Payment Systems Regulator

Policy statement
and consultation paper

Decision to revoke Specific Direction 3 and consultation on revoking Specific Direction 2

May 2025

PS25/4

Contents

1 Executive summary

1.1 Specific Direction 3 (SD3) requires that all central infrastructure for Faster Payments in place on or after 1 July 2026 is provided under a contract that was the result of competitive procurement. As the operator of Faster Payments, Pay.UK is legally bound by these requirements.

1.2 Pay.UK's approach to complying with SD3 was to competitively procure the central infrastructure for the New Payments Architecture (NPA). Established in 2017 by the Payments System Forum, the NPA programme was the payments industry's proposed way of organising the clearing and settlement of most UK interbank payments in the future.

1.3 However, the circumstances surrounding the NPA programme have significantly changed. This means that Pay.UK is unable to meet its obligations under SD3. This is outside of Pay.UK's control.

1.4 As a result, in December 2024, we published our consultation on amending SD3. We proposed:

- Removing the deadline by which all Faster Payments transactions must be processed over competitively procured infrastructure, and replacing it with the ability to notify Pay.UK of a new deadline. Any new date would not be before 1 July 2036.
- Taking into account specific criteria before setting a new date.
- Imposing a legally required non-objection decision point on Pay.UK before it enters into a new central infrastructure contract for Faster Payments or extends the existing one.
- Potential enhancements to our 2021 Regulatory Framework.

1.5 After having reviewed and analysed all responses, we have decided to revoke SD3 rather than amending it, as we originally proposed.

1.6 The National Payments Vision (NPV) tasked the PSR and the Bank of England (the Bank) with reassessing the requirements for retail payments infrastructure, and strengthen the governance and funding arrangements needed to deliver this. The decision to revoke SD3 provides the necessary space and certainty for that work to progress, with recommendations to the Payments Vision Delivery Committee (PVDC). By revoking SD3, we are providing the space and flexibility for these outcomes to materialise unencumbered by legal obligations in SD3.

1.7 Competition remains vital and is one of the three core pillars of the NPV. We will closely monitor Pay.UK and the broader payments sector to ensure that the outcomes of the PVDC's recommendations effectively support competition.

1.8 In terms of the future infrastructure, the revocation of SD3 keeps regulators' options open including advancing our regulatory interest in competition, innovation and service-users. If required, and where the evidence, analysis and regulatory strategy support it, there will still be regulatory powers available to use.

Next steps

1.9 We have decided to revoke SD3 and SD3a (which amended SD3). We have given a Specific Direction to Pay.UK to that effect. It comes into force on 21 May 2025. We have published that Specific Direction alongside this paper.

1.10 Noting that similar considerations may apply, and having received feedback in the course of this consultation, we are also considering revoking Specific Direction 2 (SD2) which concerns Bacs (and Specific Direction 2a which amended SD2). We invite views on this proposal by 5pm on 5 June 2025. You can email your comments to PSRNPA@psr.org.uk.

2 Introduction

This policy statement summarises the responses to our consultation, our views on points raised by respondents, and how we weighed the evidence and information in reaching our decision.

Background

2.1 Currently our Specific Direction 3 (SD3) requires that all central infrastructure for Faster Payments in place on or after 1 July 2026 is provided under a contract that was the result of competitive procurement. We originally gave SD3 to the operator of Faster Payments as a result of the findings of our 2016 market review[1] into the ownership and competitiveness of the infrastructure that supports three major UK interbank payment systems: Bacs, Faster Payments, and LINK.

2.2 In 2017, the Payments Strategy Forum published its blueprint for a New Payments Architecture (NPA) and proposed the creation of a new operator to deliver it. This operator became Pay.UK. Pay.UK's approach to complying with SD3 was to competitively procure the central infrastructure for the NPA.

