

CP16/35

PSR regulatory fees 2017/18

Consultation on the 2017/18 PSR regulatory fees allocation, calculation and collection to fund the PSR's FSBRA and IFR functions and activities

November 2016

In this consultation paper we set out our proposals on a number of minor changes to the 2017/18 regulatory fees estimation methodology.

We are asking for comments on these proposals by 5pm on 16 January 2017. You can send your comments and responses to our consultation questions by email to PSRfees@psr.org.uk. You can also respond in writing to the address below (although we ask all respondents to also provide electronic Word and PDF versions of their response).

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25 The North Colonnade
Canary Wharf
London E14 5HS
Email: PSRfees@psr.org.uk

We may publish all non-confidential responses to our consultation paper along with our final policy statement.

We will not regard a standard confidentiality statement in an email message as a request for nondisclosure. Stakeholders who wish to claim commercial confidentiality over specific items in their response should mark their response accordingly, and identify those specific items which they claim to be commercially confidential by highlighting them in yellow.

We may nonetheless be required to disclose all responses which include information marked as confidential, in order to meet legal obligations – in particular, if we are asked to disclose a confidential response under the Freedom of Information Act 2000. Any decision we make not to disclose a response is reviewable by the Information Commissioner.

You can download this consultation paper from our website:
www.psr.org.uk/psr-publications/consultations/cp-1635-fees-2017-2018

Contents

1	Overview	4
	Introduction	4
	Background	4
	Who does this consultation affect?	7
	What do you need to do next?	7
2	The fees process and the 2017/18 PSR fees timeline	8
	The fees process	8
	Fees timeline	9
3	Our policy on allocating the PSR FSBRA and IFR AFR, and our methodology for calculating and collecting fees	10
	Overview	11
	Calculation and collection of PSR fees for FSBRA-related functions	11
	Calculation and collection of PSR fees for IFR	12
	Fees collection methodology for FSBRA and IFR regulated systems	13
	The minimum threshold for PSPs in FSBRA and IFR regulated card payment systems	13
4	Consultation on policy issues and proposed amendments to fees rules	14
	Proposed amendments to fees rules	15
	Publishing transaction volumes	15
	Visibility of transaction volumes covered by IFR	16
	Rounding	16
	Underspend	17
	Clarification on fee liability	18
	Timing of payment	19
	Assessment of compatibility with FCA duties and PSR regulatory principles	19
	Annex 1	
	Draft fees instrument making amendments to the PSR fees rules	23
	Annex 2	
	Consultation questions	26
	Annex 3	
	Glossary	27
	Annex 4	
	Calculation of PSR FSBRA fees for individual PSPs	32
	Annex 5	
	Calculation of PSR IFR fees for individual participants	35

1. Overview

Introduction

- 1.1** This consultation paper sets out our proposed policy on regulatory fees for the Payment Systems Regulator (PSR). These fees will fund the functions that the PSR has under, and as a result of, the Financial Services (Banking Reform) Act 2013 (FSBRA) and in relation to the EU Interchange Fee Regulation (IFR)¹.
- 1.2** For convenience, when this document refers to 'we' or 'us', this means the Financial Conduct Authority (FCA) and the PSR jointly, although the final decision and fees rules are made by the FCA.
- 1.3** In this paper we are consulting on:
- our policy on how we will allocate the PSR's annual funding requirement (AFR) for FSBRA and IFR activity between relevant payment systems
 - our methodology for calculating and collecting the fees for 2017/18 and subsequent years
 - policy issues and proposed amendments to fees rules
- 1.4** We propose to continue using the approaches we adopted for 2016/17 in future years, but incorporating a small number of changes to the way we calculate and collect fees, as explained in Chapter 4 of this consultation. We would continue to use these approaches beyond the 2017/18 fee year unless there is a case for doing otherwise in the future. We do not intend to consult each year, unless we are proposing material changes to our approach. Therefore fee payers should assume that our fee allocation, calculation and collection methodologies remain the same unless we consider there is a case to do otherwise – for example, if circumstances change significantly.
- 1.5** We briefly provide details of our methodologies for the FSBRA and IFR AFR fee allocation, calculation and collection in Chapter 3. For more details on our approach please refer to our consultation paper CP16/11, *PSR regulatory fees 2016/17* (April 2016).²
- 1.6** We are proposing a small number of changes to our fees rules, detailed in Chapter 4. We have developed these to address a number of issues raised towards the end of last year's consultation.
- 1.7** The consultation period for this paper closes on 16 January 2017.

Background

- 1.8** When money moves between individuals, businesses and the government – for example, when buying goods and services, receiving income or paying taxes – the transfers of funds are made through payment systems. Payment systems in the UK handle around 20 billion transactions worth over £74 trillion annually.
- 1.9** The PSR was incorporated on 1 April 2014 as an independent subsidiary of the FCA, and became fully operational on 1 April 2015. Its function is to regulate designated payment systems operating in the UK; it has a range of regulatory powers under FSBRA, as well as concurrent competition powers under the Competition Act 1998 and the Enterprise Act 2002. The PSR has statutory objectives under FSBRA to promote competition, innovation and the interests of service-users.

¹ Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions, published in the Official Journal of the EU on 19 May 2015: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0751&from=EN>.

² www.psr.org.uk/psr-publications/consultations/cp1611-psr-regulatory-fees-2016-2017.

- 1.10** Since 9 December 2015, the PSR has had functions under the IFR pursuant to the Payment Card Interchange Fee Regulations 2015 (the PCIFRs).³
- 1.11** Since 18 September 2016, the PSR also has functions under the Payment Accounts Regulations 2015, which implement the Payment Accounts Directive 2015. The PSR consulted separately on these functions, including the fees payable, and set out its decision in May 2016.⁴
- 1.12** This consultation covers the PSR's FSBRA and IFR fees, which are collected by the FCA for the year 2017/18. This is the annual financial year beginning 1 April 2017 and ending 31 March 2018. This consultation also sets out our policy approach for each financial year going forward. We do not propose to consult on this in future years unless we propose material changes to our approach.

FSBRA

- 1.13** HM Treasury has designated eight payment systems for regulation by the PSR under FSBRA (with effect from 1 April 2015): Bacs, CHAPS, Cheque and Credit (C&C), Faster Payments Scheme (FPS), LINK, Northern Ireland Cheque Clearing (NICC), MasterCard, and Visa Europe (Visa) (collectively, the regulated payment systems).
- 1.14** The PSR's activities and functions under, and by virtue of, FSBRA are funded by the fees paid by the participants in these regulated payment systems. On 30 June 2016 we published the FCA's final decision and fees rules on how the year 2016/17 PSR fees would be calculated and collected from participants.⁵

IFR

- 1.15** The IFR imposes obligations directly on:
- card payment schemes/systems⁶ and their operators
 - acquirers and card issuers⁷
 - processing entities
 - other technical service providers
 - merchants (in limited circumstances)
- 1.16** The PSR is the competent authority in the UK for monitoring and enforcing compliance with the IFR's requirements.

³ SI 2015/1911.

⁴ PS16/2, *The application of the PARs 2015 in respect of alternative arrangements for switching accounts*: www.psr.org.uk/psr-publications/policy-statements/PS162-application-of-PARs-2015-in-respect-of-the-alternative-arrangements-for-switching-accounts

⁵ PS15/25, *PSR regulatory fees 2015/16*: www.psr.org.uk/psr-publications/policy-statements/PS-16-17-PSR-fees-2016-17

⁶ What FSBRA calls 'systems', the IFR calls 'schemes'. For consistency, in this consultation paper we use the word 'system' to mean both a system within the meaning of FSBRA and a scheme within the meaning of the IFR.

⁷ In this consultation paper we refer to these as acquiring and card-issuing payment service providers (PSPs).

Annual funding requirement

- 1.17** We use 'FSBRA AFR' and 'IFR AFR' as shorthand to refer to those portions of the overall PSR AFR that are budgeted to fund its FSBRA functions (including concurrent competition functions) and IFR functions and activities respectively.
- 1.18** The FSBRA AFR will be recovered from participants in regulated payment systems.⁸ The IFR AFR will be recovered from regulated persons⁹ under the IFR. We explain this in detail in Chapter 3.
- 1.19** For the year 2016/17, the PSR had a reduced AFR (compared to 2015/16) covering only its ongoing regulatory activities and amounting to approximately £15.2 million. Around £15 million of this was split between the PSR's FSBRA and IFR functions, as follows:
- £13.5 million for the FSBRA AFR
 - £1.5 million for the IFR AFR
- 1.20** The PSR will release figures for 2017/18 in early 2017. We expect the PSR's AFR for 2017/18 to be the same as, or lower than, it has been in the previous two years while the PSR has been setting up.

