



Market review into the ownership  
and competitiveness of  
infrastructure provision

PSR MR15/2.1

# Terms of reference

June 2015

**The Payment Systems Regulator is the economic regulator for the £75 trillion payment systems industry in the UK. Our purpose is to make payment systems work well for those that use them.**

We have three statutory objectives that underpin everything we do. In summary these are:

- to ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use payment systems and the services they provide;
- to promote effective competition in the markets for payment systems and services - between operators, PSPs and infrastructure providers; and
- to promote the development of and innovation in payment systems, in particular the infrastructure used to operate those systems.

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This market review will be of interest to organisations and individuals within the payments industry, especially those that are providers or users of infrastructure services, as well as anybody with an interest in how payment systems work.

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# 1 Introduction

## Background to the infrastructure market review

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- 1.1 In November 2014 the Payment Systems Regulator (PSR) consulted on its proposals for a new regulatory framework for payment systems in the UK. As part of this consultation, we said that it was important for UK payment infrastructure to be able to support new developments and innovations. We announced we would carry out a market review into the ownership structures of, and competition in, the provision of payment systems infrastructure.<sup>1</sup>
- 1.2 In March 2015 we published the draft terms of reference for the market review<sup>2</sup> which focused on the provision of infrastructure services to interbank payment systems and asked for feedback to help determine its scope.<sup>3</sup> We received 11 submissions many of which were supportive of the review. We have taken these submissions into account in considering what action by us is appropriate and when finalising these terms of reference.
- 1.3 Having considered the responses to the consultation on the draft Terms of reference we have decided to precede with a market review of the supply of infrastructure services.<sup>4</sup>
- 1.4 This document sets out the terms of reference, outlines our anticipated work programme and what could happen as a result of the review. It also explains how this market review and other work (past and anticipated) form part of the PSR's programme of work. In Appendix 1 we set out an indicative timetable for the review and in Appendix 2 we summarise the responses to the consultation received.

## Scope of the Infrastructure Market review

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- 1.5 This review will consider whether the current provision of infrastructure services in UK interbank payment systems delivers a good outcome for service-users. In particular the key question we intend to explore is:
- Is competition effective in the provision of infrastructure services related to interbank payment systems and, if not, what are the reasons for this?
- 1.6 We may then in considering this question also assess:
- How do the current ownership arrangements of infrastructure providers affect competition in the provision of infrastructure services related to interbank payment systems?
  - Are there any barriers to effective competition?
  - What is the likelihood of entry or expansion in respect of the provision of infrastructure services?

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<sup>1</sup> Page 24, paragraphs 61-63, PSR CP14/1 'A new regulatory framework for payment systems in the UK', November 2014.

<sup>2</sup> Market reviews and market studies are the principal ways in which the PSR investigates how well the market for payment systems, or the markets for services provided by payment systems, is working for those who use, or are likely to use, those services ("service-users"). We may conduct market reviews using our information gathering power under section 81 of the Financial Services (Banking Reform) Act 2013 ("FSBRA") or we may conduct market studies under our concurrent functions and the provisions of the Enterprise Act 2002 ("EA02"). We see FSBRA market reviews as one of our tools for advancing our statutory competition, innovation and service-user objectives.

<sup>3</sup> PSR MR15/2 Market review into the ownership and competitiveness of infrastructure provision - draft Terms of Reference, March 2015

<sup>4</sup> For meaning of "infrastructure services" see section 2.

- Are there any efficiencies resulting from the present ownership arrangements or from other factors, and how these could be affected if there were greater competition?
- How does demand from interbank payment system operators as customers of infrastructure services providers, demand from PSPs as customers of interbank payment system operators, and demand from ultimate end-users of interbank payment systems, affect competition in the provision of infrastructure services related to interbank payment systems?
- What could be the benefits of greater levels of competition in the provision of infrastructure services in interbank payment systems?

1.7 This review is focused on the supply of infrastructure services related to interbank payment systems. In particular we are focusing on Bacs, FPS, and LINK.

## **How payment systems work and why infrastructure is important**

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1.8 Payment systems form a vital part of the UK's financial system. They underpin the services that enable funds to be transferred between people and institutions.