2.3 However, the circumstances surrounding the NPA programme have significantly changed in the last two years. In March 2024, we wrote to Pay.UK recognising these changed circumstances as being: 'regulatory processes being ongoing, the uncertainty and delay created by the government announcing its intention to consider the NPA's role as part of the National Payments Vision and Pay.UK's subsequent decision to pause the NPA programme'.

2.4 Because of the changed circumstances and the resulting delay, we recognised that the current Faster Payments central infrastructure will likely be operational for significantly longer than previously expected. Pay.UK's current Faster Payments contract was last renewed to broadly align with the current SD3 deadline. There is therefore a need for action to ensure continuity of service. Pay.UK needs to extend these contracts to achieve this, and has now begun negotiations with Vocalink for the Faster Payments contract extensions.

2.5 In November 2024, the National Payments Vision (NPV) was published. It emphasised the importance of innovation, security and competition as key pillars for the payments ecosystem, underpinned by strong foundations – including an effective regulatory framework and resilient infrastructure to support innovation. It also called for 'a more agile and flexible approach to delivering the UK's infrastructure needs.'

1 PSR, *Final Report: Market review into the ownership and competitiveness of infrastructure provision* (July 2016)

2.6 The NPV also established the Payments Vision Delivery Committee (PVDC), which tasked us and the Bank with examining and refreshing the requirements for the UK's retail infrastructure, and the governance and funding arrangements needed to deliver this.

2.7 Shortly after the publication of the NPV and our response[2], which announced our intention to consult on amending SD3, Pay.UK announced the cancellation of the NPA procurement.

2.8 Subsequently, we published CP24/13[3] in December 2024, to consult on our proposed changes to SD3 in response to the change in circumstances surrounding the NPA programme. The changes we consulted on were:

- replacing the 1 July 2026 deadline in SD3 with an express reference to our ability to notify Pay.UK of a new date, and that any new date would not be before 1 July 2036
- the proposed criteria that we would take into account when deciding on a new SD3 migration deadline: (a) the needs of end users, and the economic, technological and commercial landscape; and (b) the state of the supplier market
- requiring Pay.UK to seek our non-objection before entering into a new central infrastructure contract for Faster Payments or extending the existing one
- removing reporting requirements and expanding references to the NPA to include new infrastructure and upgrades that would not otherwise be covered by the definition of NPA[4]
- potential enhancements to our 2021 Regulatory Framework in light of the change in approach to competitive procurement.

2.9 After reviewing and analysing the consultation responses, we have decided to revoke SD3 rather than amending it, as we originally proposed. Our decision is based on the feedback received from our consultation.

2.10 In parallel, as part of its Plan for Change, the government announced in March 2025 its plans to consolidate the PSR and its functions mainly within the Financial Conduct Authority (FCA). We are working with the government and the FCA as decisions are taken on the transfer of regulatory responsibilities. However, this announcement does not result in any immediate changes to our remit or ongoing work programme. We are very much committed to delivering our programme of work. We remain the UK's payment systems regulator, and we retain all of our existing powers and focus.

2.11 While our decision to revoke SD3 is not a consequence of the government's announcement, we consider that it aligns with some of the drivers for consolidation, such as simplifying the regulation of payments and taking steps to reduce the regulatory burden.

2 PSR, *The PSR's response to the National Payments Vision* (November 2024)

3 PSR, *CP24/13 - Consultation on amending Specific Direction 3* (December 2024)

4 SD3 defines the NPA as the 'proposed new architecture for certain regulated payment systems, known as the simplified payments platform, as set out in the [Payment Strategy] Forum's November 2016 document, 'A Payments Strategy for the 21st Century ''

Feedback received and our approach

2.12 We received 14 responses to the consultation. Two responses were from trade associations, three came from technology service providers, seven responses were from large payment system providers, one from an individual consumer, and Pay.UK. The non-confidential consultation responses are published alongside this publication.

2.13 For the purposes of this policy statement, we have provided a brief overview of our proposals, summarised the views of respondents by issues raised (i.e. those areas on which we received significant feedback from across respondents), and provided our response to each proposal.