Fee-raising

- 1.21** FSBRA is the legislation under which the FCA can raise fees to fund the PSR's functions, both for FSBRA itself and the PCIFRs.
- 1.22** The FCA is responsible for funding the PSR's functions and activities through the collection of fees. It may make rules requiring participants in regulated payment systems (in relation to FSBRA functions) and regulated persons (in relation to IFR functions) to pay specified amounts, or amounts calculated in a specified way, to the FCA, in order to fund the PSR.¹⁰
- 1.23** The FCA works closely with the PSR on funding matters, particularly in determining the policies for allocating, calculating and collecting PSR fees. The PSR makes a recommendation to the FCA on the relevant policies and rules, and the FCA makes the decision and makes the fees rules to enact those policies.
- 1.24** The calculation and collection methodologies must be compatible with the FCA's general duties (as it is the FCA that makes the fees rules). They must also take into account the PSR's regulatory principles set out in FSBRA (as the methodologies are developed by and agreed with the PSR).
- 1.25** This document forms part of our annual cycle of fees consultation. In Chapter 2 we set out in more detail how our fees consultation process works in relation to PSR fees for the year 2017/18. This publication constitutes the first step of consulting on our allocation of the PSR's AFR and our calculation and collection methodology. In future years we will only include this first consultation in the cycle if we propose to make material changes to our approach, for example if circumstances change significantly.
- 1.26** This document is structured as follows:
- **Chapter 1** is this overview.
 - **Chapter 2** describes the regulatory process and sets out the next steps (subject to the outcome of the consultation in Chapters 3 and 4).
 - **Chapter 3** sets out our **proposed policy on allocation, calculation and collection between regulated payment systems of the PSR's AFR for its functions and activities under FSBRA and the IFR.**

⁸ 'Any participants' (as defined in FSBRA) includes payment system operators, infrastructure providers and payment service providers with direct or indirect access to the regulated payment systems.

⁹ A regulated person is defined in the PCIFRs as any person on whom an obligation, prohibition or restriction is imposed by any provision of the IFR.

¹⁰ See section 40 and paragraph 9, Schedule 4 FSBRA, as modified by Regulation 15 of the PCIFRs.

- **Chapter 4** sets out **proposed changes to the fees rules** to give effect to our proposals in Chapter 3. It also includes the **compatibility assessment** for our proposals.
- The **Annexes** include the following:
 1. **Annex 1** is the draft fees instrument setting out the proposed amendments to the PSR fees rules in FEES 9.
 2. **Annex 2** lists our consultation questions.
 3. **Annex 3** is the glossary of terms and abbreviations used in this document.
 4. **Annex 4** is the calculation of PSR FSBRA fees for individual PSPs.
 5. **Annex 5** is the calculation of PSR IFR fees for individual participants.

Who does this consultation affect?

1.27 This consultation will affect:

- participants in regulated payment systems under FSBRA
- IFR regulated persons

This includes¹¹:

FSBRA

- a) Payment service providers (PSPs) which are direct members of Bacs, CHAPS, C&C, FPS, LINK or NICC
- b) Acquiring or card-issuing PSPs operating in the UK which are members of MasterCard or Visa

IFR

- c) Acquiring or card-issuing PSPs operating in the UK which are members of card payment systems subject to the IFR, and in some cases the operators of such card payment systems

Is this of interest to consumers?

1.28 This consultation paper contains no material directly relevant to retail financial services consumers or consumer groups, although financial services consumers may pay for fees indirectly.

What do you need to do next?

1.29 Please consider our proposals and send us your comments on the questions in this consultation paper by 5pm on 16 January 2017. You can email us at PSRfees@psr.org.uk or write to us at the following address:

Payment Systems Regulator Limited
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25 The North Colonnade
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¹¹ The fees rules refer to 'direct payment service providers', which under our proposals includes acquirers, card issuers and in certain cases operators (for MasterCard and Visa and all of the IFR card systems) and direct payment service providers in the Bacs, CHAPS, C&C, FPS, LINK and NICC payment systems.

2. The fees process and the 2017/18 PSR fees timeline

This chapter describes the regulatory process in relation to PSR fees and the fees timeline subject to the outcome of the consultation in Chapters 3 and 4.

The fees process

- 2.1** The FCA's usual fees cycle begins with a consultation paper published in November of each year. In the case of the PSR for the year 2017/18, we are issuing this first consultation at approximately the same time as the FCA but not in the same document. Table 1 provides a brief overview of the fees process timeline.
- 2.2** As set out in paragraph 1.25, in future years we will only include this first consultation where we propose to make material changes to our approach.

Fees timeline

Table 1: Fees timeline

November 2016	Consultation paper: How 2017/18 PSR regulatory fees will be allocated, how we propose to calculate and collect PSR fees, and changes to the fees rules that we propose to introduce
January 2017	Consultation closes
January–March 2017	Fee tariff data collection: Participants in regulated payment systems and regulated persons are asked to provide data that is not already available to the PSR
March/April 2017	Consultation paper: Proposed fee rates for individual fee-payers for the coming year, together with feedback on the November 2016 consultation and the making of any rules which need to come into effect from April 2017
15 April 2017	Payment date for on-account invoices: Fee-payers whose 2016/17 PSR fees were £20,000 or more for their participation in any individual regulated payment system are required to make an advance payment of 50% of their 2017/18 PSR fees to each of the operators
As soon as possible after 19 April 2017	Operators to submit information to the PSR on late payers of 2017/18 on-account payments. This information must be submitted on a spreadsheet showing 2016 transaction volumes and 2017/18 on-account fees broken down by PSP, updated to show late/partial payers (and their contact details)
30 April 2017	Payment date for operators to transfer collected on-account payment monies to the PSR
4 May 2017	Operators to submit their 2017/18 fees payment system spreadsheet to the PSR, with 2016 transaction volumes and 2017/18 fees broken down by PSP
May 2017	Deadline to respond to April's fees consultation
June 2017	Policy statement finalising the periodic fee rates rules for 2017/18 and making any other rules
July 2017	From July, the operators of regulated payment systems and IFR card systems invoice fee-payers (and the operators of IFR card systems invoice themselves where they are liable for the payment of PSR fees themselves)
15 September 2017	The 2017/18 PSR fees are due to be paid to the operators (after deducting any on-account payments made on 15 April 2017)
17 September 2017	Operators to submit information on late payers of 2017/18 fees (on a spreadsheet showing 2016 transaction volumes and 2017/18 fees broken down by PSP) to the PSR, updated to show late/partial payers and to provide their contact details
1 October 2017	Operators pay 2017/18 PSR fees collected to the FCA

3. Our policy on allocating the PSR FSBRA and IFR AFR, and our methodology for calculating and collecting fees

This chapter sets out our approach for:

- allocating the PSR's FSBRA and IFR AFR to regulated payment systems
- the methodology for calculating the fees for individual participants within regulated payment systems
- how we will collect the PSR fees

For our FSBRA AFR, we propose to continue with the approach we took for 2015/16 and 2016/17. This involves:

- equal allocation across regulated pan-UK payment systems
- a volume-based fees calculation methodology for individual fee-payers (or based on shareholdings for NICC fee-payers)
- our 'indirect billing' approach, where the operators collect fees from their participants on our behalf
- a minimum threshold for individual acquiring and card-issuing PSPs in the regulated card payment systems, below which they will not have to pay a fee in respect of that system in relation to our FSBRA functions and activities

For our IFR AFR, we propose to continue with the approach we took for 2016/17. This involves:

- allocating our IFR AFR equally across the larger IFR card payment systems
- those with only a limited UK presence paying a flat fee
- those with a very small UK presence being exempt
- within IFR card payment systems, a volume-based fees calculation methodology for individual fee-payers
- a minimum threshold for individual acquiring and card-issuing PSPs in the IFR card payment systems, below which they will not have to pay a fee in respect of that system in relation to our IFR functions and activities

We propose to continue with this approach for 2017/18 and future years.

Overview

- 3.1** We propose to allocate the PSR's FSBRA AFR for the year 2017/18, and future years, equally across all the FSBRA regulated pan-UK payment systems: Bacs, CHAPS, C&C, NICC, FPS, LINK, MasterCard, and Visa.
- 3.2** We propose to continue treating C&C and NICC as a single pan-UK cheque system for allocation purposes, as they are both cheque and credit clearing systems but operate in distinct, complementary geographic areas.
- 3.3** We propose to continue allocating the IFR AFR across the card payment systems which operate in the UK and which are subject to the IFR, subject to taking account of very significant disparities in scale of their UK presence.
- 3.4** We propose that in future years we will continue using these approaches, and the same methodology for calculating and collecting fees, unless we consider that material changes are required to our approach (for example, due to significant changes in circumstances).
- 3.5** Annexes 5 and 6 contain more details on fee allocation.

Calculation and collection of PSR fees for FSBRA-related functions

- 3.6** For 2016/17, we allocated the PSR's FSBRA-related fees equally across all FSBRA regulated pan-UK payment systems, treating C&C and NICC as a single pan-UK cheque system for allocation purposes. Fees were levied on:
 - a) PSPs that are direct members of Bacs, CHAPS, C&C, FPS, LINK or NICC
 - b) acquiring or card-issuing PSPs operating in the UK that are members of MasterCard or Visa
- 3.7** To raise PSR fees to fund our FSBRA functions for 2017/18 and future years, we propose to continue with the same allocation approach as we adopted for the years 2015/16 and 2016/17.
- 3.8** This means that each regulated pan-UK system will contribute 14.3% of the funding for the PSR's FSBRA functions for 2017/18 and future years.
- 3.9** This approach has the benefit of being relatively simple, transparent and predictable, and we consider it to be a fair and proportionate allocation for individual payment systems. An equal allocation approach is inexpensive to administer and so is consistent with the need to use our resources in an efficient and economical way.
- 3.10** We also consider that equal allocation between regulated pan-UK payments is still appropriate as our anticipated work programme retains a broad focus across all of the systems we regulate. We consider that all regulated payment systems (and their participants) benefit from our activities, our programme of work, and our regulatory and competition interventions.
- 3.11** For the reasons set out in our fees 2016/17 consultation paper¹², in particular paragraphs 3.11 to 3.17, and our fees 2016/17 policy statement¹³, particularly paragraphs 3.8 to 3.11, we still consider that alternative methodologies for allocating our FSBRA AFR have significant drawbacks, compared to our preferred approach of equal allocation.

