

**CP15/26**

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# **PSR regulatory fees 2015/16**

**Our final decision on how PSR fees will be allocated between regulated payment systems and 2015/16 fees levels for regulated payment systems are set**

**Further consultation on how we propose to calculate and collect PSR fees from participants in regulated payment systems**

**August 2015**

We are asking for comments on the Consultation Paper set out in Chapter 4 of this document by 17 September 2015.

You can send your comments and responses to our consultation questions by email to [PSRconsultations@psr.org.uk](mailto:PSRconsultations@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).

Payment Systems Regulator  
Fees consultation response team  
25 The North Colonnade  
Canary Wharf  
London E14 5HS

We will normally 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 non-disclosure. Stakeholders who wish to claim commercial confidentiality over specific items in their response should fill in the cover sheet 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. We will endeavour to consult you in handling such a request. Any decision we make not to disclose a response is reviewable by the Information Commissioner and the Information Rights Tribunal.

You can download this Consultation Paper from our websites:

<http://www.psr.org.uk/psr-publications/consultations> and  
[www.fca.org.uk/your-fca/documents/consultation-papers/cp15-26-response-form](http://www.fca.org.uk/your-fca/documents/consultation-papers/cp15-26-response-form)

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# 1

## Introduction

This document sets out our decision to allocate PSR fees between payment systems based on equal allocation across regulated pan-UK payment systems (with the two regional cheque systems, C&C and NICC, counted as a single system for fee allocation purposes).

This document also includes our consultation on calculating and collecting fees from participants in each regulated payment system. Our preferred approach is 'indirect billing' – direct members of regulated payment systems will be liable for PSR fees, which will be collected on our behalf by payment system operators. This approach minimises the regulatory burden on industry.

This contrasts with the original approach we proposed ('billing operators'), which we include here as background, but do not propose to implement.

- 1.1 When money moves between individuals, businesses and government – for example, when buying goods and services, receiving income or paying taxes – the transfers of funds are made through payment systems. In 2014, payment systems in the UK handled around 20 billion transactions worth over £74 trillion.
- 1.2 The Payment Systems Regulator Ltd (PSR) was incorporated on 1 April 2014 as a subsidiary of the Financial Conduct Authority (FCA), and became fully operational on 1 April 2015. The PSR regulates payment systems operating in the UK, and has a range of regulatory powers under the Financial Services (Banking Reform) Act 2013 (FSBRA), as well as concurrent competition powers under the Competition Act 1998 (CA98) and Enterprise Act 2002 (EA02). The PSR has statutory objectives to promote competition, innovation and the interests of service-users.
- 1.3 HM Treasury (the 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).
- 1.4 The PSR is funded entirely by the fees paid by the participants in payment systems that we regulate and that have been designated by the Treasury – we receive no subsidies from other sources. For the year 2015/16, the PSR has an Annual Funding Requirement (AFR) of £28.1 million. This figure is made up of the £12.2 million costs incurred in setting up the PSR, and the £15.9 million 2015/16 budget to cover the PSR's ongoing regulatory activities (ORA).

- 1.5 Under FSBRA, it is the FCA that must issue rules to fund the PSR. The FCA works closely with the PSR on funding matters, and in particular in determining the policies for allocating, calculating and collecting PSR regulatory fees. For convenience, when this document refers to 'we', this means the FCA and PSR jointly.
- 1.6 We can raise these fees from any participants in regulated payment systems to fund the expenses of establishing and operating the PSR (including the cost of collecting fees on behalf of the PSR). 'Any participants' (as defined in FSBRA) includes payment systems operators (operators), payment infrastructure providers, and payment service providers (PSPs). These PSPs have direct access to regulated payment systems (typically large banks and building societies), or indirect access to these systems (typically smaller financial institutions which use bigger banks to gain access to regulated payment systems).
- 1.7 As regulatory bodies, we are aware of the need to minimise the cost we impose on the industry we regulate. HM Revenue & Customs (HMRC) had previously confirmed to us that PSR regulatory fees are outside the scope of VAT under Article 13(1) Principal VAT Directive when invoices are issued by us. However, we need to ensure that the calculation and collection methodologies we use for PSR fees do not inadvertently increase the cost of our regulation by creating a taxable supply (which would be subject to VAT) – for example, if fees were passed on by operators to PSPs. This is therefore a key consideration for us in how we collect PSR fees.
- 1.8 Our calculation and collection methodologies must be compatible with the FCA's general duties (as it is the FCA that issues the fees rules). They also take into account the PSR's regulatory principles (as the methodologies are developed by and agreed with the PSR). Our assessment of how these criteria are met is set out in paragraphs 4.55-4.71 below. This includes:
- the need to use our resources in the most efficient and economical way
  - 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
  - the principles of proportionality and transparency
- 1.9 This document forms part of our annual cycle of fees consultation. In November 2014, we consulted on the underlying policy of the PSR's fees and the treatment of the PSR's set-up costs<sup>1</sup>, as well as the application of some of the FCA's general fee collection rules to PSR fees (this was part of the FCA's wider consultation on a range of fees and levies)<sup>2</sup>. In March 2015, we consulted on the fee rates for 2015/16. We also took decisions in March 2015 on the general PSR fee allocation policy as between regulated payment systems, the treatment of the PSR's set-up costs, and the application of some of the FCA's general fee collection rules to PSR fees. The PSR fees rules included in the March CP15/14 document were issued in the FCA Fees Handbook at FEES 9<sup>3</sup>. Finally, we issued a Supplementary Paper in May 2015, which provided additional information and clarification in response to some stakeholder questions on the March 2015 consultation.<sup>4</sup>
- 1.10 This document is structured as follows:
- **Chapter 1** is this introduction