1.9 They are run by payment systems operators, but it is payment service providers (PSPs) that offer payment services to individuals, firms and other organisations. PSPs are the organisations that provide a way for businesses, like shops or restaurants, to accept electronic payments, such as paying by debit card, credit card or cheque as well as enabling businesses and individuals to make payments.

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

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

1.11 Each payment system has its own operator to run the payment system and a separate company or membership organisation (although different combinations of the same set of banks and building societies own or control each of the interbank payment systems). Payment systems are the system of rules, as determined collectively by member organisations, that govern how a particular system

of payments is administered, how payments are processed, and the criteria potential members need to meet to become members.

1.12 Among their functions the operators of the payment systems are responsible for procuring the underlying infrastructure that is used to process the payments. These are provided by separate organisations, examples of these include VocaLink, IPSL, HPES, Visa and MasterCard. The figure provides an overview of the structure of the supply chain for payment services.

**Figure 1: Payment Services**



\* Many businesses connect directly into the clearing functions for Bacs and FPS, but this is not represented on this simplistic diagram.

1.13 The payment systems infrastructure is essentially the hardware, software, secure telecommunications network and operating environments that are used to manage and operate payment systems. The infrastructure is important because it supports the clearing and/or settlement of a payment or funds transfer request after it has been initiated. This market review is focused upon the supply of infrastructure services in relation to interbank payment systems.

## Why are we conducting this review?

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- 1.14 We have a statutory objective to promote effective competition in the markets for payment systems and for the services provided by those systems, including between operators, PSPs and infrastructure providers. This review will focus on infrastructure providers.
- 1.15 In March 2014 the Financial Conduct Authority (FCA) issued a Payment Systems Regulation Call for Inputs<sup>5</sup>. Responses identified a wide range of concerns with UK payment systems in the UK. This included: concerns related to access to payment systems, the scope for industry collaboration, widespread networks of overlapping vertical relationships and common ownership within the payment systems. This also included its effects on incentives to innovate and compete, as well as concerns related to the governance of UK payment systems and infrastructure providers. Some concerns were also raised around the ability of smaller PSPs and minority stakeholders to influence the decisions of governing boards of payment systems.
- 1.16 Our consultation document and subsequent policy statement published in March 2015 set out our early priorities for action and our regulatory approach to the wide range of concerns raised<sup>6</sup>. This review was one of these priorities, having been prompted by concerns raised by stakeholders during the earlier consultations. These concerns included those relating to the overlapping vertical relationships and common ownership and its effects on incentives to compete.
- 1.17 Currently, a small number of firms jointly own or control the BACs, Faster Payments, the LINK systems and the central infrastructure for these systems. These arrangements are perceived to have resulted in the development of relatively robust and resilient payment systems and may provide incentives to keep infrastructure services costs down. However, concerns have been raised that they may also enable some PSPs to exert greater influence over infrastructure development and operation in a way that is in their own interests rather than in the interests of other service-users.
- 1.18 These concerns were similar to those raised in other previous studies that have looked at UK payment systems.<sup>7</sup>
- 1.19 We have sought to address some of the concerns that relate to the functions of operators already through our general directions on operators of the interbank payment systems. These include:
- a. General direction 4 requiring interbank operators (except Northern Ireland Cheque Clearing (NICC)) to ensure appropriate representation of service-users' interests in the decision-making processes of their governing bodies.
  - b. General direction 5 requiring interbank operators (except NICC) to ensure any individual acting as director of an operator must not simultaneously act as a director of a central infrastructure provider to the payment system. This is to address any potential conflict of interest which could stand in the way of new competing and innovative infrastructure providers having a fair opportunity to bid and win contracts and to not distort the competitive tendering process.
  - c. General Direction 6 requiring interbank operators (except NICC) to publish minutes of their governing body, including votes. We expect this increased transparency about decision-making will enable service-users to assess whether interbank operators are appropriately considering their interests when taking decisions.
- 1.20 This market review will focus on providers of infrastructure services. Our review will explore how the ownership arrangements and vertical relationships of interbank infrastructure providers affect decision making.