¹² CP16/11, *PSR regulatory fees 2016/17* (April 2016): www.psr.org.uk/sites/default/files/media/PDF/PSR%20regulatory%20fees%202016%202017.pdf
¹³ PS16/17, *PSR regulatory fees 2016/17* (June 2016): www.psr.org.uk/sites/default/files/media/PDF/PSR%20Regulatory%20fees%202016-17%20June%202016.pdf

Calculation and collection of PSR fees for IFR

3.12 For the year 2016/17, we levied fees on:

- a) acquiring and card-issuing PSPs operating in the UK that are members, licensees or affiliates of card payment systems that are subject to IFR provisions
- b) operators of card payment systems subject to the IFR who also acted as acquiring or card-issuing PSPs within their own system: liability for paying fees fell on the operators themselves in relation to their system

3.13 We used a three-tier methodology for allocating the IFR AFR, recognising the significant differences in scale of the UK presence of some of these systems:

- Larger card payment systems with more than 10 million UK transactions would pay an equal allocation of fees (of approximately 33.2%). In 2016/17 this applied to American Express, MasterCard and Visa.
- Medium-sized systems with more than 100,000 and fewer than 10 million UK transactions would pay a flat fee equating to 0.5% of the overall IFR AFR. In 2016/17 this applied to Diners Club.
- Small-sized systems with fewer than 100,000 UK transactions would pay nothing. In 2016/17 this applied to JCB and Union Pay International.

3.14 The PSR fee paid by individual acquiring and card-issuing PSPs operating in the UK (or operators acting as such acquirers or card issuers) was calculated in proportion to their respective transaction volumes under each card system.

3.15 We propose to continue with the same approach to fund the PSR's IFR functions and activities for the year 2017/18 and future years. We consider this methodology to be simple, transparent and predictable.

3.16 This approach ensures that, to the extent appropriate, all card payment systems operating in the UK contribute to the funding of the PSR's IFR functions and activities, while acknowledging that some systems have a significantly smaller presence in the UK than others. We consider this to be appropriate and fair, as all of the card payment systems will be subject to the PSR's monitoring and enforcement activities under the IFR.

3.17 We consider that placing the IFR card payment systems in three tiers as proposed best reflects the difference between those systems with a large number of relevant UK transactions (in the top tier), the one system currently with a modest number of UK transactions (in the second tier) and those with very little UK presence (in the third tier). This approach ensures that IFR card payment systems operating in the UK contribute appropriately to the funding of the PSR's IFR functions, while taking the significant disparities in their current UK presence into account.

3.18 As noted in CP16/11¹⁴, in designing the tiers and considering which one each IFR card system should fall into, we took the relevant UK transaction volumes into account but were also mindful of the respective UK transaction values. Volumes are only one of the metrics for size, and each of the IFR card payment systems has a different profile in terms of its overall transaction volumes and values.

¹⁴ CP16/11, paragraph 4.9: www.psr.org.uk/sites/default/files/media/PDF/CP1611-PSR-fees-2016-2017.pdf

Fees collection methodology for FSBRA and IFR regulated systems

- 3.19** We will continue to adopt the 'indirect billing' method for our 2017/18 FSBRA and IFR fees, and future years, where operators act as our collection agents and issue invoices in accordance with our instructions to specific categories of participants in payment systems. This approach minimises the overall regulatory burden as far as possible, by ensuring that PSR regulatory fees are outside the scope of VAT. This approach is also easy to administer, cost efficient and uses the operators' existing processes and relationships.
- 3.20** We consider that the reasons for adopting the 'indirect billing' method, as set out in CP16/11¹⁵ and our corresponding policy statement, PS16/17¹⁶, remain valid, and that this approach remains appropriate for the collection of PSR fees in relation to FSBRA and IFR.
- 3.21** This means that operators of regulated payment systems will act as collection agents for us where PSR FSBRA and IFR fees are payable by participants in their systems.
- 3.22** For some IFR card systems, the operator also acts as an acquiring and/or issuing PSP itself. In these cases, the operator pays the entire fee for its IFR card system itself. As our collection agent, the operator must invoice itself in these cases.

The minimum threshold for PSPs in FSBRA and IFR regulated card payment systems

- 3.23** We will continue with the two alternative tests in the fees rules used for the 2016/17 fee allocation. An acquiring or card-issuing PSP operating in the UK that is a member of a relevant card payment system (currently this rule applies only to the MasterCard or Visa systems) would not be required to pay a PSR fee for a given fee year if:
- a) it realises fewer than 100,000 transactions in the relevant time period, or
 - b) its PSR fee for that year, calculated according to the fees rules, would be less than £50 (in the absence of the minimum threshold)
- 3.24** We propose to keep the same minimum transaction volume thresholds unless circumstances change significantly. We will keep this under review for future years.

Question 1: Do you agree with our proposal to continue using the existing allocation, calculation and collection methodology, used in 2016/17, for our FSBRA and IFR AFR?

¹⁵ Paragraphs 3.6 to 3.7 of CP16/11

¹⁶ Paragraphs 3.20 of PS16/17

4. Consultation on policy issues and proposed amendments to fees rules

This chapter sets out a number of policy issues we have considered and modifications we are proposing to the fees rules.

It also sets out our assessment of why our proposals are compatible with both the FCA's duties and the PSR's regulatory principles.

The changes we are proposing are as follows:

- Continue with our previous approach of publishing total transaction volumes (as decided in the 2016/17 consultation cycle), and to extend this to IFR transaction volumes for those systems where the operator does not act as a PSP itself (currently Visa and MasterCard).
- Require PSPs to provide operators with enough information to be able to assess, or estimate, relevant transaction volumes more accurately.
- PSR fees will be rounded up to two decimal figures.
- Where an operator is required to pay the fee itself, it must do so by 15 September.

We are not proposing to change our methodology on the way we handle any underspend.

We also provide guidance on our approach to PSPs that were not members of a system for some of the financial year.

Proposed amendments to fees rules

- 4.1** This chapter sets out a summary of proposed amendments to the fees rules. The current PSR fees rules (FEES 9) are available at <http://fshandbook.info/FS/html/handbook/FEES/9>. The new proposed draft fees rules are included as Annex 1 to this document.¹⁷

Publishing transaction volumes

- 4.2** During our 2016/17 consultation on PSR fees, we were told that publishing the FSBRA and IFR transaction volumes for card systems in which the operator **does not** also act as an acquiring and/or issuing PSP could have a detrimental effect on those systems.
- 4.3** This concern was raised in light of the fact that we do not publish transaction volumes for card systems where the operator **does** act as an acquiring and/or issuing PSP.
- 4.4** Last year we did not publish the total IFR volumes for MasterCard or Visa. Instead we required the relevant operators to make adjustments to the already published FSBRA volumes to derive the IFR volume. This was because representations on this issue were made to us very late in our policy-setting process.
- 4.5** Publication of transaction volumes allows individual fee payers (the PSPs) to know and audit the level of fees they will pay and to participate meaningfully in our consultation. We have considered whether it would be possible to avoid the need to publish volumes – for example, by requiring the operators to communicate the volumes directly to the individual PSPs, or by the PSR itself taking an active role in informing PSPs of their individual fee liability. However, we consider that these approaches would increase the administrative burden considerably. Requiring operators to communicate the volumes directly to the PSPs may also make it harder for PSP to have confidence in their ability to estimate their fee liability – which would make it harder for them to participate in our consultation. Therefore we propose to continue with the approach of publishing total transaction volumes, unless we become aware of any good reason not to.
- 4.6** We propose to continue with our previous approach of publishing total transaction volumes (as decided in the 2016/17 consultation cycle), and to extend this to IFR transaction volumes for those systems where the operator does not act as a PSP itself (currently Visa and MasterCard).

Question 2: Do you agree with our proposal to continue to publish total transaction volumes, and to extend this to IFR transaction volumes for those systems where the operator does not act as a PSP itself? Where relevant, please provide any new evidence you may have to support your answer.

¹⁷ References are to existing provisions in the fees rules set out in FEES 9 (and to a lesser extent in FEES 1). In the online version of the fees rules and in the attached Annex 1 setting out the draft fees instrument amending the fees rules, defined terms are italicised. The letter 'R' denotes a binding and enforceable rule (e.g. FEES 9.1.1R) while the letter 'G' denotes guidance (e.g. FEES 9.1.2G).