3 Consultation feedback and our analysis

This chapter provides an overview of the feedback we received on our proposals, and our analysis of responses. After reviewing and analysing the consultation responses, we have decided to revoke SD3 rather than amend it. We consider this decision provides the space and certainty for work to deliver the NPV to progress unencumbered by legal obligations in SD3. In terms of our regulatory approach, it keeps our options open, allowing us to apply the most appropriate regulatory tools as needed in the future.

Our original proposal: amend SD3 to remove the current 1 July 2026 SD3 deadline and replace it with the ability to notify Pay.UK of a new deadline

3.1 In CP24/13, we proposed to give a new Specific Direction (SD3b) to vary SD3.[5] This would remove the deadline by which all Faster Payments transactions must be processed over infrastructure provided under a competitively procured contract. We proposed to replace it with express reference to our ability to notify Pay.UK of a new deadline, and that any new date would not be before 1 July 2036.

Feedback we received

3.2 We received 14 responses to this question, with general support towards revoking SD3 rather than, as we proposed, amending it. Seven responses recommended fully revoking SD3, one response agreed with our proposal to amend SD3 to remove the current deadline in SD3 and replace it with the ability to notify Pay.UK of a new date, and six responses expressed more nuanced views. These respondents with a more nuanced view suggested, for example, that we should finalise changes to SD3 once we have the recommendation of the PVDC, that SD3 and SD3a should be replaced with new Specific Directions, or saw merit in our proposal but also recognised the value in revocation.

3.3 The seven respondents recommending revoking SD3 gave several reasons, including that it would align with the NPV approach of a fresh start. Respondents argued that the PVDC should be permitted to develop the forward plan for payments infrastructure in line with the NPV and in collaboration with industry without any regulatory prejudices, perceived or actual, from the continued existence of SD3. They also expressed concerns that any reform of Pay.UK might make SD3 unnecessary and outdated.

5 The file 'Draft SD3, consolidated version (December 2024)' sets out what SD3 would look like if amended in accordance with draft SD3b.

3.4 In addition, respondents recommending revoking SD3 emphasised that it would allow the payments sector to move on from historical references and enable competition and innovation in the market through alternative means, not tied solely to competitive procurement.

3.5 As for other respondents, two of them agreed with our approach of not committing to introduce a new deadline for competitive procurement, but viewed our proposal as an interim measure while we reassess the type of regulation needed. Respondents argued that this would allow us to be informed by the NPV and the work of the PVDC, with a view towards rewriting, or revoking SD3, as the environment becomes clearer.

3.6 Another response suggested that we should wait for the PVDC to provide greater clarity on the outcomes of the upgrades to the existing infrastructure before finalising any changes to SD3. The respondent stated they understood the logic behind our proposals, but considered waiting for the PVDC would not introduce significant delays. They further emphasised the importance of keeping options open to the future, as there is no guarantee that in 10 years a central infrastructure will be the best model.

3.7 One respondent saw merit in keeping SD3 for now, but expressed concerns about the Faster Payments contract extension locking in a centralised clearing and settlement model for the longer term. The respondent emphasised the importance of ensuring that the Faster Payments contract extension keeps open the options for future infrastructure, as competition could be achieved through alternative models that do not rely on a single infrastructure provider.

3.8 Another respondent supported our proposal, but saw merit in revoking SD3 as it would provide greater regulatory certainty and would remove the current obligations in SD3. They expressed concerns that the minimum 10-year period may cause constraints as the future infrastructure develops.

3.9 One response recommended that SD3 and SD3a be replaced with new Specific Directions designed to ensure the short-, medium- and longer-term objectives are met, as established by the PVDC. The respondent viewed our proposal as necessary only to release Pay.UK from the obligations in SD3.

3.10 Finally, one respondent agreed with our proposal, arguing that the 10-year cycle is an adequate time to realise the benefits of the system upgrades to the current infrastructure, incorporating aspects of the NPV.