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<sup>5</sup> FCA, Payment Systems Regulation, Call for Inputs, March 2014

<sup>6</sup> PSR CP14/1, A new regulatory framework for payment systems in the UK, November 2014.

<sup>7</sup> These include the Cruickshank review in 2000, to the OFT Payments task Force, the Cave review of the Payments Council in 2012 and more recently the Treasury consultation in 2013.



- 1.21 We recognise that some concerns raised in response to the draft ToR are broader than the provision of infrastructure services for example an assessment of whether operators compete. The PSR will take these concerns into account when considering what further future work by it is appropriate.
- 1.22 We have also recently launched a market review into indirect access,<sup>8</sup> and are also continuing to monitor the development of technical access solutions within the regulated payment systems<sup>9</sup>. Issues to do with access solutions and gateway services provision are of relevance to both of the reviews and our work on this will feed through into both reviews.

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<sup>8</sup> PSR MR15/1.1 'Market review into the supply of Indirect access to payment systems - Terms of Reference' May 2015.

<sup>9</sup> For further information see page 52 to 54 PSR PS 15/1: A new regulatory framework for payment systems in the UK, March 2015

## 2 Scope of the review

### What does this review cover?

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- 2.1 This review will consider the supply of infrastructure services provided related to interbank payment systems.
- 2.2 The review will focus on the infrastructure services that enable the clearing of payments. Clearing is the process that transmits, reconciles and in some cases confirms a payment instruction or transfer order (i.e. a promise to pay someone). We will also look at other infrastructure services that are provided at the boundary between PSPs and clearing functions, namely:
- provision of databases services - such as the bank reference data, customer reference and extended industry sort code database which include data needed to be able to validate and route payments in the correct way
  - communication channels services – ranging from standard telecommunication lines to more complex channels such as the Enhanced and SWIFT Transmissions Services (ETS and STS)
  - gateway services – gateways are typically the entry point to the communication channel between the PSP (or any third party service provider such as a bureau) and the central clearing infrastructure
  - accreditation services – where individual providers are approved to deliver particular functions within the payment systems
  - other services between central clearing functions and direct PSPs.
- 2.3 The review will cover other aspects of infrastructure services in interbank payment systems. These include services provided by providers of central clearing services on behalf of PSPs, such as ATM managed services and other similar services.
- 2.4 In this review we do not intend to cover on the following areas:
- The provision of infrastructure services related to settlement. Primarily, the Bank of England provides settlement services for payment systems, although in some cases commercial banks provide them. We will continue to engage with the Bank of England about the settlement services it provides for multiple regulated payment systems. We are not aware of concerns associated with settlement through commercial banks from the perspective of ownership or competition.
  - The provision of communication channel services between settlement services and central clearing functions. For example, we will not look at the provision of SWIFT messaging services between the Bank of England and either the central clearing function (for deferred net settlement systems) or direct PSPs (for CHAPS). Few concerns have been highlighted to us about the provision of these services.
  - Infrastructure within direct PSPs. For example, we do not intend to examine issues such as the detailed construction of PSPs' internal banking and payment IT systems. Similarly, we do not

intend to focus on areas such as internet or banking applications which are used by consumers and other service-users to initiate payment instructions.

2.5 The emphasis of our review will be on those services related to Bacs, Faster Payments Scheme (FPS) and LINK for the following reasons:

- CHAPS. As this review is not covering settlement services, there will be fewer infrastructure services provided in CHAPS that will be covered in this review than those provided in the other interbank payment systems.
- C&C/NICC. Cheque imaging is expected to bring a new model for infrastructure provision within two years. A detailed analysis of the current models used to support C&C and NICC may be of limited value. We will, however, continue to engage with the industry over the development of the future clearing model for cheque imaging. For our greater understanding for the purposes of this review, we may explore the present governance arrangements and seek to draw insights from the ongoing procurement process.
- MasterCard and Visa Europe (Visa). We expect to become the competent authority for various parts of the EU Interchange Fee Regulation and have started a separate programme of policy work around card payment systems. Moreover, many of the issues and concerns in respect of card systems will be addressed under that regulation. We will, however, consider how providers of infrastructure within the MasterCard and Visa systems are relevant to the analysis of competition in infrastructure underlying the Bacs, FPS and LINK systems. For example, we will consider the extent to which they provide or may provide a competitive constraint for infrastructure provision to other payment systems.