Visibility of transaction volumes covered by IFR

- 4.7** During the 2016/17 fees process it became apparent that some operators do not always see details of certain PSPs' transactions in card systems – specifically, transactions that are not processed by the operator of that card system, but by the issuing/acquiring PSP ('on us' transactions) or by a third party processor on their behalf (third party processor transactions). The operator may not hold enough information to be able to determine which of these transactions fall within the scope of the IFR, and so must approximate the relevant transaction volumes for those PSPs. The concern raised was that estimates of volumes made in these circumstances may not be accurate.
- 4.8** This may only have a small impact on the overall fees of any individual PSP, although that is currently not clear. However, the aggregated impact of these 'invisible transactions' together may be considerable. If they were all to be added to the total of the system's IFR transactions and fees were to be attributed accordingly, there might be an impact for some PSPs. In particular, certain large players have a significant number of 'on us' transactions.
- 4.9** This could result in an unequal allocation of PSR fees if the PSR does not take steps to address the issue.
- 4.10** We propose to require PSPs to provide operators with sufficient information to be able to assess, or estimate, relevant transaction volumes more accurately (including for 'on us' and third party processor transactions). We have proposed a new rule, FEES 9.2.4DR(4), to require sufficient information to be provided. We have not specified in any more detail the information that should be provided. We have done this as it is not clear to us that it would be readily feasible to specify in detail the type and amount of information that each PSP can, and would need to provide; this may vary depending on the exact circumstances. We seek views on the merits of being more prescriptive and suggestions as to what the rules might prescribe. We encourage respondents to this consultation to comment on this. Where appropriate, we would be happy to discuss the type of information that PSPs would be able to provide to comply with this requirement with relevant stakeholders.

Question 3: Do you have any views on our proposal of requiring PSPs to provide operators with sufficient information to be able to assess, or estimate, relevant transaction volumes (including for 'on us' and third party processor transactions)?

Rounding

- 4.11** Operators raised a number of questions about rounding during our process of collecting the 2016/17 fees.
- 4.12** We propose that going forward PSR fees will be rounded up to two decimal figures. We have proposed an amendment to the rules reflected in the new FEES 9.2.4F G to clarify this.
- 4.13** If there is adjustment required to address an underspend, we propose that if the final figure owed to the PSR (fees minus rebate) is less than £1 then the operator should ignore this amount and not charge the fee payer anything. We do not consider that any change is required to the fees rules to implement this proposal.
- 4.14** We acknowledge that the administrative cost of dealing with the underspend is probably higher than £1. We consider that this approach eliminates the smallest of the fee collections while still keeping with our approach that generally PSPs should benefit when a rebate is made.

Question 4: Do you agree with our rounding proposals?

Underspend

- 4.15** The PSR underspent its budget for 2015/16. The underspend was largely returned to the industry by reducing the 2016/17 FSBRA fee payment for those who paid fees in 2015/16.¹⁸ We have considered the appropriate methodology to follow if there is a further underspend in 2017/18 and any future years.
- 4.16** We consider that there are benefits in continuing with the approach we used to return the underspend to fee payers in 2016/17.
- 4.17** However, we acknowledge the concerns raised by certain industry participants that this approach added to the administrative burden of our fees cycle, particularly for operators. The calculations of the correct amount of rebate can be complex and the operators have had to adjust invoices accordingly. To add to the complexity, a number of fee payers are not members of the systems for the entire financial year, which makes estimating the rebate more complex.
- 4.18** We considered whether it would be better to follow an alternative approach in which we simply reduce our total fees (both FSBRA and IFR) for the following financial year by the amount of any underspend.
- 4.19** To estimate the costs and benefits of each approach (reduced AFR versus rebate), we have undertaken quantitative analysis of the two options based on the 2015/16 underspend.
- 4.20** Our analysis demonstrates that the way we choose to handle the rebate makes a considerable difference to a number of PSP fee payers. More specifically, we found that changing our approach would have a disproportionate impact on PSPs whose share of transactions within a payment system has decreased. This is because the rebate reflects the past year's transactions.
- 4.21** Consequently, simply reducing our AFR would (a) benefit PSPs whose transaction volumes are increasing, and new direct PSPs, while (b) placing a heavier cost on businesses whose volumes are falling.
- 4.22** Reducing our AFR in the event of an underspend would mean that 'new' PSPs would benefit from lower 2017/18 fees, even though they did not pay any fees in 2016/17. Similarly, some PSPs may have paid significant fees in 2016/17 but would not receive an equivalent (or any) benefit in 2017/18 because their transaction volumes have decreased, or they have ceased to be a fee payer.
- 4.23** Based on this analysis, we propose to continue with our current approach of rebating PSPs in the 2017/18 fee year if there is a significant underspend for 2016/17.
- 4.24** We will keep this approach under review in future years. We do not propose to consult on this approach again in future years unless we change our approach.

Question 5: Do you agree with our proposal to continue with our current approach of rebating PSPs in the event of a significant underspend?

¹⁸ Rebates can be made both for FSBRA and IFR where there is an underspend. Last year fee payers had not paid any IFR fees for 2015/16 and therefore there was no IFR rebate.

Clarification on fee liability

4.25 We have been asked to clarify the fees rules with regard to PSPs that were not members of a system for some of the financial year: a card system operator wanted to know whether such PSPs would be liable to pay a PSR fee. In short, our answer is that all PSPs that have had transactions have to pay a PSR fee in relation to those transactions in the relevant financial year (unless the volume of transactions falls below our minimum threshold).

4.26 To clarify our position with regard to this question, we present the following two example scenarios:

4.27 Scenario one: A PSP joins a payment system in July 2017 and holds no historical transaction volumes. Based on the approach set out in CP16/11, this particular PSP will not be required to pay PSR fees for the first year. This generates three questions:

- When is the PSP expected to pay its PSR fees?
- Should the operator include this PSP in its submission of the fees payment system spreadsheet?
- Does the first year run from July 2016 to July 2017?

4.28 Answer: The 2017/18 fee year runs from 1 April 2017 to 31 March 2018 inclusive, and uses 2016 transaction data as the reference year (relevant time period in the fees rules).

If the PSP joins a payment system in July 2017, it will have realised no transaction volumes in 2016, and therefore it would not be taken into account when allocating the PSR fees for 2017/18. For the 2018/19 fee year from 1 April 2018 to 31 March 2019 inclusive, the reference year is 2017. That PSP would therefore be liable for PSR fees for 2018/19, based on the volumes it will realise as a direct member of the system between July and December 2017.

4.29 Scenario two: A second PSP joins a payment system in September 2017 as a direct member; however, up to that point the PSP was an agency bank and will hold historical transaction volumes from its sponsor bank. In this scenario:

- Is the PSP required to pay PSR fees based on the data available in the first year or is this disregarded, with PSR fees only applying from the point at which the PSP becomes a direct member of the system? This would reflect the fact that its historic transaction volumes (as a direct member) are nil.

4.30 Answer: The only transaction volumes that are taken into account for PSR fees liability are those realised by a PSP as a direct member. So if the second PSP joins the system in September 2017, that means it realised no volumes as a direct member in 2016, and therefore it would not be taken into account when allocating the system's PSR fees for 2017/18.

4.31 That PSP would, however, be liable for PSR fees for 2018/19, based on the transaction volumes it will realise as a direct member of the payment system between September and December 2016.

4.32 It also means that the PSP's sponsor bank would in 2018/19 pay its PSR fees based on the total volumes it realised in 2017, including the volumes realised by the agency bank between January and September 2017.

4.33 In both scenarios, the operator should include these new direct PSPs in any spreadsheets they submit to us after the PSPs have joined the systems as direct members. However, the operator should state on the spreadsheet exactly when they joined the systems, and record '0' for their 2016 direct member transaction volumes. As neither PSP will be liable to pay 2017/18 PSR fees under the fees rules (as they raised no 2016 volumes as direct members), that also means that they will not be required to pay any on-account fees for 2018/19 (only members whose PSR fees are £20,000 or above in the previous year have to pay on-account fees in advance).

Question 6: Do you have any views on our further guidance in relation to PSPs that were not members of a system for some of the financial year?

Timing of payment

- 4.34** We propose to make a small change to FEES 9.2.3B stating that where an operator is required to pay the fee itself, it must do so by 15 September. The existing rule allows the operator to pay the fee within 30 days of receiving the invoice, which can be later than 15 September, even though the operator is in this situation invoicing itself. We consider that this change is appropriate as, unlike a PSP, the operator is in control of its own invoicing schedule and therefore should always be able to invoice itself in sufficient time to fulfil its obligation to pay our fees by 15 September.

Question 7: Do you agree with our proposed change to the existing fees rules described above to give effect to our proposals set out in Chapter 4?

Assessment of compatibility with FCA duties and PSR regulatory principles

- 4.35** We set out below our reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA), as amended by FSBRA. The FCA is not required to carry out a cost benefit analysis in relation to PSR fees rules.
- 4.36** When consulting on new rules, the FCA is required by section 138(2)(d) FSMA to explain why it believes making the proposed rules is compatible with the FCA's strategic objectives, advances one or more of its operational objectives and has regard to the regulatory principles in section 38 FSMA.
- 4.37** We set out below our view of how the proposed rules are compatible with the FCA's duty to discharge its general functions (which include rule-making) in a way that promotes effective competition in the interests of consumers (s.1B(4)FSMA). This duty applies in so far as promoting competition is compatible with advancing our consumer protection and/or integrity objectives. We also include our assessment of the equality and diversity implications of these proposals.
- 4.38** In addition, we set out our view of how the proposed rules are compatible with the regulatory principles applicable to the PSR under section 53 FSBRA.

(a) The FCA and PSR's objectives and regulatory principles

- 4.39** The proposals we set out in this consultation are not intended in themselves to advance the FCA's operational objectives. However, they will help the FCA to ensure the PSR is capable of discharging its functions, by funding the activities the PSR needs to undertake in 2017/18 to meet its responsibilities under FSBRA and IFR. Therefore, these proposals will indirectly advance the FCA's operational objectives of:
- delivering consumer protection – securing an appropriate degree of protection for consumers
 - enhancing market integrity – protecting and enhancing the integrity of the UK financial system
 - building competitive markets – promoting effective competition in the interests of consumers

4.40 We consider these proposals to be compatible with the FCA's strategic objective of ensuring that the relevant markets function well, as they will help fund activities designed to meet this strategic objective.