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<sup>1</sup> <https://www.psr.org.uk/cp15-14-fca-reg-fees-levies-rates-proposals-15-16>

<sup>2</sup> <https://www.psr.org.uk/psr-publications/consultations/cp-14.26-fees-levies>

<sup>3</sup> <http://fshandbook.info/FS/html/FCA/FEES> and specifically for the PSR <http://fshandbook.info/FS/html/FCA/FEES/9>

<sup>4</sup> <https://www.psr.org.uk/supplementary-document-fca-cp-1514-psr-fees>

- **Chapter 2** explains the respective roles of the FCA and PSR in relation to PSR fees, describes the regulatory process to date, and sets out the next steps in the regulatory process (subject to the outcome of the consultation in Chapter 4)
- **Chapter 3** sets out our **policy on allocation between regulated payment systems and fee levels for 2015/16 for regulated payment systems**, and provides our feedback on the responses to the March 2015 consultation and May 2015 Supplementary Paper.

We have decided not to depart from our March decision to allocate PSR fees between payment systems based on an equal allocation across regulated pan-UK payment systems, with C&C and NICC being treated as a single pan-UK cheque system for this purpose.

We also decided on the 2015/16 fee levels to be recovered from each regulated payment system. These fee levels are based on the application of our allocation policy between regulated payment systems. These fee levels are set out in Table 5.

- **Chapter 4** sets out our **consultation on calculation and collection methodologies within payment systems**.

Our original collection approach was for PSR fees to be levied on operators (the 'billing operators' approach), who would then pass on the fees to their direct members. We received feedback from operators that this approach risked having two unintended consequences:

- First, if we levy fees on the operators, when operators invoice their direct members for the PSR fees this could be deemed a taxable supply and therefore be subject to VAT.
- Secondly, if we invoiced operators, our fees would increase their operational costs, which would in turn increase the regulatory reserves which operators supervised by the Bank of England are required to hold.

We recognise that these two consequences would unintentionally increase the cost of our regulation significantly.

Having considered these points, we are proposing a different approach to calculating and collecting our fees (the 'indirect billing' approach), which would address these concerns. We are therefore consulting on how PSR fees should be calculated and collected from participants within each of the regulated payment systems, specifically from direct members in regulated payment systems. In determining which are the most appropriate calculation and collection methodologies, we need to achieve a balance between several factors, including transparency, fairness, efficiency, and regulatory burden.

- The **Annexes** include the following:
  - **Annex 1** is the ruling issued by HMRC dated 9 August 2015 in relation to the VAT treatment of PSR regulatory fees
  - **Annex 2** is the fees instrument setting out the proposed amendments to the PSR fees rules in FEES 9
  - **Annex 3** is the glossary of terms and abbreviations used in this document

## 2 Process regarding PSR regulatory fees 2015/16

This chapter describes the respective roles of the PSR and FCA in relation to PSR fees, the fees process to date, and the anticipated next steps (subject to the outcome of the consultation in Chapter 4).

### Fees process and PSR and FCA roles

- 2.1 The FCA has the responsibility of funding the PSR through the collection of fees, and may make rules requiring participants in regulated payment systems to pay to the FCA specified amounts, or amounts calculated in a specified way, to fund the PSR.<sup>5</sup>
- 2.2 The FCA works closely with the PSR on funding matters, and in particular in determining the policies for allocating, calculating and collecting PSR regulatory fees.
- 2.3 The PSR published its 2015/16 annual plan on 25 March 2015<sup>6</sup>. The annual plan set out the annual funding requirement (AFR), as shown in Table 1 below.

**Table 1: PSR 2015/16 AFR**

Costs	£ million
PSR set-up costs before launch	12.2
Ongoing regulatory activity 2015/16 budget	15.9
<b>Total PSR AFR 2015/16</b>	<b>28.1</b>

<sup>5</sup> See section 40 and paragraph 9, Schedule 4 FSBRA,

<sup>6</sup> <https://www.psr.org.uk/psr-publications/annual-plans-and-reports/annual-plan-2015-16>