## Key questions that we will explore during the review

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2.6 There are seven key questions our market review will address.

### I. Is competition effective in the provision of infrastructure services in interbank payment systems, and if not, what are the reasons for this?

We will explore whether there is effective competition in the provision of infrastructure services. This will include both competition for contracts to provide payment system infrastructure services to operators as well as competition between infrastructure providers to provide other related services. In answering this question we will seek to explore what the outcomes of this might be for service-users.

### II. How do the current ownership arrangements of infrastructure providers affect competition in the provision of infrastructure services related to interbank payment systems?

Ownership and governance arrangements of certain infrastructure providers may limit competition. In particular, VocaLink, is owned by major PSPs who collectively own/and or control various payment system operators and are also the main direct users of these systems. This may lead to distortions in competition in the provision of infrastructure services related to clearing and also between PSPs. For example, ownership and governance arrangements may limit competitive pressure and so hamper innovation or they may allow the common owners of infrastructure and interbank payment systems to influence infrastructure development in a way that may be in their own interests rather than in the interests of a wider group of service-users.

We would like to understand how changes to infrastructure are driven, how improvements are suggested and decided upon that relate to the procurement of infrastructure and what role infrastructure providers play in this process. We will therefore look at the role of interbank operators as customers of infrastructure services.

### **III. Are there are any barriers to effective competition?**

We will explore whether there are any barriers to effective competition and to do this we will explore whether there are any barriers to entry. These may be created by a number of factors which we will seek to explore, such as cost structures, switching costs, lack of interoperability, tender processes and regulation. Barriers to entry may confer market power to existing providers of infrastructure services. This could limit the competitive pressure that infrastructure providers face and so detrimentally impact price and/or innovation as providers may not be sufficiently responsive to the needs of service-users.

### **IV. What is the likelihood of entry or expansion in respect of the provision of infrastructure services?**

We will explore whether there is potential for entry of alternative infrastructure providers and what services they may provide within the supply chain. We will also consider other changes within the payments industry. For example, new technology or competition from other payment systems may affect the volume of payments transacted through interbank payment systems. In turn this may affect the appropriate form of ownership of, and competition in, infrastructure provision. We are also aware of the World Class Payments project which is being led by the Payments Council. Our review will consider any proposed developments from this, and from the new Payments Strategy Forum we are setting up.

### **V. Are there any efficiencies resulting from the present ownership arrangements or from other factors, and how these could be affected if there were greater competition?**

We will explore whether there are any benefits from the current industry structure and vertical relationships for infrastructure services. We recognise that the current arrangements are perceived to have resulted in the development of relatively robust and resilient payment systems and may provide incentives to keep infrastructure services costs down.

### **VI. How does demand from interbank payment system operators as customers of infrastructure services providers, demand from PSPs as customers of interbank payment system operators, and demand from ultimate end-users of interbank payment systems, affect competition in the provision of infrastructure services related to interbank payment systems?**

Well-functioning, competitive markets are characterised by active and informed customers. Active customers exert pressure on firms to improve their product and service offerings. Informed customers ensure that consumers are more likely to receive services that they need, and less likely to be inefficiently supplied services from which they do not benefit. This activates competition by rewarding those providers that deliver the best services that most suit their needs. Ultimately, empowered customers and open competition drive innovation and productivity.

We will explore how operators as customers of infrastructure exercise choice of infrastructure providers and how this affects competition for infrastructure provision.

### **VII. What could be the benefits of greater levels of competition in the provision of infrastructure services in interbank payment systems?**

We will explore how greater levels of competition in the provision of infrastructure services may affect service-users. By competition we mean both competition for contracts to provide payment system infrastructure services as well as alternative models of competition, for example having more than one infrastructure provider provide certain services. We will also seek to explore how this may affect competition in related services (for example gateway services) and the incentives for innovation.

