the definition of 'central infrastructure' as it may bring CHAPS into scope.

### Our response

- 3.52** Our minimum mandated scope does not prevent any Faster Payments transactions from migrating to the NPA; although, to migrate some existing transactions such as Direct Corporate Access (DCA)<sup>7</sup> transactions or transactions that use File Input Model (FIM)<sup>8</sup>, participants may need to make greater changes to their systems and processes, relative to migrating Single Immediate Payments.<sup>9</sup> It is likely, though, that any transaction migrated to the NPA will require changes to participants' systems and processes because the NPA is not intended as a like-for-like replacement for Faster Payments.
- 3.53** SD3, as amended by SD3a, permits Pay.UK to seek our non-objection to expand the scope of the CIS contract to buy additional services and system functionality beyond that required to deliver single push payments. This may help reduce the changes needed to migrate some transactions including DCA transactions and those that use FIM. Third parties may also offer services that reduce the impact of the migration. For the avoidance of doubt, the effect of SD3, and Pay.UK complying with it by procuring NPA central infrastructure, is that by the compliance deadline, all Faster Payments transactions must migrate to the NPA or use other means of execution.
- 3.54** We are content that our revised SDs do not bring CHAPS into scope. They bind Pay.UK only (and so not the operator of CHAPS, which is the Bank of England). In addition, the definition of 'central infrastructure' in SD3 means that CHAPS is not caught by it because it refers only to Faster Payments and the NPA.

---

7 DCA is a file-based service that allows users to submit Faster Payments directly to the central infrastructure using a message standard based on Bacs Standard 18.

8 FIM is a file-based service that allows users to submit Faster Payments directly to the central infrastructure using the ISO 8583 message standard.

9 A Single Immediate Payment is one that is usually credited to the beneficiary account within a matter of seconds.

## SD3 reporting requirements

### Respondents' views

- 3.55** Pay.UK said that the directions set out, in its view, extensive reporting requirements that may be complex and difficult for both us and Pay.UK to track and manage. It argued that the amended reporting requirements of SD3 (which, in its view, increases reporting frequency from six-monthly to quarterly) were likely to be onerous and duplicative.
- 3.56** One large PSP was concerned that with no minimum notice period, we could cause disruption to Pay.UK by making significant changes to these reporting requirements at short notice.

### Our response

- 3.57** While current SDs 2 and 3 set out on their face requirements to report every six months, the current requirement (specified by us under paragraph 3.2 of each direction) is quarterly, having previously also been bi-monthly. The requirement to report quarterly in SD3a, varying SD3, therefore reflects the current position. Quarterly reporting means we are updated on NPA delivery at intervals that support our regular engagement with Pay.UK on its progress. Less frequent reporting could leave us unsighted on important developments. The directions allow us to change the reporting frequency if appropriate.
- 3.58** We note the concern about us making changes to the reporting requirements at short notice. As per paragraph 3.10, we must act reasonably in line with our public law duties and will, therefore, give sufficient notice of any changes to reporting requirements. Giving a notice period in the direction risks setting a period that ultimately does not fit with the circumstances.

## Other comments

### Competitive procurement

#### Respondents' views

- 3.59** A large PSP said a new competitive procurement would be the optimal approach to procuring NPA CIS. As Pay.UK has decided to continue with the current procurement process, the respondent suggested we require Pay.UK to report on how it reached this decision.

## Our response

- 3.60** In CP21/8, we set out our decision to retain the obligation on Pay.UK to carry out a competitive procurement. We also said it was for Pay.UK, as the delivery body, to decide whether to start a new procurement or continue with the current one. It has chosen the latter. Our view remains that either continuing the current competitive procurement or starting a new one could secure a contract that provides value for money and good outcomes for service users. Therefore, we do not see a need to add additional requirements on Pay.UK to report to us on its decision to continue the current procurement process.

## Funding, value for money and accountability

### Respondents' views

- 3.61** A large PSP said the NPA programme so far has been based on the assumption that the NPA will replace Faster Payments and Bacs. Given this, the respondent said it could be argued that the fees paid to fund the NPA programme have not delivered the intended value to participants given our decision to narrow the scope of the CIS contract and the proposed changes to SD2 and SD3. The large PSP would like to see greater reporting on cost efficiency and transparency of spend.
- 3.62** A respondent said Pay.UK should be required to be more transparent about the NPA programme and held to account for its delivery, suggesting that the Senior Managers and Certification Regime could be applied to Pay.UK.

## Our response

- 3.63** Our decision to narrow the scope of the CIS contract does not change the industry's intention that the NPA should replace Bacs and Faster Payments. Instead, our decision means Pay.UK must phase the delivery of the NPA with the focus initially on procurement and build of CIS necessary to support single push payments. In addition, Pay.UK and stakeholders will need to carry out further work on the future long-term strategy for Bacs. This includes considering whether, and if so when and how, Bacs transactions should migrate to the NPA.
- 3.64** It is for Pay.UK's Board to manage and control the NPA programme and for Pay.UK's guarantors to hold the Board to account. We also agree that Pay.UK should be transparent with those that will pay for the NPA about the costs of the programme. We will continue to monitor Pay.UK's work to deliver the NPA, and use our powers where appropriate, to assure an outcome that supports our statutory objectives to promote competition, innovation and the interests of service users.

## Bulk push payments

### Respondents' views

- 3.65** One large PSP said Pay.UK should include in the CIS contract services that facilitate bulk push payments. The PSP was concerned that, without this, standing orders might not be possible.