2.4 The FCA's usual fees cycle is as follows:

October/November	Consultation paper: The FCA publishes proposals for changing or updating specific aspects of our fees policy – for example, new fees, fees for new activities or types of firm, changes to its calculations or data requirements, etc.
31 December	Reporting date: Most of the tariff data from which fees are calculated for the coming financial year (April–March) must be reported as at the previous 31 December, or for the calendar year ending 31 December, or for the firm's financial year that ended during the calendar year ending 31 December.
January–March	Fee tariff data collection: Firms are asked to provide data that is not already available to FCA in-house.
March	Consultation paper: Proposed fee rates for individual fee-payers for the coming year, together with feedback on FCA's October/November proposals and making of any rules which need to come into effect from April.
31 March	Cut-off date for finalising FCA fee paying firms/businesses and their fee blocks/rates.  For non-PSR fees, this includes the cut-off date for receiving applications from firms who want to vary or cancel their Part 4A permissions and do not wish to be liable for full periodic fees in the following FCA fee period for the relevant fee-blocks. For the reduced fees to be applicable the applications must be approved by the FCA by the 30 June.
30 April	Payment date for on-account invoices: Fee-payers whose FCA fees were £50,000 or more in the previous year are required to make an advance payment of 50% of the previous year's fees.
June	Policy statement finalising the periodic fee rates rules and making any other rules.
July	From July the FCA invoices all fee-payers.

2.5 In the case of the PSR, we broadly followed this process up to March 2015, and then issued a Supplementary Paper in May 2015.

2.6 We also advised industry participants (including operators) that invoices would not be issued until we had resolved the question of the interaction between our collection methodology and the scope of VAT. This is addressed in further detail in Chapter 4, in paragraphs 4.14-4.16.



## November 2014 Fees Consultation

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- 2.7 The FCA published CP14/26 on *Regulatory fees and levies: policy proposals for 2015/16* in November 2014<sup>7</sup> as part of its wider fees consultation.
- 2.8 The November consultation set out new or modified fees policies. For the PSR, as this was the first fees consultation, it set out our initial approach to a PSR fees policy.
- 2.9 Chapter 2 of CP14/26 set out our proposals for how we should raise fees to recover the 2015/16 funding needed by the PSR to regulate the payments systems we expected to be designated by Treasury. It included:
- an indication of the 2015/16 annual funding requirement for the PSR
  - an indication of the set-up costs of the PSR and our proposals for the period over which they should be recovered
  - our proposals for how fees would be levied from the operators of the payment systems expected to be designated by the Treasury
- 2.10 We proposed that the 2015/16 PSR AFR should be allocated equally across operators, but that adjustments should be made to address certain 'outliers' (as explained below). This approach reflected our expectation that, as a new regulator, the PSR's initial regulatory focus would be relatively broad and would focus on understanding all designated payment systems and developing initial policy proposals and a regulatory framework for the industry as a whole. The proposals we made for adjustments for 'outliers' were intended to ensure that the equal allocation approach would not result in outcomes that were disproportionately burdensome or unfair to certain individual payment systems.
- 2.11 Our proposed adjustments to the equal allocation approach related to:
- Geographic coverage: although C&C and NICC undertake broadly similar activities (cheque and credit clearing), C&C only covers Great Britain, while NICC only covers Northern Ireland. All other operators cover the UK in its entirety. We therefore proposed to treat C&C and NICC as a single pan-UK cheque clearing system for fee allocation purposes.
  - Significantly lower transaction volumes: CHAPS has significantly lower transaction volumes than the other operators.
- 2.12 We also consulted on the proposed approach to the designation of additional payment systems, the collection of tariff data, and the application of certain existing FCA fees rules to PSR fees (in relation to 'on-account' fees, method of payment by electronic credit transfer, late payments, and relieving provisions).

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<sup>7</sup> <https://www.psr.org.uk/psr-publications/consultations/cp-14.26-fees-levies>

## March 2015 Fees Consultation

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- 2.13 In March 2015, the FCA published CP15/14, *FCA Regulated fees and levies: Rates proposals 2015/16*<sup>8</sup>, as part of the next stage of its fees process.
- 2.14 The March consultation gave feedback on the responses received from stakeholders in relation to the fees policies consulted on in the November consultation, and set out the decision on those fees policies proposals. It also included a consultation on the fees level for individual fee-payers resulting from the application of the fees policies.
- 2.15 In Chapter 7 of CP15/14 we provided feedback on the responses received to our consultation on how we should raise PSR fees (Chapter 2 of CP14/26). We calculated the proposed 2015/16 periodic fees in chapter 8 of CP15/14 on the basis of the outcome of that consultation.
- 2.16 Since the publication of CP14/26, the Treasury had designated eight payment systems for regulation by the PSR (with effect from 1 April 2015): Bacs, CHAPS, C&C, FPS, LINK, NICC, MasterCard, and Visa.
- 2.17 In the March 2015 CP15/14 document, we considered whether the approach that had been proposed (in CP14/26) of equal allocation subject to outliers, as well as our assessment of which regulated payment systems ought to be considered as outliers for fee allocation purposes, was still appropriate.
- 2.18 We concluded that, as we had previously set out in the November 2014 CP14/26 consultation, our proposed approach to allocation of PSR fees between regulated payment systems reflected what we considered to be an appropriate balance between an approach that is relatively simple, transparent and predictable (and, as a result, low-cost to administer) and one that was not disproportionately burdensome or unfair to individual payment systems. This is also consistent with the need to use our resources in an efficient and economical way<sup>9</sup>.
- 2.19 Given feedback to the November CP14/26 consultation proposals, the March 2015 CP15/14 document also looked at the specific question of whether CHAPS should be covered by an outlier adjustment. We took into account feedback from respondents about the systemic importance of the CHAPS system as part of the reasoning for departing from our original proposal and deciding not to make an outlier adjustment for CHAPS<sup>10</sup>.
- 2.20 We accordingly decided that the allocation of the 2015/16 £28.1 million PSR AFR would be based on an equal distribution between regulated pan-UK payment systems. We decided that C&C and NICC, which are treated as outliers due to their geographic coverage, would accordingly be treated as a single payment system for the purposes of allocating the PSR AFR – the split between them is based on their respective transaction volumes. Table 2 below sets out the fees policy approach we decided on.
- 2.21 We had proposed that the fees for each regulated payment system would be recovered from the respective operators (under the ‘billing operators’ approach).