The provision of certain infrastructure services may lead to a firm being able to expand its reach into other adjacent, or related, markets. This might limit the opportunity for alternative providers

to deliver services in adjacent markets as well as making it more difficult to change providers. For example, providing central clearing services may convey an advantage in related markets, such as for the provision of gateway services.

### **Possible outcomes of the review**

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- 2.7 We have not reached any views about whether the current provision of infrastructure services related to interbank payment system is, or is not, delivering a good outcome for service-users. Any recommendations we make will be based on the evidence we will gather and the analysis we carry out.
- 2.8 The market review will consider the appropriateness of the use of any of our wider regulatory and/or competition powers to address any concerns we identify. Possible outcomes of our review include any combination of the following:
- making new, or amending existing, directions
  - making directions on specific participants or categories of participants, including in relation to governance arrangements of infrastructure providers
  - requiring the disposal of all or part of an interest in an infrastructure providers in relation to a regulated payment system
  - making recommendations for further industry initiatives or enhanced industry self-regulation
  - making proposals to the Bank of England, FCA or Prudential Regulation Authority as appropriate
  - publishing guidance
  - asking the Competition and Markets Authority to consider investigating the market(s)
  - taking no further action at this time.

## 3 Next steps

### Feedback

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- 3.1 Following publication of the terms of reference, we will initiate the information gathering phase of the review to collect further evidence and information from key stakeholders.
- 3.2 As well as examining existing research and analysing information that we already hold, we plan to collect additional information from market participants. We will engage with operators, existing and potential providers of infrastructure services, PSPs and service-users over the coming months. We will use a variety of methods for this engagement including but not limited to: interviews, roundtables and site visits. We expect to gather evidence through the use of specific surveys and requests for detailed information from some participants.
- 3.3 We may publish more details on the key questions set out above where it is helpful for stakeholders or to provide transparency on the progress of the review.

### We welcome input to this review

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- 3.4 We welcome views and evidence which will help to inform our assessment of the key questions outlined in this Terms of reference. Please send your comments to [infrastructurereview@psr.org.uk](mailto:infrastructurereview@psr.org.uk).

Or in writing to:

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### Disclosure of information

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- 3.5 Generally we will seek to publish views or submissions in full or in part. This reflects our duty to have regard to our regulatory principles, which include those in relation to:
- publication in appropriate cases, and
  - exercising our functions as transparently as possible.
- 3.6 As such, we would ask respondents to minimise those elements of their submission which they wish to be treated as confidential – we will assume consent for us to publish material which is not marked as confidential. If respondents include extensive tracts of confidential information in their submissions, we would ask that they submit non-confidential versions which they consent for us to publish. We will also not accept blanket claims of confidentiality, and will require respondents to identify specific information over which confidentiality is claimed, and to explain the basis on which confidentiality is sought.

- 3.7 Respondents should note that we will not disclose confidential information that relates to the business or affairs of any person, which we receive for the purposes of our functions under FSBRA, unless:<sup>10</sup>
- the information is already lawfully publicly available
  - we have the consent of the person who provided the information and, if different, the person to whom it relates
  - the information is published in such a way that it is not possible to ascertain from it information relating to a particular person (for example, if it is anonymised or aggregated), or
  - there is a 'gateway' permitting this disclosure. Among the gateways is the 'self-help' gateway whereby the PSR will be able to disclose confidential information to third parties to enable or help it to perform its public functions. Those receiving information disclosed under the gateway are still bound by the confidentiality regime.
- 3.8 Respondents should note that we have statutory powers under FSBRA to require a person to provide information or documents which we require in connection with our functions.<sup>11</sup> In such circumstances, respondents should note that there are serious consequences for them if they then provide false or misleading information or fail to comply with a requirement:
- a. Section 90(6) FSBRA states: *"It is a criminal offence, when, in response to a written requirement to provide information under section 81(1) FSBRA, a person either provides information which he or she knows is false or misleading in a material particular or recklessly provides information which is false or misleading in a material particular."*
  - b. Sections 90(1) and (2) FSBRA state: *"A person who fails to comply with a requirement imposed, without reasonable excuse, including a requirement to provide information, may be dealt with as if he or she were in contempt of court, which may result in imprisonment or a fine."*

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<sup>10</sup> The Gateways are set out in the Financial Services (Banking Reform) Act 2013 (Disclosure of Confidential Information) Regulations 2014, S.I. 2014/882

<sup>11</sup> Section 81(1) FSBRA

## Appendix 1 – Indicative timetable for the review

The table below represents our currently proposed timetable for the market review. In the event that we have cause to alter the timetable, a revised timetable will be made available on the PSR website.