4.41 The proposals in this consultation aim to set out a methodology for calculating and collecting fees to fund the PSR so it can meet its statutory objectives. These are:

- to promote effective competition in the markets for payment systems and the services provided by payment systems, in the interests of service-users
- to promote development and innovation in payment systems, including in infrastructure used for the purpose of operating payment systems, in the interests of service-users
- to ensure payment systems are operated and developed in a way that takes account of and promotes the interests of service-users

Funding also enables the PSR to carry out its functions to monitor and enforce the IFR.

4.42 In preparing the proposals set out in this consultation, the FCA must have regard to the regulatory principles set out in section 3B FSMA. The most relevant regulatory principles are considered below. These are also broadly consistent with the PSR's regulatory principles under section 53 FSBRA.

(b) The need to use our resources in the most efficient and economical way

4.43 Our proposed approach to calculating and collecting PSR fees reflects a balance between an approach that is relatively simple, transparent and predictable (and, as a result, low-cost) and one that is not disproportionate or unfair to individual payment systems or participants. This is consistent with the need to use resources in an efficient and economical way. In particular, at a small additional cost to the PSR (in terms of administrative expense), we are able to eliminate the risk of a potentially significant increase in the regulatory burden on the payments industry.

4.44 Applying a minimum transaction volume threshold below which PSPs are not required to pay fees reduces the administrative burden both for us and for the card payment systems, and ensures that the cost of collecting the fees does not exceed the amount collected. It achieves this without making any material difference to the allocation of PSR fees between PSPs, because the amounts involved are so small.

(c) The principle that a burden or restriction should be proportionate to the benefits, considered in general terms, which are expected to result from imposing it

4.45 The calculation methodology for determining the PSR FSBRA fee payable by individual PSPs within a regulated payment system largely mirrors the way in which the operators recover their own operating costs from their direct PSP members, acquirers and card issuers. In particular, the use of transaction volumes reflects a PSP's usage of a payment system, and is therefore both fair and transparent. It also does not create an inappropriate burden for new direct PSP members, whose PSR fee will be proportionate to the volumes of transactions they process or generate.

4.46 FSBRA and IFR fees will only apply for transactions with a sufficient UK connection. This avoids imposing a fees burden on a large number of members or licensees of card payment systems for whom this may not be appropriate because they have no activities at all in the UK, and reduces the resulting administrative invoicing burden on card payment systems and us.

- 4.47** This is also supported by our proposal to continue with a minimum transaction volume threshold. Where no individual acquirer or card issuer operating in the UK is above the minimum threshold, the fee is payable by the operator itself. This ensures that all systems contribute to the funding of the PSR's activities and functions.
- 4.48** In addition, we consider it proportionate that all card payment systems subject to the IFR in the UK contribute to the funding of the PSR's IFR functions and activities. This is made commensurate with their size through our three-tier approach, which exempts systems with a very small UK presence and imposes a flat fee on systems with limited UK presence.

(d) The desirability of exercising our functions in a way that recognises differences in the nature of the businesses carried on by different persons we regulate

- 4.49** In respect of fees for our FSBRA functions, we propose to continue with different calculation methodologies for the different regulated payment systems to reflect differences between the way that they operate and the usual methodologies the operators of those systems use to recover their operating costs.
- 4.50** For all card payment systems in relation to both FSBRA and IFR, our proposals to continue with the definition of 'transactions by acquirers and card issuers operating in the UK', and the minimum transaction volume threshold, recognise some specific differences in the nature of card systems, and ensures that only acquirers, card issuers and operators actually operating in the UK at a sufficient scale are required to pay the fees.

(e) The principle that we should exercise our functions as transparently as possible

- 4.51** We believe this consultation clearly explains the way we propose to calculate and collect fees to fund the PSR. Our proposed approach is intended to minimise the regulatory burden and cost on industry participants, while ensuring a simple and transparent method of both calculating PSR fees payable by each individual participant in a payment system and collecting PSR fees (via the operators acting as collection agents for FSBRA and where appropriate for IFR).

(f) Compatibility with the duty to promote effective competition in the interests of consumers

- 4.52** The PSR has an objective to promote effective competition in the markets for payment systems and services provided by payment systems. As a result, by raising fees to fund the PSR, the FCA is acting consistently with its duty to promote effective competition in the interests of consumers.
- 4.53** Our proposed approach demonstrates flexibility in dealing with circumstances unique to different payment systems. We believe this will reduce concerns of other, non-designated payment systems regarding the potential direct financial cost if they were to be designated for FSBRA regulation in future, as well as for potential new direct PSP members of existing regulated payment systems. It will also reduce concerns of other card systems subject to the IFR but not yet operating in a material way in the UK.

(g) Equality and diversity

- 4.54** We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions. As part of this, we conduct an equality impact assessment (EIA) to ensure that the equality and diversity implications of any new policy proposals are considered. We conducted an EIA for our 2017/18 fees consultation cycle and concluded that none of our proposals are relevant to equality and diversity considerations. We do not believe that any of our proposals will have an impact on equality and diversity.
- 4.55** However, we would welcome comments on any equality and diversity issues you believe may arise from our proposals.
- 4.56** The funding for the PSR will enable it to progress its programme of work. This may in due course lead us to consider new general directions or generally applicable requirements (or modifications to existing ones). In these circumstances the PSR would carry out an EIA with regard to those specific proposals.
- 4.57** Under the IFR, the PSR's role is to monitor and enforce compliance with EU legislation implemented in the UK.

Annex 1

Draft fees instrument making amendments to the PSR fees rules

Annex

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted text.

9 Payment Systems Regulator funding

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9.2 PSR fees

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Time of payment

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9.2.3B R If an *operator* of an *IFR card payment system* or *card payment system* is liable to pay *PSR fees* itself under *FEES 9.2.1DR* or *FEES 9.2.1ER*, and the *PSR fee* it paid for the previous *fee year* for its *IFR card payment system* or *card payment system* was less than £20,000, that *operator* must pay its *PSR fee* in full to the *FCA*:

- (1) by 15 September in the current *fee year*; ~~or~~
- (2) ~~if later, within 30 days of the date of the invoice.~~

Method of payment and invoicing

...

9.2.4D R (1) The *operator* of a *regulated payment system* or *IFR card payment system* must provide to the *PSR*, for each of its *direct payment service providers* (and for itself, where it is an *operator* acting as an *acquirer* or *card issuer*), a copy of:

- (a) its calculations (as specified in column 3 of Tables A and C of *FEES 9 Annex 1R*); and
- (b) the underlying data (as specified in column 5 of Tables A and C of *FEES 9 Annex 1R*).

(2) The *operator* of a *regulated payment system* or *IFR card payment system* must:

- (a) provide the information in (1) to the *PSR* as soon as possible once *FEES 9 Annex 1R* is updated for a *fee year*; and

(b) obtain the *PSR's* agreement to the individual *PSR fees* on a sufficiently timely basis to be able to issue invoices to *direct payment service providers* in accordance with *FEES* 9.2.4CR.

(3) The *operator* of each *regulated payment system* or *IFR card payment system* must provide to the *PSR* an updated version of the information set out in *FEES* 9.2.4DR(1) by no later than two *working days* after the dates set out in *FEES* 9.2.2R and *FEES* 9.2.3R, indicating which *direct payment service providers* have not paid, or not paid in full, their *PSR fees*.

(4) A *direct payment service provider* with respect to an *IFR card payment system* must provide the *operator* of that *IFR card payment system* sufficient information to approximately assess, or estimate, the part of the *transaction volumes* in relation to that *IFR card payment system* attributable to the *direct payment service provider*, including in relation to 'on us' transactions and where the *processing entity* is a person other than the *operator* of that *IFR card payment system*.

...

9.2.4F G With respect to invoices for *PSR fees*, an *operator* of a *regulated payment system* or an *IFR card payment system* should round any monetary sums to two decimal points.

...

Annex 2

Consultation questions

We are asking for responses to the following consultation questions:

Question 1: Do you agree with our proposal to continue using the existing allocation, calculation and collection methodology, used in 2016/17, for our FSBRA and IFR AFR?

Question 2: Do you agree with our proposal to continue to publish total transaction volumes, and to extend this to IFR transaction volumes for those systems where the operator does not act as a PSP itself? Where relevant, please provide any new evidence you may have to support your answer.

Question 3: Do you have any views on our proposal of requiring PSPs to provide operators with sufficient information to assess, or estimate, relevant transaction volumes including for 'on us' and third party processor transactions?

Question 4: Do you agree with our rounding proposals?

Question 5: Do you agree with our proposal to continue with our current approach of rebating PSPs in the event of a significant underspend?

Question 6: Do you have any views on our further guidance in relation to PSPs that were not members of a system for some of the financial year?

Question 7: Do you agree with our proposed amendments to the existing fees rules set out above to give effect to our proposals set out in Chapter 4?

Annex 3

Glossary

This table includes the glossary and abbreviations used for the purposes of this consultation paper on 2017/18 PSR regulatory fees.