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<sup>8</sup> <https://www.psr.org.uk/cp15-14-fca-reg-fees-levies-rates-proposals-15-16>

<sup>9</sup> See paragraphs 2.13-2.14 on pages 10-11, and paragraph 9 on page 56 of CP14/26.

<sup>10</sup> See pages 42-45 of CP15/14.

**Table 2: CP15/14 decision on equal allocation of PSR AFR across regulated pan-UK payment systems**

Name of regulated payment system	Breakdown between cheque systems	Share	%
Bacs		1/7	14.3
CHAPS		1/7	14.3
Cheque systems		1/7	14.3
C&C	<i>97% of cheques total</i>		<i>13.87</i>
NICC	<i>3% of cheques total</i>		<i>0.43</i>
FPS		1/7	14.3
LINK		1/7	14.3
MasterCard		1/7	14.3
Visa		1/7	14.3

*Note: The 97% and 3% figures indicated for C&C and NICC relate to their respective share of the total allocation to the pan-UK cheque system, based on 2014 transaction volumes for C&C and NICC.*

- 2.22 The March CP14/15 document also included feedback on the policy in relation to additional designations of regulated payment systems and the collection of tariff data, and the application of certain existing FCA fees rules to PSR fees (in relation to 'on-account' fees, method of payment by electronic credit transfer, late payments, and relieving provisions). We decided to endorse all of these proposals. These various general fees rules came into effect as of 1 April 2015, and are set out in the FCA Fees Handbook at FEES 9.<sup>11</sup>
- 2.23 In Chapter 8 of CP15/14, we consulted on the fee levels we proposed to recover the PSR's 2015/16 AFR of £28.1 million. These fee levels derive from the application of the fees policies that we decided on in Chapter 7 of CP15/14, which were based on our original 'billing operators' approach and an equal allocation of the PSR AFR across all regulated pan-UK payment systems. Table 3 below sets out how the AFR breaks down across regulated payment systems.

<sup>11</sup> <http://fshandbook.info/FS/html/FCA/FEES> and specifically for the PSR <http://fshandbook.info/FS/html/FCA/FEES/9>

**Table 3: CP15/14 Allocation of PSR 2015/16 AFR across payment systems operators**

Regulated payment systems		£ million	%
Bacs		4.01	14.3
CHAPS		4.01	14.3
Cheque systems	<i>Breakdown between C&amp;C and NICC:</i>		
C&C	<i>£3.91 million</i>	<i>97%</i>	
NICC	<i>£0.11 million</i>	<i>3%</i>	
FPS		4.01	14.3
LINK		4.01	14.3
MasterCard		4.01	14.3
Visa		4.01	14.3
Total		28.10	100.0

Notes: Figures may not sum exactly due to rounding. This table reproduces Table 8.2 from CP15/14

## May 2015 Supplementary Paper

- 2.24 In response to questions received from stakeholders, we published a Supplementary Paper on 14 May 2015<sup>12</sup> to provide additional information regarding chapter 7 of CP15/14, *FCA Regulated fees and levies: Rates proposals 2015/16*. This paper also provided updates concerning the interaction between VAT and PSR fees.
- 2.25 The Supplementary Paper included our comments on:
- the scope of the payment systems regulated under FSBRA on which PSR fees will be levied
  - how we are using the transaction data that we have collected, and several tables contained within CP15/14
  - the onward allocation of PSR fees by operators to the direct members of regulated payment systems

## Additional engagement with payment systems operators in May to August 2015

- 2.26 We have also engaged with all of the payment system operators throughout May to August 2015 to update them on our approach, discussions with HMRC and next steps.