Phase	Month	External engagement
Pre-Launch	November 2014 – May 2015	November 2014 consultation
Launch	March 2015 – April 2015	Consultation on draft terms of reference
	June 2015	Publish Terms of reference
Information gathering	July 2015 – August 2015	Request for information to infrastructure providers, PSPs and operators
	August/September 2015	Receipt of responses to request for information
	August/September 2015	Potential follow up questions from the Information request for clarification
	July 2015 – September 2015	Stakeholder meetings
	August 2015 – December 2015	Ongoing analysis of evidence and information gathered during information gathering phase
Interim report Consultation	January/February 2016	Publish interim report for consultation
	March/April 2016	Close of consultation
Final report	May/June 2016	Publish final report
Remedies/actions	June 2016 –September 2016	Formulation of and consultation on any proposed remedies/actions
	November 2016	Publish notification of decision on proposed action



# Appendix 2 – Main points raised in submissions to the consultation

## Summary of Responses

- 4.1 We received 11 responses from stakeholders across PSPs, infrastructure providers, industry bodies and individuals.
- 4.2 A number of respondents asked that we broaden the scope of the review as this will allow for a holistic examination of ownership and competition issues. However, each of these stakeholders proposed different areas to be included in the scope.
- 4.3 Several respondents noted that some or all of the other payment systems should be included – particularly the card systems as they provide a level of competition for the payment systems currently within the scope of the review. A stakeholder added that the rationale given in the draft terms of reference for excluding certain payment systems was not sufficient.
- 4.4 Some stakeholders suggested that the review should consider the ownership and governance of the payment system operators because they play a significant role in how infrastructure is utilised.
- 4.5 Another stakeholder asked that non-clearing functions be brought into the scope, and some other respondents noted that the review should consider the entire value chain from end-to-end for a more complete analysis of competition and innovation in infrastructure provision. One respondent suggested this include an assessment of the extent to which operators compete and/or an assessment of whether schemes should be consolidated.
- 4.6 There were also requests for clarification of the definitions used in the draft terms of reference. A few stakeholders noted that we should clarify that the review will consider the governance and control of infrastructure providers and operators, in addition to ownership, as this is what drives the decision-making of these companies. Another respondent highlighted that we should clarify that PSPs do not own the operator of Bacs as the company is limited by guarantee. One stakeholder asked that we confirm that gateways within banks' internal infrastructure are not included in the scope.
- 4.7 It was also suggested that the definition of infrastructure should be amended to cover the transfer of funds between PSPs, rather than between end users, given banks' internal infrastructure are not captured in the scope. Another respondent noted that we should clarify that infrastructure providers should be responsive to the needs of its customers (i.e. the operators) rather than service-users more broadly.
- 4.8 A few respondents stated that the review should consider recent developments in payment systems and PSR initiatives (such as technical access solutions and our regulatory directions). One of these respondents added that the review should wait until our directions on interbank operators' governance have had time to take effect. A stakeholder also suggested the review consider evidence from other sectors where similar issues have arisen (e.g. the airline industry).

## Our response

- 4.9 We have retained the scope of the review proposed in our draft terms of reference, while clarifying and responding to stakeholders' consultation responses. We believe that this market review should be focussed, rather than attempting to look at all aspects of payment systems.