Our response

3.11 After analysing the consultation responses, we have decided to revoke SD3, rather than as we originally proposed, amending it.

3.12 This adjustment in our approach is based on the feedback received from the consultation responses, and a clearer understanding of the implications of the NPV on our work, providing a stronger basis for our decision. Revoking SD3 provides the necessary space and certainty for work to deliver the NPV, overseen by the PVDC. It allows us to reassess the requirements for retail payments infrastructure, and strengthen the governance and funding arrangements needed to deliver this. This decision ensures that there is space and flexibility for these outcomes to materialise unencumbered by legal obligations in SD3.

3.13 Competition remains vital and is one of the three core pillars of the NPV. We will closely monitor Pay.UK and the broader payments sector to ensure that the outcomes of the PVDC's recommendations effectively support competition. As part of our work, the PSR and the Bank will keep a close regulatory oversight of Pay.UK before it extends the current Faster Payments contract with the incumbent supplier.

3.14 In terms of the future infrastructure, this decision keeps regulatory options open. The government has confirmed that payment systems must continue to be effectively regulated. The revocation of SD3 allows regulators to consider the best approach in the future to ensure that payment systems support competition, innovation and service users. If required, and where the evidence, analysis and regulatory strategy support it, there will still be regulatory powers available to use.

3.15 Revoking SD3 will effectively remove four main requirements:

a. The competitive procurement requirement.
b. The ISO compatibility requirement (starting from the date when infrastructure must have been competitively procured, it must have ISO 20022 compliant messaging).
c. The additional functionality requirement (starting from the date when the infrastructure must have been competitively procured, it must only contain functionality beyond single push payments where we have given a non-objection to that additional functionality). We gave this non-objection for certain additional functionality which was to be procured under the NPA.
d. The requirement proposed in the consultation for a legally binding obligation on Pay.UK to seek our non-objection before entering into a new Faster Payments contract or extending the existing one.

3.16 While our decision removes these requirements, ISO20022 remains very important for us. Furthermore, we will maintain a close regulatory oversight of Pay.UK and will apply the most appropriate regulatory tools as needed, in line with our powers.

Our original proposal: require Pay.UK to seek our non-objection before extending the existing Faster Payments contract or entering a new one

3.17 In our consultation, we proposed amending SD3 to add a requirement for Pay.UK to seek our non-objection before it agrees to any new, or extended, contract for the provision of Faster Payments central infrastructure services. We also proposed to include the ability to attach conditions to our non-objection decision where necessary.

3.18 This recognised the monopoly risks arising from extending a Faster Payments contract, which has not been subject to a competitive procurement, and was aimed at ensuring that our regulatory interests were appropriately taken into account. We proposed such amendments to allow us to consider Pay.UK's mitigation of the monopoly risks arising from any Faster Payments contract extension, and help us ensure our regulatory interests are appropriately considered.

Feedback we received

3.19 We received 13 responses to this question, with seven respondents expressing concerns about the timing of our proposed approach. Respondents argued that it could introduce unnecessary delays that could potentially disrupt the negotiation timetable between Pay.UK and Vocalink for the Faster Payments contract extension, creating additional costs. They emphasised that the contract extension is time-sensitive, with the priority being ensuring continuity of service and operational resilience.

3.20 There were also concerns about the scope of our non-objection extending in areas beyond the NPA and into new infrastructure. Five responses suggested limiting our non-objection to the Faster Payments contract extension and any upgrades to the existing infrastructure, while leaving the new infrastructure to the PVDC. Respondents suggested that the future infrastructure might be outside the remit of SD3, and should instead be guided by the recommendations of the PVDC regarding its scope and purpose.

3.21 Additionally, eight responses suggested that the Bank should have a non-objection process before Pay.UK enters into a new central infrastructure contract for Faster Payments or extends the existing one.