<sup>12</sup> <https://www.psr.org.uk/supplementary-document-fca-cp-1514-psr-fees>

## Next steps from August and timeline in 2015 and 2016

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- 2.27 In light of the concerns we identified about the regulatory burden of the 'billing operators' approach, we did not include a chapter on PSR fees level in the FCA's usual June policy statement.<sup>13</sup> This June policy statement normally provides feedback on the responses received from stakeholders in relation to the March consultation on fees levels for individual fee-payers resulting from the application of the fees policies (which were decided on in the March document).
- 2.28 In Chapter 3, we provide feedback on the responses received from stakeholders on the fees levels for the regulated payment systems, and we set out our decision on the fees to be recovered from each regulated payment system.
- 2.29 For the reasons set out in Chapter 4, we no longer propose to proceed with the 'billing operators' approach. Instead, we are consulting on the 'indirect billing' approach as set out in Chapter 4.
- 2.30 We set out below the next steps in the consultation and the dates by which payments of PSR fees should be made on the basis of the 'indirect billing' approach (subject to the outcome of the consultation in Chapter 4):
- a. The Chapter 4 consultation on PSR fee calculation and collection methodologies is issued on **20 August 2015**.
  - b. The Chapter 4 consultation will close on **17 September 2015**.<sup>14</sup>
  - c. We expect to publish the joint PSR/FCA policy statement on PSR fee calculation and collection methodology in the week commencing **Monday 26 October 2015**, and to make at the same time any consequential amendments to the rules on PSR fees (in FEES 9 – <http://fshandbook.info/FS/html/handbook/FEES/9>).
  - d. The amended fees rules which give effect to the 'indirect billing approach' (and which require the operators to act as our collection agents) are scheduled to take effect from **29 October 2015**.
  - e. We expect that operators will issue invoices to their direct members at the **end of October/first days of November**, so that direct members pay their PSR fees to operators by **10 December 2015** (See FEES 9 transitional provision TP12).
  - f. Operators will pay to us the amounts collected by **21 December 2015** (See FEES 9 transitional provision TP12).
- 2.31 We note that the on-account fees rules will take effect for the first time from April 2016, in relation to the 2016/17 PSR fees.

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<sup>13</sup> See <http://www.fca.org.uk/news/ps15-15-fca-regulated-fees-and-levies> which sets out the FCA's decisions on fees levels for the FCA, FOS, MAS and other levies, but which does not cover the PSR fees.

<sup>14</sup> We will not be able to grant extensions given how tight the timing is, so we ask all respondents to make necessary arrangements to be able to respond to the consultation on a timely basis.

- 2.32 As part of the Chapter 4 consultation on PSR fees calculation and collection methodologies, we are also proposing modifying the levels and dates set out in the current fees rules (in FEES 9.2.2 and 9.2.3) in relation to on-account fees as follows:
- a. If a direct member of a regulated payment system has paid more than £20,000 in 2015/16 PSR fees to a specific operator (in relation to its participation in that specific regulated payment system), it must pay 50% of its 2015/16 PSR fee 'on-account' to the operator (acting as our collection agent) by 15 April 2016 to help fund the PSR in 2016/17 (see proposed amendment in FEES 9.2.2(i)).
  - b. The remainder of that direct member's 2016/17 fee will be payable to the operator by 15 August 2016 (see proposed amendment in FEES 9.2.2(ii)).
  - c. The operators (acting as collection agents) will be required to pay to us the amounts collected on-account for the 2016/17 PSR fees by 30 April and 1 September respectively, i.e. 15 calendar days after the deadline for direct members to pay their PSR fees to operators (see proposed amendment in FEES 9.2.3A).
  - d. If no on-account fees are due, the direct member must normally pay its entire 2016/17 PSR fee to the operator of the relevant regulated payment system by 15 August 2016 (see proposed amendment in FEES 9.2.3).

# 3

## Policy on allocation of PSR regulatory fees and 2015/16 fees levels for regulated payment systems

In this chapter we give feedback on the responses we received to our consultation proposals on fees levels, set out in chapter 8 of CP15/14<sup>15</sup> and the Supplementary Paper<sup>16</sup>.

It is set out as follows:

- Overview of our consultation proposals in CP15/14
- Summary of responses received from stakeholders
- Our response and decision

We have decided not to depart from our March 2015 decision that our allocation between payment systems will be based on the principle of equal allocation of the PSR AFR across regulated pan-UK payment systems, with C&C and NICC being treated as a single cheque system for this purpose. We have decided on the 2015/16 fee levels to be recovered from each regulated payment system based on the application of our allocation policy. These are set out in Table 5.

### Overview

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- 3.1 The annual funding requirement (AFR) for the PSR in 2015/16 is £28.1million, comprising £12.2 million in respect of set-up costs incurred before launch and £15.9 million in respect of ongoing regulatory activity.
- 3.2 To recover these costs, we had decided in March 2015 on an allocation which was based on an equal distribution between regulated payment systems, other than in the case of C&C and NICC, which we treated as outliers due to their geographic coverage.<sup>17</sup> C&C and NICC were treated as a single payment system for this purpose. Our approach can therefore be summarised as equal allocation of PSR fees across regulated pan-UK payment systems.