### Our response

- 3.66** In CP21/8, we decided to narrow the scope of the CIS contract to buy services needed to support single push payments, which can include single standing order payments. We also decided to permit Pay.UK to apply to us to buy additional services and system functionality, such as file-based services to support bulk push payments, as part of the CIS contract. The inclusion of any additional services and functionality is subject to Pay.UK making a clear case to us via the non-objection process. We encourage stakeholders to input into any exercises by Pay.UK to consider such an application to expand the minimum mandated scope.

## Customer protections

### Respondents' views

- 3.67** One large PSP said the NPA should include provision for enhanced customer protections. These should be supported by a sustainable commercial model that incentivises all participants in the NPA to contribute fairly to the cost of protections and reducing fraud.

### Our response

- 3.68** Consumer protection for interbank payments is an ongoing priority for us. We recently published the outcome of our work to assess whether the current level of protection provided for interbank payments is fit for purpose.<sup>10</sup> As part of that work, we set out our expectation that all Faster Payments participants should be able to identify and share payment risk levels, and act responsibly to minimise customer harm. We also agree that Pay.UK should consider how the NPA can facilitate enhanced consumer protections.

---

<sup>10</sup> PSR PS21/2, *Consumer protection in interbank payments* (2021). <https://www.psr.org.uk/publications/policy-statements/ps21-2-consumer-protection-response-to-cp21-4/>

## Other considerations

- 3.69** In Chapter 5 of CP21/8, we set out our analysis of the effectiveness and proportionality of our proposed changes to SDs 2 and 3 (see paragraphs 5.9 to 5.18). We remain of the view that the changes we are making to SDs 2 and 3 are appropriate. We have considered the impact of the changes we have made to SDs2a and 3a (as compared to the version consulted on).
- 3.70** Giving more time for Pay.UK to provide a Bacs strategy ensures it can prioritise for the time being its work under SD3, so giving greater confidence that it will deliver on those obligations (see paragraphs 3.19 and 3.20). In this context, we are giving Pay.UK more flexibility and increasing the likelihood of a high-quality outcome. In moving back the SD3 compliance deadline we proposed in CP21/8 by three months to 1 July 2026, we are allowing some extra contingency given the uncertainty around the NPA programme baseline plan on which the deadline is based (see paragraphs 3.33 and 3.34). In reactivating Section 4 of SDs 2 and 3 to allow Pay.UK to apply for a new deadline, we are providing additional and appropriate flexibility to reflect the complexity of delivering the NPA programme (see paragraphs 3.11 and 3.35).
- 3.71** In CP21/8, we also set out our considerations about our compliance with the public sector equality duty (paragraph 5.19). Our position remains the same in that we do not consider that giving SDs 2a and 3a to vary SDs 2 and 3 will affect the matters we have had regard to in accordance with our duty. The proposed changes to SDs 2a and 3a (as compared to the draft versions) do not affect this analysis.
- 3.72** In the same paragraph, we also set out our considerations on our duty under section 62 of the Financial Services (Banking Reform) Act 2013 (FSBRA) to consider exercising powers under the Competition Act 1998 rather than give the specific directions to vary SDs 2 and 3. We noted that we were varying existing directions and that we remained of the view that our regulatory powers (in particular our power of direction under FSBRA) is the most appropriate tool. Our analysis remains the same and the changes to SD2a and 3a (as compared to the version consulted on) do not affect it.
- 3.73** We spotted an error in the draft version of SD2a which we have corrected in the final version. The proposed removal of “or after” from paragraph 2.1 of SD2 did not reflect the intended policy. To help readers, we have also inserted additional recitals into SDs 2 and 3 to explain the reason for the variation and summarise the main changes.

## 4 Next steps

**4.1** We have now given SDs 2a and 3a to Pay.UK, varying SDs 2 and 3. As described in Chapter 3, we have amended the drafts of SDs 2a and 3a published alongside CP21/8 by:

- changing the SD2 reporting requirements we proposed so that Pay.UK must submit a plan for developing the Bacs strategy by 31 March 2023 and then submit subsequent reports within nine months of the previous one
- moving the SD3 compliance deadline we proposed to 1 July 2026
- inserting a mechanism into SDs 2 and 3 that allows Pay.UK to apply to us to extend the compliance deadline where this is required because of the implementation of the NPA

**4.2** SDs 2a and 3a come into force on 1 January 2022 and we will monitor Pay.UK's compliance with these requirements. We will also consider any application from Pay.UK to expand the scope of the CIS contract beyond the services needed to support single push payments as permitted under SD3 as varied by SD3a. One consideration will be whether Pay.UK has consulted interested parties adequately, and how it has taken their views into account.

**4.3** We will continue to monitor Pay.UK's work to deliver the NPA – and use our powers, where appropriate – to assure an outcome that supports our statutory objectives to promote competition, innovation and the interests of service users. As part of this work, we will seek assurances from Pay.UK at specified times about the design, procurement and implementation of the NPA. We have asked Pay.UK to provide assurance before it restarts the procurement of CIS. We also plan to seek assurances from Pay.UK before the CIS contract is signed and before the NPA goes live. We will continue to collaborate closely with the Bank of England, which supervises Bacs and Faster Payments.

PUB REF: RP21/2

© The Payment Systems Regulator Limited 2021  
12 Endeavour Square  
London E20 1JN  
Telephone: 0300 456 3677  
Website: [www.psr.org.uk](http://www.psr.org.uk)

All rights reserved