Our response

3.22 As outlined in our response above, revoking SD3 will also remove the proposed additional legal requirement for Pay.UK to seek our non-objection before it agrees to any new, or extended contract for the provision of Faster Payments central infrastructure services. As a result, the proposed draft SD3b will not take effect, and the non-objection process we proposed in CP24/13 will not proceed as a legal obligation.

3.23 However, we will maintain close regulatory oversight of Pay.UK as it progresses with the current contract extensions and will apply the most appropriate regulatory tools if needed. Recognising the importance of service continuity, we will act within our powers to achieve our regulatory objectives, while ensuring our process is aligned with the timeline for reaching an agreement between Pay.UK and the incumbent supplier, Vocalink.

3.24 Regarding the transition to future infrastructure, revoking SD3 is intended to keep options open and allow regulators to determine the most appropriate approach at the time, regardless of where the regulatory responsibilities lie. This also ensures that the PVDC outcomes can be taken into consideration.

Our original proposal: criteria to take into account when deciding a new SD3 migration deadline

3.25 In CP24/13, we proposed certain criteria that we would take into account before deciding to notify Pay.UK of a new deadline. These would help us determine whether competitive procurement is appropriate and achievable by a certain deadline. We considered these criteria likely to be key:

- the needs of end users, and the economic, technological and commercial landscape, and
- the state of the supplier market.

Feedback we received

3.26 We received 12 responses to this question, which included suggestions such as adding the PVDC recommendations, and the needs and views of industry. There were also requests to provide more clarity on how the criteria would be assessed.

Our response

3.27 Based on our decision to revoke SD3, what we proposed in CP24/13 will no longer be necessary or applicable. Therefore, the proposed criteria are no longer relevant to our policy approach.

Our original proposal: draft SD3b

3.28 In CP24/13, we proposed introducing a new Specific Direction (SD3b) to amend SD3, which we published alongside our consultation. As part of the provisions in the draft SD3b, we proposed removing the current reporting requirements in SD3. These require Pay.UK to report quarterly on its progress with the competitive procurement. This change reflects that there would be no live deadline for competitive procurement. Additionally, we proposed not to include any specific reporting requirements if we notified Pay.UK of a new deadline.

3.29 As part of the consultation paper, we acknowledged the risk that the NPA definition is out of date. The current definition is limited to the specific proposal made by the 2016 Payments Strategy Forum.[6] To address this, we proposed expanding the definition of 'NPA' in SD3 (via SD3b) to make clear that a reference to the NPA would include any upgrades and new infrastructure that might not be covered by the 2016 definition of that term.

Feedback we received

3.30 We received 11 responses to this question, with nearly all respondents supporting our proposal to remove the reporting requirements in SD3 and to not include any reporting requirements if we notified Pay.UK of a new date.

3.31 Regarding the expanded NPA term, while the proposed drafting solution (expanded meaning of 'NPA') that we consulted on works legally, several responses said that reference to the NPA should be removed completely as it is unnecessary and out of date. Other responses also suggested an alternative definition with a more limited scope.

Our response

3.32 Based on our decision to revoke SD3, what we proposed in CP24/13 will no longer apply. This also means that the reporting requirements in SD3 would be removed.

6 SD3 defines the NPA as the 'proposed new architecture for certain regulated payment systems, known as the simplified payments platform, as set out in the [Payment Strategy] Forum's November 2016 document, 'A Payments Strategy for the 21st Century''

Our original proposal: potential enhancements to our 2021 Regulatory Framework

3.33 The 2021 Regulatory Framework was originally designed to mitigate the risks to competition and innovation once the NPA became operational.[7] However, given the change in circumstances surrounding the NPA programme, including the cancellation of the NPA procurement, our consultation recognised that the current Faster Payments central infrastructure would likely be operational for significantly longer than previously expected. As a result, we proposed reviewing our regulatory approach in response to this changed position.