- 4.10 In particular, the focus of our market review remains the infrastructure related to UK interbank payment systems for the reasons given in paragraphs 2.5. Our review will nevertheless consider the extent to which MasterCard or Visa and any other infrastructure providers currently act or may act as a competitive constraint on VocaLink as a supplier of payments infrastructure.
- 4.11 We recognise that a wide range of concerns have been raised across the value chain, but we will not extend the scope of our review to include all parts of the value chain. Payment systems have long and complex value chains. Therefore we want to focus our resources on analysing the areas of the value chain where issues have been identified by stakeholders. In paragraph 2.4 of the terms of reference, we note that few issues have been raised with regard to the ownership and competition of infrastructure provision in settlement services, settlement communication channels and direct PSP's internal infrastructure.
- 4.12 In the review, we will consider the payments operators in the review to the extent that they are customers of central infrastructure services. How do their decisions about procurement and the use of infrastructure affect the way infrastructure providers compete? Nevertheless, we will consider the broader governance and ownership of the payment system operators as part of our wider policy programme.
- 4.13 We do not believe we should delay resolving the separate question of whether there is a need for regulatory intervention in the market for infrastructure provision. Postponing such a review to wait for the directions to take effect may prolong regulatory uncertainty.
- 4.14 We will not, as part of this review, examine the merits or the scope of competition between payment systems. These are important questions that we are considering as part of our wider work programme, but are outside the scope of this review.
- 4.15 We have also sought to clarify definitions and concerns or questions used in the draft terms of reference where parties raised concerns. We will consider governance and control of infrastructure provision, as well as ownership. We confirm that the gateways (or platforms) that are part of the banks' internal infrastructure and not used to connect to central clearing functions are outside the scope of the review. We disagree with the need to change our definition of infrastructure, which is a general definition. Nor do we believe that we should limit our review to looking at how infrastructure providers meet the needs of the operators. One of our statutory objectives is to promote the interests of service-users and to promote competition in the provision of payment systems infrastructure, so we are keen to understand whether greater levels of competition between infrastructure providers might affect service-users.
- 4.16 We will consider relevant developments and other changes within the payments industry, as noted in paragraphs 2.6 of the terms of reference. For our analysis, we may draw on comparisons with international payment systems or other sectors, to the extent that they are relevant.

## Appendix 3 – Glossary

Term or acronym	Description
<b>ATM (Automated Teller Machine)</b>	A device that enables users, typically using machine-readable plastic cards, to withdraw cash from their accounts and/or access other services.
<b>ATM deployer</b>	A company which owns and operates ATMs.
<b>ATM managed services</b>	A commercial solution provided to companies, e.g. independent ATM deployers, who wish to operate over the LINK regulated payment system, but who want to outsource their ATM network requirements.
<b>Bacs</b>	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).
<b>Bank reference data</b>	Information related to banks and building societies and how they participate in the regulated Bacs, C&C, CHAPS and FPS payment systems. The information is used primarily for payment validation, routing, and to generate data extracts (e.g. EISCD) and reports.
<b>C&amp;C (Cheque and Credit)</b>	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).
<b>Card (payment) system</b>	A payment system that enables a holder of a payment card to effect a payment. The regulated card payment systems that have been designated by the Treasury are MasterCard and Visa.
<b>Central clearing</b>	The process that transmits, reconciles and in some cases confirms a payment instruction or transfer order (i.e. a 'promise' to pay someone), potentially including the netting of transfer orders and the establishment of final positions for settlement. Once a payment transaction is cleared, the funds are settled.
<b>Central infrastructure</b>	A package of systems and services, comprising hardware and software, provided under contract to an operator for the purposes of operating the relevant regulated payment system, including the processing of funds transfers.
<b>Central infrastructure provider</b>	An infrastructure provider who provides central infrastructure to an operator under a contract.
<b>CHAPS (Clearing House Automated Payment System)</b>	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.
<b>Communication channels</b>	The infrastructure that enables messaging between PSPs and the central clearing infrastructure. For example, the secure networks, message protocols and transmission services such as Enhanced Transmissions Services (ETS) and SWIFT Transmissions Services (STS).