Expressions which are defined in the fees rules are italicised in the table (for example, '*direct payment service provider*').

Term or abbreviation	Description
2015 Regulations	<i>The Payment Card Interchange Fees Regulations 2015 (SI 2015/1911)</i>
acquirer (acquiring PSP)	<i>A payment service provider contracting with a payee to enable them to accept payment transactions made by means of any card, telecommunication, digital or IT device or software, and which result in a transfer of funds to the payee</i>
AFR	Annual funding requirement
allocation	The methodology whereby the PSR AFR to be recovered is allocated across regulated payment systems and IFR card payment systems
AmEx	<i>The American Express IFR card payment system</i>
Bacs	<i>The Bacs regulated payment system designated by HM Treasury under section 43 of FSBRA</i> (The regulated payment system which processes payments through two principal electronic payment schemes: Direct Debit and Bacs Direct Credit. The payment system is operated by Bacs Payment Schemes Limited (BPSL).)
C&C (Cheque & Credit)	<i>The Cheque & Credit regulated payment system designated by HM Treasury under section 43 of FSBRA</i> (The regulated payment system in England, Scotland and Wales that processes cheques and other paper instruments. It is operated by Cheque and Credit Clearing Company Limited (C&CCCL).)
CA98	Competition Act 1998
calculation (fee calculation)	The methodology whereby the PSR AFR allocated to a specific regulated payment system or IFR card payment system is calculated for an individual fee-paying PSP (or card operator acting as such an acquirer or card issuer) (part of the 'indirect billing' approach)
card issuer (card-issuing PSP)	<i>A payment service provider contracting with a payer to enable the latter to initiate a payment transaction, made by means of any card, telecommunication, digital or IT device or software</i>
card payment system	<i>A regulated payment system that enables a holder of a payment card to effect a payment</i>

CHAPS (Clearing House Automated Payment System)	<i>The CHAPS regulated payment system designated by HM Treasury under section 43 of FSBRA</i> <i>(The UK's real-time, high-value sterling regulated payment system, where payments are settled over the Bank of England's Real Time Gross Settlement (RTGS) system. It is operated by CHAPS Co.)</i>
collection (fee collection)	The methodology whereby the operators act as collection agents for the PSR fee (part of the 'indirect billing' approach)
CP15/26	<i>PSR regulatory fees 2015/16 – a document published in August 2015 at www.psr.org.uk/about-psr/how-psr-funded and http://fca.org.uk</i>
Diners Club	The Diners Club International IFR card payment system
direct access	<i>(a) Access to a regulated payment system to enable a payment service provider to provide services for the purposes of enabling the transfer of funds using the regulated payment system, as a result of arrangements made between that payment service provider and the operator (and other participants, as applicable)</i> <i>(b) Access to an IFR card payment system to enable a payment service provider to provide services for the purposes of enabling the transfer of funds under the rules of that IFR card payment system</i>
direct payment service provider (also referred to as a 'direct member' of a regulated payment system)	<i>(a) Any person with direct access to a regulated payment system who provides services to consumers or businesses who are not participants in a regulated payment system, for the purposes of enabling the transfer of funds using that regulated payment system. For the purposes of FEES 9, direct payment service provider includes an acquirer and a card issuer, and does not include the Bank of England</i> <i>(b) Any person with direct access to an IFR card payment system who acts as an acquirer or card issuer for the purposes of enabling the transfer of funds under the rules of that IFR card payment system</i>
FCA	Financial Conduct Authority
FEES 9	<i>PSR fees rules included in the FCA Fees Manual (FEES) at FEES 9 (http://fshandbook.info/FS/html/FCA/FEES/9)</i>
FPS (Faster Payments Scheme)	<i>The Faster Payments Scheme regulated payment system designated by HM Treasury under section 43 of FSBRA</i> <i>(The regulated payment system that provides near real-time payments as well as standing orders. It is operated by Faster Payments Scheme Limited (FPSL).)</i>
FSBRA	<i>Financial Services (Banking Reform) Act 2013</i>
FSMA	<i>Financial Services and Markets Act 2000</i>
HMRC	Her Majesty's Revenue & Customs
HMRC ruling	HMRC ruling dated 9 August 2015 to the PSR on VAT treatment of Payment Systems Regulator (PSR) fees
IFR (EU Interchange Fee Regulation)	<i>Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions, published in the Official Journal of the EU on 19 May 2015</i>
IFR card payment system	<i>A payment card scheme as defined in the IFR, being a single set of rules, practices, standards and/or implementation guidelines for the execution of card-based payment transactions and which is separated from any infrastructure or payment system that supports its operation, and includes any specific decision-making body, organisation or entity accountable for the functioning of the scheme</i>

IFR transactions by acquirers operating in the United Kingdom	<p>All transactions subject to the IFR acquired by:</p> <p>(a) UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located in the United Kingdom, where the card issuer is located in the EEA;</p> <p>(b) UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located outside the United Kingdom, where the card issuer is located in the EEA; and</p> <p>(c) non-UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located in the United Kingdom, where the card issuer is located in the EEA</p>
IFR transactions by card issuers operating in the United Kingdom	All transactions subject to the IFR on cards issued by UK-based card issuers (or an operator acting as card issuer), where the acquirer is located in the EEA
'indirect billing' approach	The approach to raising PSR fees whereby PSR fees are levied on direct members of Bacs, CHAPS, C&C, FPS, LINK or NICC, and on acquiring and issuing PSPs that are members of MasterCard or Visa, and which is proposed to be used for acquiring and issuing PSPs (and in some cases on operators) in IFR card payment systems. PSR fees are collected on behalf of the FCA and PSR by operators acting as collection agents (fee collection methodology). The operators also issue invoices for the PSR fees determined for individual direct members using the fee calculation methodology
interchange fees	A fee paid for each transaction directly or indirectly (i.e. through a third party) between the issuer and the acquirer involved in a card-based payment transaction. The net compensation or other agreed remuneration is considered to be part of the interchange fee
JCB	<i>The JCB International IFR card payment system</i>
LINK	<p><i>The LINK regulated payment system designated by HM Treasury under section 43 of FSBRA</i></p> <p>(The regulated payment system which enables end users to take cash out of their accounts (amongst other activities) using the network of ATMs in the UK. It is operated by LINK Scheme)</p>
MasterCard	<i>The MasterCard regulated payment system designated by HM Treasury under section 43 of FSBRA and the MasterCard IFR card payment system</i>
NICC (Northern Ireland Cheque Clearing)	<p><i>The Northern Ireland Cheque Clearing regulated payment system designated by HM Treasury under section 43 of FSBRA</i></p> <p>(The regulated payment system in Northern Ireland that processes cheques and other paper instruments. It is operated by Belfast Bankers' Clearing Company Ltd)</p>
'on us' transactions	<i>Transactions where the acquirer and card issuer are the same entity</i>
operator	<i>In relation to a payment system, any person with responsibility under a payment system for managing or operating it; and any reference to the operation of a payment system includes a reference to its management</i>
PAD (EU Payment Accounts Directive)	Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, published in the Official Journal of the EU on 28 August 2014

participants	<p>(a) In relation to a regulated payment systems, any operator, payment service provider and infrastructure provider to a regulated payment system. See also s.42(2) FSBRA</p> <p>(b) In relation to IFR card payment systems, any operator and payment system provider in to that IFR payment card scheme</p>
payee	A person who is the intended recipient of transferred funds
payer	A person who holds a payment account and allows instructions to be given to transfer funds from that payment account, or who gives instructions to transfer funds
payment service provider (PSP)	<p>(a) Any person with access to a regulated payment system who provides services to consumers or businesses who are not participants in the system, for the purposes of enabling the transfer of funds using that regulated payment system. For the purposes of FEES 9, the Bank of England is not considered a payment service provider</p> <p>(b) Any person with access to an IFR card payment system who acts as an acquirer or card issuer for the purposes of enabling the transfer of funds under the rules of that IFR card payment system</p>
payment system	A system which is operated by one or more persons in the course of business for the purpose of enabling persons to make transfers of funds, and includes a system which is designed to facilitate the transfer of funds using another payment system
payment system allocation	<p>(a) For each regulated payment system listed in column 1 of Table A of FEES 9 Annex 1R, the allocation of PSR fees specified for that regulated payment system in column 2 of Table A of FEES 9 Annex 1R</p> <p>(b) For each IFR card payment system listed in column 1 of Table C of FEES 9 Annex 1R, the annual allocation of PSR fees specified for that IFR card payment system in column 2 of Table C of FEES 9 Annex 1R</p>
payment system denominator	<p>(a) For each regulated payment system listed in column 1 of Table A of FEES 9 Annex 1R, the figure specified for that regulated payment system in column 6 of Table A and which is also the total transaction volumes for that regulated payment system undertaken by all relevant direct payment service providers in the relevant time period, prior to any adjustment resulting from the application of FEES 9.2.1AR</p> <p>(b) For each IFR card payment system listed in column 1 of Table C of FEES 9 Annex 1R, the figure specified for that IFR card payment system in column 4 of Table B and column 6 of Table C of FEES 9 Annex 1R, and which is also the total transaction volumes for that IFR card payment system undertaken by all relevant acquirers, card issuers and operators acting as an acquirer or card issuer in the relevant time period, prior to any adjustment resulting from the application of FEES 9.2.1BAR</p>
payment transaction	An action of transferring funds, initiated by the payer or on its behalf or by the payee, irrespective of any underlying obligations between the payer and the payee
person	(In accordance with the Interpretation Act 1978) any person, including a body of persons corporate or unincorporate (that is, a natural person, a legal person and, for example, a partnership)
processing entity	Any person providing payment transaction processing services, in terms of the actions required for the handling of a payment instruction between the acquirer and the card issuer in a card payment system or in an IFR card payment system