3.34 In the absence of competitive procurement in the foreseeable future, we outlined potential enhancements to the 2021 Regulatory Framework to address the enhanced monopoly risks. We expected that the potential changes would include adding principles to those already included for Pay.UK and its central infrastructure provider in our 2021 Regulatory Framework.[8] These were intended to address the enhanced monopoly risks regarding price, quality, and innovation, due to the change in circumstances.

3.35 We invited views on three specific additional principles under consideration:

1. an additional requirement on Pay.UK to mitigate monopoly risks
2. an additional requirement on the incumbent central infrastructure provider, Vocalink, to demonstrate efficient pricing and quality
3. explicit requirements on Pay.UK and Vocalink to support innovation.

Feedback we received

3.36 Twelve respondents answered this question, with eight respondents agreeing with the need to review the Regulatory Framework. However, there was significant concern about the timeline, with suggestions of waiting until we have more clarity (a) from the PVDC and Pay.UK on future system developments, and (b) from the PVDC process as to exactly what reform of Pay.UK (and its governance and funding) will look like.

3.37 One response also expressed concern about applying the Regulatory Framework to the existing Faster Payments infrastructure, contracts and operating model when the Regulatory Framework was originally designed in relation to the NPA procurement in the context of a new and bespoke central infrastructure.

7 PSR, *Regulatory framework for the New Payments Architecture central infrastructure services* (December 2021)

8 PSR, *Regulatory framework for the New Payments Architecture central infrastructure services* (December 2021) Chapter 3 and Chapter 5

Our response

3.38 In line with concerns about the timeline and applying the Regulatory Framework to the existing Faster Payments infrastructure, we have decided to maintain a close regulatory oversight of Pay.UK before it agrees to any extended contracts as a mitigation to ensure our regulatory interests have been appropriately considered.[9]

3.39 Regarding the future infrastructure, the 2021 Regulatory Framework and our potential enhancements will be among any potential regulatory tools considered, if required in the circumstances at the time, to reduce the ability and incentive for any infrastructure provider to distort competition or limit innovation once the future infrastructure is to become operational.

3.40 This approach will allow us to incorporate the outcomes of the PVDC while gaining greater clarity on plans for future infrastructure, the governance and funding arrangements needed to deliver it, and the transfer of PSR regulatory responsibilities. It provides the necessary but flexible opportunities to maintain a close regulatory oversight of Pay.UK through the 2025 contract extensions in the first instance, while keeping regulatory options open to apply the most appropriate tools when the future payments infrastructure becomes operational.

3.41 Given these considerations, we will not proceed with consulting on an updated Regulatory Framework in 2025.

Specific Direction 2

3.42 Some respondents have proposed reviewing, and potentially revoking, SD2 (which mandates a competitive procurement for Bacs infrastructure, but with no deadline yet set by us). Our initial view is that our reasons for revoking SD3 may also apply to SD2, particularly that doing so could provide the necessary space and certainty for work to deliver the NPV, overseen by the PVDC. We are therefore considering revoking SD2 (and SD2a, which amended SD2).

3.43 If you have any views on this proposal, please provide them by 5pm on 5 June 2025. You can email your comments to PSRNPA@psr.org.uk. We will consider all views and set out our decision in due course.

9 We also note that all parties, including Vocalink, of course remain subject to general competition law, under which there are precedent cases such as the CMA's recent 'Mobile radio network services' case (https://www.gov.uk/cma-cases/mobile-radio-network-services).

4 Next steps

4.1 We have decided to revoke SD3 and SD3a. We have given a Specific Direction to Pay.UK to that effect. It comes into force on 21 May 2025. We have published that Specific Direction alongside this paper.

4.2 We are also considering revoking SD2 (and SD2a) and are seeking views until 5pm on 5 June 2025. You can email your comments to PSRNPA@psr.org.uk.

4.3 We will continue to monitor Pay.UK's work to ensure an outcome that supports competition, innovation, and the interests of service users. As part of this work, we and the Bank will maintain close regulatory oversight of Pay.UK before it extends the current Faster Payments contract with the incumbent supplier.

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