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<sup>15</sup> <https://www.psr.org.uk/cp15-14-fca-reg-fees-levies-rates-proposals-15-16>

<sup>16</sup> <https://www.psr.org.uk/supplementary-document-fca-cp-1514-psr-fees>

<sup>17</sup> See Chapter 7 of CP15/14

3.3 In March 2015 we consulted on the fee levels for individual fee-payers.<sup>18</sup> This resulted in the proposed fee levels shown below in Table 4.

**Table 4: CP15/14 Proposed PSR fee levels to be recovered across regulated payment systems for the PSR 2015/16 AFR**

Regulated payment systems	Amount of PSR fees to be recovered from each regulated payment system	
	£ million	%
Bacs	4.01	14.3
CHAPS	4.01	14.3
Cheque systems	<i>Breakdown between C&amp;C and NICC:</i>	
C&C	£3.91 million	97%
NICC	£0.11 million	3%
FPS	4.01	14.3
LINK	4.01	14.3
MasterCard	4.01	14.3
Visa	4.01	14.3
Total	28.10	100.0

Notes: Figures may not sum exactly due to rounding – Table 5 in this document includes the precise figures allocated to each regulated payment system. This table reproduces Table 8.2 from CP15/14

3.4 In CP15/14 we asked:

**Q4: Do you have any comments on the proposed 2015/16 periodic PSR fees?**

3.5 For completeness, we note that we had also decided in March 2015 that for any payment systems designated for FSBRA regulation by the Treasury during the course of 2015/16 ('regulated payment systems'):

- Any regulated payment system designated on or after 1 April 2015 would have PSR fees allocated to it equal to 1/12th of its fee for the calendar month it was designated and the same amount for each of the following months up to and including March 2016.
- Any fees collected from these additional regulated payment systems during 2015/16 would be used to reduce the 2016/17 PSR AFR. The 2015/16 fees for the regulated payment systems designated before 1 April 2015 would not be recalculated and reduced.
- Should any payment system be designated during 2015/16, we will conduct a separate consultation on the amount of the 2015/16 fee allocated to it, based on the above policy approach, on the calculation methodology for determining the PSR fee applicable to direct members in the regulated payment system, and, if appropriate, on the collection methodology.

<sup>18</sup> Our consultation is in Chapter 8 of CP15/14. We note that the fees levels for individual fee-payers that we consulted on are based on applying the policy approach on fee allocation between regulated payment systems that was decided on in March 2015 (see Chapter 7 of CP15/14).



## Summary of responses

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- 3.6 We received responses from all the operators on the proposed PSR fee levels.
- 3.7 Bacs said that the approach we had proposed in CP15/14 reflected its response to the CP14/26 consultation and, therefore, it did not have any further comments to make.
- 3.8 CHAPS said:
- It intended to seek further clarification from the Treasury on the intended extent of its designation order, particularly as our November fees consultation (CP14/26) stated that the Treasury focused on the retail element of CHAPS when consulting on its designation decision.
  - While it accepted that we had taken into account opposing views expressed by other payment system operators, CHAPS wanted to understand what factors had materially changed since our November consultation (when we had proposed treating CHAPS as an outlier).
  - It considered that its fee was not fair or proportionate to its transaction volumes and did not reflect our announced work programme. In its view, CHAPS and its participants would be subsidising the regulation and policy-making for market areas in which either it or some of its participants have never been active.
  - On the issue of VAT on PSR fees, CHAPS said that we should provide an indication of when further clarification would be given on this subject. In light of this outstanding issue and the change in CHAPS' fee between the November and March consultation, CHAPS suggested we consider deferring the issuance of PSR fee invoices. This would allow it the necessary time to communicate these changes to its participants and to agree on a fair and proportionate fee allocation model before it issues invoices.
- 3.9 A number of operators were concerned about the uncertainty regarding whether VAT would be applicable when they passed on PSR fees to their direct participants. We discuss this issue in detail in Chapter 4.
- 3.10 Another operator supported the proposal in CP15/14 not to have any outliers based on volumes of transactions (i.e. numbers of transactions or transfers of funds). In its view, the values of transactions processed by a system were a far more reliable indicator of PSR time and resources than the volume of transactions.<sup>19</sup> It also considered that our proposals in CP15/14 take insufficient account of transaction values. This operator considered that this might undermine the PSR's competition objective<sup>20</sup> because it is likely that payment systems with higher average transaction values would be able to spread the costs of PSR fees more readily, and pass on such costs to end users more easily. This is because PSR fees would be a relatively minor (smaller) percentage of the value of any particular (higher value) transaction.
- 3.11 This operator also said that any additionally designated payment systems should contribute to PSR set-up costs. This is because, in the long term, all designated payment systems will receive the same benefit from the creation of the PSR, and be impacted in similar ways, irrespective of the year in which they are designated.

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<sup>19</sup> This is because, in its view, the failure of a payment system with high value transactions may carry far greater risks for system users and for the wider UK payments industry than a system that processes low value transactions.

<sup>20</sup> Under section 50 FSBRA.