PS15/25	<i>PSR regulatory fees 2015/16 – a document published in October 2015 at www.psr.org.uk/about-psr/how-psr-funded and www.fca.org.uk</i>
PSR	<i>The Payment Systems Regulator Limited, the body corporate established by the FCA under section 40(1) of FSBRA</i>
PSR fee (also referred to as PSR regulatory fee)	<i>The fee payable to the FCA by a direct payment service provider or by an acquirer, card issuer or operator of an IFR card payment system under FEES 9.2.1R</i>
regulated payment system	<i>Any payment systems designated by the Treasury in accordance with s.43 FSBRA. As of the date of publication this includes Bacs, C&C, CHAPS, FPS, LINK, NICC, MasterCard and Visa</i>
regulated person	<i>A person on whom an obligation, prohibition or restriction is imposed by any provision of the IFR, including participants in IFR card payment systems</i>
relevant time period	<i>(a) For each regulated payment system listed in column 1 of Table A of FEES 9 Annex 1R, the time period or date specified for that regulated payment system in column 4 of Table A (b) For each IFR card payment system listed in column 1 of Table C of FEES 9 Annex 1R, the time period specified for that IFR card payment system in column 2 of Table B and column 4 of Table C of FEES 9 Annex 1R</i>
service-user	<i>Those who use, or are likely to use, services provided by payment systems</i>
transaction volumes	<i>(a) For each regulated payment system listed in column 1 of Table A of FEES 9 Annex 1R, the number of transfers of funds of the type specified in column 5 of Table A undertaken by a direct payment service provider in the relevant time period (b) For each IFR card payment system listed in column 1 of Table C of FEES 9 Annex 1R, the number of transfers of funds of the type specified in column 1 of Table B and column 5 of Table C of FEES 9 Annex 1R undertaken by an acquirer, issuer or operator of an IFR card payment system acting as such an acquirer or card issuer in the relevant time period</i>
transactions by acquirers operating in the UK	<i>All transactions acquired by: (a) UK-based acquirers (or an operator acting as such an acquirer) resulting in payments to merchants located in the United Kingdom (b) UK-based acquirers (or an operator acting as such an acquirer) resulting in payments to merchants located outside the UK and (c) non-UK-based acquirers (or an operator acting as such acquirer) resulting in payments to merchants located in the UK</i>
transactions by card issuers operating in the UK	<i>All transactions on cards issued by UK-based card issuers (or an operator acting as such a card issuer)</i>
(the) Treasury	<i>Her Majesty's Treasury</i>
UPI	<i>The Union Pay International IFR card payment system</i>
Visa (Visa Europe)	<i>The Visa Europe regulated payment system designated by HM Treasury under section 43 of FSBRA and the Visa Europe IFR card payment system (The regulated payment system supporting payments made by cards and operated by Visa Europe and Visa UK Limited)</i>
working days	<i>Any day other than a Saturday, a Sunday, Christmas Day, Good Friday or a day which is a bank holiday under the Banking and Financial Dealings Act 1971 in any part of the United Kingdom</i>

Annex 4

Calculation of PSR FSBRA fees for individual PSPs

- 4.1** We describe below our calculation methodology for determining FSBRA fees payable by individual participants in each regulated payment system. The relevant time periods and dates are those to be taken into account when calculating the PSR FSBRA fees applicable for the year 2017/18 and future years to individual PSPs.
- 4.2** The calculation methodology for individual fees takes into account transaction volumes realised by each participant (other than in the case of NICC). It should be noted that under section 42(8) FSBRA, the Bank of England is not a participant within the meaning of section 42 FSBRA, and accordingly there is no liability for PSR fees in relation to FSBRA on the Bank of England. This also means that when considering transaction volumes, transactions attributed to the Bank of England are not to be taken into account.
- 4.3** Our PSR FSBRA fee calculation methodologies for 2017/18 and future years for each regulated payment system are unchanged from 2016/17, and are set out below. For future years, any reference to days in 2016 should be read as a reference to the calendar year immediately preceding the relevant fee year.
- **Bacs:** The PSR fee to be recovered from individual direct PSP members of the Bacs payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct PSP through Bacs during the relevant time period. The 2017/18 relevant time period for transaction volumes processed through the Bacs regulated payment system is between 1 January and 31 December 2016. Transactions include both the initiation of the transfer of funds, and the receiving of transferred funds. For these purposes, the direct PSP members are listed at www.bacs.co.uk/Bacs/Corporate/CorporateOverview/Pages/OurMembers.aspx excluding the Bank of England.
 - **C&C:** The PSR fee to be recovered from individual direct PSP members of the C&C payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct PSP member through C&C during the relevant time period. The 2017/18 relevant time period for transaction volumes processed through the C&C regulated payment system is between 1 June and 31 December 2016. Transaction volumes include cleared transaction volumes 'in clearing' and 'out clearing' for GBP, USD and EUR. For these purposes, the direct PSP members are listed at www.chequeandcredit.co.uk/about_us_and_our_members/our_members/, excluding the Bank of England.
 - **CHAPS:** The PSR fee to be recovered from individual direct PSP members of the CHAPS payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct PSP member through CHAPS during the relevant time period. The 2017/18 relevant time period for transaction volumes processed through the CHAPS regulated payment system is between 1 January and 31 December 2016. Transaction volumes include CHAPS' internal MT103 and MT202 categories of transfers of funds. Transactions include both the initiation of the transfer of funds, and the receiving of the transferred funds. For these purposes, the direct PSP members are the direct participants listed at www.chapsco.co.uk/participation/currentparticipants/, excluding the Bank of England.
 - **FPS:** The PSR fee to be recovered from individual direct PSP members of the FPS payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct PSP member through FPS during the relevant time period. The 2017/18 relevant time period for transaction volumes processed through the FPS regulated payment system is between 1 January and 31 December 2016. Transactions include both the initiation of the transfer of funds, and the receiving of the transferred funds. For these purposes, the direct PSP members are listed at www.fasterpayments.org.uk/membership/access-options/direct-membership/current-members.

- **LINK:** The PSR fee to be recovered from individual direct PSP members of the LINK payment system will be calculated proportionally to the transaction volumes issued and acquired on behalf of that direct PSP member through LINK during the relevant time period. The 2017/18 relevant time period for transaction volumes issued and acquired through the LINK regulated payment system is between 1 January and 31 December 2016. Transaction volumes include all transactions issued and acquired through the LINK regulated payment system (including GBP cash withdrawals, foreign currency dispenses, balance enquiries, PIN management, charity donations, non-cash transactions and mobile payment transactions), excluding 'on us' cash withdrawals (which do not get processed through the LINK regulated payment system). Both acquired and issued transactions are included. For these purposes, the direct PSP members are listed at www.link.co.uk/AboutLINK/Pages/Members.aspx
- **MasterCard:** The PSR fee to be recovered from individual acquirers and card issuers operating in the UK that are members or licensees of the MasterCard payment system (or from the operator acting as such an acquirer or card issuer) will be calculated proportionally to the transaction volumes issued and acquired on behalf of that acquirer or card issuer (or by the operator acting as such an acquirer or card issuer) under the MasterCard system in the UK during the relevant time period. The 2017/18 relevant time period for transaction volumes issued and acquired under the MasterCard regulated payment system in the UK is between 1 January and 31 December 2016. This includes all transactions by acquirers or card issuers operating in the UK (or by the operator acting such as an acquirer or card issuer) under the MasterCard regulated payment system, including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards (such as buying foreign currency at a bureau de change or getting cashback when buying groceries at a supermarket), but excluding cash-only withdrawals (such as from ATMs or over the counter). All MasterCard-branded transactions are included irrespective of the processing entity (MasterCard itself, a third party processing entity or 'on us' transactions). For these purposes, 'transactions by acquirers and card issuers operating in the UK' means:
 - On the acquiring side:
 - all transactions acquired by UK-based acquirers (or by an operator acting as such an acquirer) resulting in payments to merchants located in the UK
 - all transactions acquired by UK-based acquirers (or by an operator acting as such an acquirer) resulting in payments to merchants located outside the UK
 - all transactions acquired by non-UK-based acquirers (or by an operator acting as such an acquirer) resulting in payments to merchants located in the UK
 - On the issuing side: all transactions on cards issued by UK-based card issuers (or by an operator acting as such a card issuer) (irrespective of where the cardholder is located or the payment is initiated).
 - A minimum transaction volume threshold is applied whereby an acquirer or card issuer operating in the UK is not required to pay a PSR fee in the given year, and the UK transaction volumes that they realise are to be excluded from the total MasterCard transaction volumes used for fee calculation purposes, if (i) it has acquired and issued less than 100,000 relevant UK transactions in the relevant time period, or (ii) the PSR fee it would normally pay, as calculated according to the fees rules, would be less than £50 for the current fee year if the minimum transaction volume threshold was not applied.