<b>Consultation paper CP 14/1</b>	PSR CP 14/1, <i>A new regulatory framework for payment systems in the UK</i> , November 2014.
<b>Customer reference data</b>	Information related to end-users who participate in one or more of Bacs, Cash ISA Transfer (CISA), Current Account Switch Service (CASS) and/or FPS.
<b>Direct access</b>	<p>A PSP has direct access to a regulated payment system if the PSP is able to provide services for the purposes of enabling the transfer of funds using that payment system as a result of arrangements made between the PSP and the operator (see also s.42(6) FSBRA).</p> <p>For the purposes of this terms of reference, 'arrangements' refers to the following:</p> <ul style="list-style-type: none"> <li>in the case of Bacs, C&amp;CC, CHAPS and FPS the arrangements are made between the PSP, the other existing direct PSPs and the operator.</li> <li>in the case of LINK (and because of LINK's particular organisation model), the arrangements are those made between the PSP, the other existing direct PSPs and the infrastructure provider to the LINK payment system (VocaLink).</li> </ul>
<b>Direct PSP</b>	A PSP that has direct access to a regulated payment system.
<b>End-user</b>	A consumer or business who wishes to make a payment (a payer) or receive a payment (a payee).
<b>Extended Industry Sort Code Database</b>	A database that contains payments related information for banks and building societies that participate in the regulated Bacs, C&C, CHAPS and FPS payment systems. This information includes the sort code (a six digit number used for the purpose of routing payments) and branch details of the financial institutions connected to certain payment systems.
<b>FPS (Faster Payments Scheme)</b>	The regulated payment system that provides near real-time payments as well as Standing Orders. It is operated by Faster Payments Scheme Limited (FPSL).
<b>Future clearing model</b>	The programme to implement a 'cheque imaging' model, which would mean that images of cheques are exchanged between the relevant banks, removing the need for the actual paper cheque to be transported physically around the country.
<b>Gateway</b>	The infrastructure that enables the transformation, authorisation, and routing of payment instructions to and from the central clearing infrastructure.
<b>IFR (Interchange Fee Regulation)</b>	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 on 19 May 2015.
<b>Indirect access</b>	For the purposes of this terms of reference, a PSP has indirect access to a payment system if it has a contractual arrangement with a direct PSP to enable it to provide payment services (for the purposes of enabling the transfer of funds using that payment system) to its customers.
<b>Infrastructure</b>	The hardware, software, connections and operating environments that support the clearing and/or settlement of a payment or funds transfer request after it has been initiated

<b>Infrastructure provider</b>	Any person who provides or controls any part of the infrastructure used for the purposes of operating a payment system (see also s.42(4) FSBRA).
<b>Interbank operator</b>	An operator of an interbank payment system.
<b>Interbank (payment) system</b>	The regulated Bacs, C&C, CHAPS, FPS, LINK and NICC payment systems (i.e. it does not include card payment systems).
<b>LINK</b>	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.
<b>NICC (Northern Ireland Cheque Clearing)</b>	The regulated payment system in Northern Ireland that processes cheques and other paper instruments. It is operated by Belfast Bankers' Clearing Company Ltd.
<b>Operator (payment system operator)</b>	In relation to a payment system, an operator means any person with responsibility under the system for managing or operating it; and any reference to the operation of a payment system includes a reference to its management. (See also s.42(3) FSBRA).
<b>Participants in payment systems</b>	This includes operators, PSPs and infrastructure providers. (See also s.42(2) FSBRA).
<b>Payment system</b>	A payment system is a system which is operated by one or more persons in the course of business (for the purpose of enabling persons to make transfers of funds), and includes a system which is designed to facilitate the transfer of funds using another payment system. Only payment systems which are designated by the Treasury are 'regulated payment systems'. (See also s.41 FSBRA).
<b>Policy statement PS 15/1</b>	PSR PS 15/1: <i>A new regulatory framework for payment systems in the UK</i> , March 2015.
<b>PSP (payment service provider)</b>	A PSP, in relation to a payment system, means any person 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 payment system. For the purposes of this terms of reference, this includes direct PSPs and indirect PSPs. (See also s.42(5) FSBRA).
<b>PSR</b>	Payment Systems Regulator.
<b>Service-user</b>	Service-user means those who use, or are likely to use, services provided by payment systems.
<b>Settlement</b>	The discharge of obligations in respect of funds owing between two or more participants in a payment system.
<b>Technical access</b>	The manner in which a PSP technically connects with either a payment system infrastructure provider, an operator, a provider of indirect access, or a third-party service provider in order to enable the transfer of funds. For the purposes of this terms of reference, technical access does not include the settlement of funds.

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