- 3.12 Some operators said our fees took insufficient account of the difference between card and interbank payment systems and of the broad range of average transaction values in different payment systems.
- 3.13 A second operator (in addition to CHAPS) raised issues with regard to its designation.
- 3.14 Another operator agreed with the suggested outliers and our proposed adjustments to address them. It said that an equal distribution (subject to outliers) was a balanced and pragmatic approach for the first year and should be adopted for future years as well.
- 3.15 This operator made a number of additional points:
- If the FCA/PSR were to review the methodology, they should do so well ahead of the consultation that begins in November of each year.
  - Transparency of the PSR's ongoing operating costs is essential, including the breakdown of these costs and the measures the PSR takes to control them.
  - If we decided to adopt a methodology for allocating PSR fees between payment systems based on transaction data, then it would recommend a 50/50 split (subject to a maximum per system cap) between transaction volumes and transaction values, which in its view would be both fair and equitable for all parties.
  - The PSR has not set out how it could recover the costs of its work programme that relate to non-designated systems.

## Our response and policy decision

- 3.16 In this section we set out our response and decision. It is set out as follows:
- Allocation methodology and fee levels for regulated payment systems
  - Selection of outliers
  - Approach to additional designations of regulated payment systems
  - Treasury designation of regulated payment systems
  - Additional comments

## Allocation methodology and fee levels for regulated payment systems

- 3.17 We considered again whether the general principle of equal sharing subject to outliers we had decided on in CP15/14 was still appropriate, and whether any of the points raised by stakeholders would cause us to depart from our earlier decision.
- 3.18 In formulating our allocation methodology between regulated payment systems, we had considered the different characteristics of each of the regulated payment systems. In our view each system has quite different characteristics, including (but not limited to) their transaction volumes and transaction values. We are aware that some respondents would prefer a fee allocation or calculation methodology focused on transaction volumes, while others would favour a greater focus on transaction values (for example, a mixed transaction volumes and values approach).
- 3.19 The overall fee allocation methodology we had decided on uses neither transaction volumes nor transaction values<sup>21</sup>, although we carefully considered these metrics in determining whether or not a given system should be classified as an outlier. We have considered the advantages and disadvantages of basing our allocation on transaction values or transaction volumes (or some combination of these). However, at this point in time, we continue to not be persuaded that this would be preferable to an equal allocation across payment systems subject to outliers. We believe that equal allocation between regulated pan-UK payment systems is particularly appropriate to the early stages of the PSR when we are focused on fully understanding each system and the payments industry as a whole, and our work programme is wide-ranging. More generally, we believe that our proposed approach is simple, transparent and predictable.
- 3.20 We have therefore decided not to depart from the methodology decided on CP15/14 for allocating our fees between the regulated payment systems.
- 3.21 As a result, we have decided that the fee levels for each regulated payment system which result from our decision to allocate on an equal basis across regulated pan-UK payment systems is appropriate (subject to the fee calculation and collection methodologies being consulted on in Chapter 4). Accordingly, the fees levels to be recovered from each regulated payment system are confirmed as those set out in Table 5 below.

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<sup>21</sup> We do, however, use transaction volumes to allocate fees between C&C and NICC, which are treated as one system for fee allocation purposes in our methodology.

**Table 5: Decision on 2015/16 fee levels to be recovered from each regulated payment system**

Total amount to be recovered from each regulated payment system (£)				
Name of regulated payment system	%	PSR set-up costs (pre-1st April 2015 launch)	PSR Ongoing Regulatory Activity 2015/16 budget	PSR Annual Funding Requirement 2015/16
Bacs	14.3	1,742,900	2,271,400	4,014,300
CHAPS	14.3	1,742,900	2,271,400	4,014,300
Cheque systems	14.3	1,742,900	2,271,400	4,014,300
C&C	97% of cheques	1,695,600	2,209,800	3,905,400
NICC	3% of cheques	47,300	61,600	108,900
FPS	14.3	1,742,900	2,271,400	4,014,300
LINK	14.3	1,742,900	2,271,400	4,014,300
MasterCard	14.3	1,742,900	2,271,400	4,014,300
Visa	14.3	1,742,900	2,271,400	4,014,300
<b>Total</b>		<b>12,200,300</b>	<b>15,899,800</b>	<b>28,100,100</b>

Notes: Figures may not sum exactly due to rounding. The 97% and 3% figures indicated for C&C and NICC relate to their respective share of the total allocation to the pan-UK cheque system based on their 2014 transaction volumes.

### Selection of outliers

- 3.22 We considered whether the decision that only C&C and NICC should be treated as outliers was still appropriate.
- 3.23 With the exception of CHAPS, respondents either supported or did not comment on our proposed approach to outliers.
- 3.24 CHAPS wanted to understand what factors had materially changed between our November consultation (in which we had proposed CHAPS as an outlier) and our March decision on fee allocation methodology. The change in our proposed treatment of CHAPS in our March document was a result of our reconsidering whether CHAPS should benefit from an outlier adjustment in light of the responses we received to our November consultation (CP14/26). In particular we noted that, while the CHAPS system has low transaction volumes, its systemic importance and very high average transaction values meant that it was not appropriate for it to be treated as an outlier for the purposes of allocation of our fees. We were also mindful of confirmations from the Treasury that when it designated payment systems, it designated the entire system, not merely certain of its activities.