- **NICC:** The PSR fee to be recovered from individual direct PSP members of the NICC payment system will be calculated proportionally to their shareholding in the operator of the NICC regulated payment system (Belfast Bankers' Clearing Company Ltd) during the relevant time period. For the NICC regulated payment system, this is defined as relevant shareholdings as of 31 December 2016. The direct PSP members are Northern Bank Ltd t/a Danske Bank, AIB Group (UK) plc t/a First Trust, Bank of Ireland (UK) Ltd and Ulster Bank Ltd.
- **Visa Europe:** The PSR fee to be recovered from individual acquirers and card issuers operating in the UK that are members or licensees of the Visa payment system (or from the operator acting as such an acquirer or card issuer) will be calculated proportionally to the transaction volumes issued and acquired on behalf of that acquirer or card issuer (or by the operator acting as such an acquirer or card issuer) under the Visa system in the UK during the relevant time period. The 2017/18 relevant time period for transaction volumes issued and acquired under the Visa regulated payment system in the UK is between 1 January and 31 December 2016. This includes all transactions by acquirers and card issuers operating in the UK (or by the operator acting as such an acquirer or card issuer) under the Visa regulated payment system, including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards (such as buying foreign currency at a bureau de change or getting cashback when buying groceries at a supermarket), but excluding cash-only withdrawals (such as from ATMs or over the counter). All Visa-branded transactions are included irrespective of the processing entity (Visa itself, a third party processing entity or 'on us' transactions). For these purposes, 'transactions by acquirers and card issuers operating in the UK' means:
 - On the acquiring side:
 - all transactions acquired by UK-based acquirers (or by an operator acting as such an acquirer) resulting in payments to merchants located in the UK
 - all transactions acquired by UK-based acquirers (or by an operator acting as such an acquirer) resulting in payments to merchants located outside the UK
 - all transactions acquired by non-UK-based acquirers (or by an operator acting as such an acquirer) resulting in payments to merchants located in the UK
 - On the issuing side: all transactions on cards issued by UK-based card issuers (or by an operator acting as such a card issuer) (irrespective of where the cardholder is located or the payment is initiated).
 - A minimum transaction volume threshold is applied whereby an acquirer or card issuer operating in the UK is not required to pay a PSR fee in the given year, and the UK transaction volumes that they realise are to be excluded from the total Visa transaction volumes used for fee calculation purposes, if (i) it has acquired and issued less than 100,000 relevant UK transactions in the relevant time period, or (ii) the PSR fee it would normally pay, as calculated according to the fees rules, would be less than £50 for the current fee year if the minimum transaction volume threshold was not applied.

Annex 5

Calculation of PSR IFR fees for individual participants

- 5.1** We describe below our calculation methodology for determining IFR fees payable by individual acquiring and card-issuing PSPs operating in the UK and operators (where relevant) for each IFR card payment system. The relevant time periods are those to be taken into account when calculating the PSR IFR fees applicable for 2017/18 to individual participants. For future years, any reference to days in 2016 should be read as a reference to the calendar year immediately preceding the relevant fee year.
- 5.2** For each of the card payment systems below, the following definitions and methodologies apply:
- a) **'Transactions by acquirers and card issuers operating in the UK'** means:
 - On the acquiring side:
 - o All transactions acquired by UK-based acquirers (or operator acting as such an acquirer) resulting in payments to merchants located in the UK, and where the card issuer is located in the EEA
 - o All transactions acquired by UK-based acquirers (or operator acting as such an acquirer) resulting in payments to merchants located outside the UK, and where the card issuer is located in the EEA
 - o All transactions acquired by EEA-based acquirers (based outside the UK) (or operator acting as such an acquirer) resulting in payments to merchants located in the UK, and where the card issuer is located in the EEA
 - On the issuing side: all transactions on cards issued by UK-based card issuers (or operator acting as such a card issuer), where the acquirer is located in the EEA
 - b) **All transactions** by acquirers or card issuers operating in the UK, or the operator acting as such an acquirer or card issuer, under the relevant card payment systems are taken into account, including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards (such as buying foreign currency at a bureau de change or getting cashback when buying groceries at a supermarket), but excluding cash-only withdrawals (such as from ATMs or over the counter).
 - c) There is a **minimum transaction volume threshold** for each of the IFR card payment systems. This means an acquirer or card issuer operating in the UK is not required to pay a PSR fee in the given fee year, and the UK transaction volumes that they realise are to be excluded from the total transaction volumes under each IFR card payment system used for fee calculation purposes, if:
 - any such PSP has acquired and issued fewer than 100,000 relevant UK transactions in the relevant time period, or
 - the PSR fee it would normally pay, as calculated according to the fees rules, would be less than £50 for the current fee year if the minimum transaction volume threshold was not applied
 - d) Where an **IFR card payment system is exempt** from paying a PSR fee in a given fee year under our three-tier approach, the UK transaction volumes relating to that card system are not taken into account for fee calculation purposes.

5.3 The 2017/18 PSR fee calculation methodologies for each IFR card payment system are set out below:

- a) **American Express (AmEx):** The PSR fee to be recovered from individual acquirers and card issuers operating in the UK that are members or licensees of the AmEx card payment system, or from the operator where it is acting as such an acquirer and/or card issuer in the UK, will be calculated proportionally to the transaction volumes issued and acquired on behalf of that acquirer, card issuer or operator acting as such an acquirer or card issuer under the AmEx card payment system in the UK during the relevant time period. For the year 2017/18 the relevant time period for transaction volumes issued and acquired under the AmEx card payment system in the UK is between 1 January and 31 December 2016. All AmEx-branded transactions are included irrespective of the processing entity (AmEx itself, a third party processing entity or 'on us' transactions).

If all individual acquiring and card-issuing PSPs operating in the UK under the AmEx card payment system fall below the minimum transaction volume threshold in a given fee year, the PSR fee will be payable by the AmEx operator.

- b) **Diners Club International:** The PSR fee to be recovered from individual acquirers and card issuers operating in the UK that are members or licensees of the Diners Club card payment system, or from the operator where it is acting as such an acquirer and/or card issuer in the UK card payment system, will be calculated proportionally to the transaction volumes issued and acquired on behalf of that acquirer, card issuer or operator under the Diners Club card payment system in the UK during the relevant time period. For the year 2017/18 the relevant time period for transaction volumes issued and acquired under the Diners Club payment system in the UK is between 1 January and 31 December 2016. All Diners Club-branded transactions are included irrespective of the processing entity (Diners itself, a third party processing entity or 'on us' transactions).

If all individual acquiring and card-issuing PSPs operating in the UK under the Diners Club card payment system fall below the minimum transaction volume threshold in a given fee year, the PSR fee will be payable by the Diners Club operator.

- c) **JCB International:** The PSR fee to be recovered from individual acquirers and card issuers operating in the UK that are members or licensees of the JCB card payment system, or from the operator where it is acting as such an acquirer and/or card issuer in the UK will be calculated proportionally to the transaction volumes issued and acquired on behalf of that acquirer, card issuer or operator under the JCB card payment system in the UK during the relevant time period. For the year 2017/18 the relevant time period for transaction volumes issued and acquired under the JCB card payment system in the UK is between 1 January and 31 December 2016. All JCB-branded transactions are included irrespective of the processing entity (JCB itself, a third party processing entity or 'on us' transactions).

If all individual acquiring and card-issuing PSPs operating in the UK under the JCB card payment system fall below the minimum transaction volume threshold in a given fee year, the PSR fee will be payable by the JCB card payment system.

- d) **MasterCard:** The PSR fee to be recovered from individual acquirers and card issuers operating in the UK that are members or licensees of the MasterCard card payment system, or from the operator where it is acting as such an acquirer or card issuer in the UK, will be calculated proportionally to the transaction volumes issued and acquired on behalf of that acquirer, card issuer or operator under the MasterCard card payment system in the UK during the relevant time period. For the year 2017/18 the relevant time period for transaction volumes issued and acquired under the MasterCard card payment system in the UK is between 1 January and 31 December 2016. All MasterCard-branded transactions are included irrespective of the processing entity (MasterCard itself, a third party processing entity or 'on us' transactions).

- e) **Union Pay International (UPI):** The PSR fee to be recovered from individual acquirers and card issuers operating in the UK that are members or licensees of the UPI card payment system, or from the operator where it is acting as such an acquirer or card issuer in the UK will be calculated proportionally to the transaction volumes issued and acquired on behalf of that acquirer, card issuer or operator under the UPI card payment system in the UK during the relevant time period. For the year 2017/18 the relevant time period for transaction volumes issued and acquired under the UPI card payment system in the UK is between 1 January and 31 December 2016. All UPI-branded transactions are included regardless of the processing entity (UPI itself, a third party processing entity or 'on us' transactions).

If all individual acquiring and card-issuing PSPs operating in the UK under the UPI card payment system fall below the minimum transaction volume threshold in a given fee year, the PSR fee will be payable by the UPI operator.

- f) **Visa Europe:** The PSR fee to be recovered from individual acquirers and card issuers operating in the UK that are members or licensees of the Visa card payment system, or from the operator where it is acting as such an acquirer or card issuer in the UK, will be calculated proportionally to the transaction volumes issued and acquired on behalf of that acquirer, card issuer or operator under the Visa system in the UK during the relevant time period. For the year 2017/18 the relevant time period for transaction volumes issued and acquired under the Visa regulated payment system in the UK is between 1 January and 31 December 2016. All Visa-branded transactions are included irrespective of the processing entity (Visa itself, a third party processing entity or 'on us' transactions).

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