- 3.25 Some respondents said that the focus of PSR resources would be on other systems, rather than on their system (or type of system). Our current work plan touches elements of each of the pan-UK systems. In addition, our jurisdictional remit under FSBRA is wider than the work we have announced to date and covers all of the regulated payment systems and their participants. Our jurisdictional remit for our concurrent competition powers is wider still as it covers all payment systems operating in the UK and their participants. As such, we do not consider that our announced work plan warrants a change in our approach to outliers.
- 3.26 In light of the above we have decided not to depart from the decision we set out in CP15/14 with respect to outliers, as we see no reasons to depart from that approach of equal allocation between regulated pan-UK payment systems.<sup>22</sup> This results in an unchanged allocation between the regulated payment systems and unchanged fees levels to be recovered from each of the regulated payment systems (as per Table 5 above).

### **Approach to additional designations of regulated payment systems**

- 3.27 We note that there was broad support from respondents to CP14/26 to our proposals under which the allocation of start-up costs to new regulated payment systems which might be designated after 1 April 2015 gradually reduces over the course of 2015/16, subject to the comments made by one respondent (see paragraph 3.11 above).
- 3.28 The focus of our work to date has been across regulated payment systems, and we continue to believe that the further away we get from 1 April 2015, the less relevant PSR set-up costs will be for any newly designated systems.
- 3.29 We therefore do not see any reason to depart from the decision taken in March, and accordingly only payment systems designated by the Treasury before 31 March 2016 will contribute to the PSR's set-up costs.

### **The Treasury designation of regulated payment systems**

- 3.30 As noted in paragraphs 3.8 and 3.13 above, two respondents raised questions with regard to the Treasury's designation of payment systems in relation to the scope of the Treasury designation and the decision to designate a system.
- 3.31 We do not take decisions under s.43(1) FSBRA to designate payment systems for FSBRA regulation: this falls to the Treasury.
- 3.32 On the scope of the Treasury designation orders under s.43(1) FSBRA, we would refer parties to paragraphs 8 to 12 of our Supplementary paper.<sup>23</sup> On the decision to designate (or not designate) a payment system, parties should raise these points with the Treasury.

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<sup>22</sup> As per CP15/14, C&C and NICC will be treated as one pan-UK cheque system for fee allocation purposes, with the fee split between them being on a transaction volume basis.

<sup>23</sup> <https://www.psr.org.uk/sites/default/files/media/PDF/PSR-supp-fees-140515.pdf>

## **Additional comments**

- 3.33 With regard to recovering the costs of our work programme that relate to non-designated systems, we do not have the power under FSBRA to raise fees from payment systems which have not been designated by the Treasury. However, as a practical matter, we anticipate that many participants in non-designated payment systems will also be participants in regulated payment systems and, as such, will contribute to our funding. We intend to bring these comments about our fee-raising powers to the attention of the Treasury.
- 3.34 With regard to transparency over the ongoing costs and benefits of the PSR, we note that the PSR is required to submit an annual report to the FCA in relation to the discharge of its functions, which includes a copy of the PSR's accounts and sets out the extent to which the PSR has met its aims and priorities for the relevant period and has advanced its statutory payment systems objectives. We are also subject to scrutiny by the National Audit Office, and are ultimately accountable to Parliament.
- 3.35 With regard to the timing of future consultations on fees, we consider that the consultation timetable allows ample room for respondents to make representations to us, including on questions of fee allocation methodology between payment systems. We note that as this was the first year in which PSR fees had to be considered, additional time was required and the timeline was accordingly extended, but we do not anticipate that this would be necessary going forward.

## 4

# Consultation on methodology to calculate and collect PSR fees from participants in regulated payment systems

This chapter sets out our consultation proposal for the methodology to calculate the fees for individual participants within the regulated payment systems and how to collect those fees.

To provide background and context, we have set out below the approach we initially proposed – the ‘billing operators’ approach – and its consequences and implications.

However, our preferred proposal going forward is the ‘indirect billing’ approach. This ensures that PSR regulatory fees paid by PSPs with direct access to regulated payment systems are outside the scope of VAT, and that operators are not required to hold additional regulatory reserves. This will reduce the regulatory burden on participants in regulated payment systems.

### Overview

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- 4.1 We can raise PSR fees from any participants in regulated payment systems to fund the expenses of establishing and operating the PSR (including the cost of collecting fees on behalf of the PSR).
- 4.2 ‘Any participants’ (as defined in FSBRA) includes payment systems operators, payment infrastructure providers, and payment service providers (PSPs). PSPs include direct members – PSPs which have direct access to regulated payment systems (typically larger banks and building societies) – and indirect members – PSPs which have indirect access to payment systems (typically smaller financial institutions which use bigger banks to gain access to regulated payment systems).
- 4.3 We are aware of the need to minimise the cost we impose on the industry we regulate. HMRC had previously confirmed to us that PSR regulatory fees are outside the scope of VAT under Article 13(1) Principal VAT Directive when invoices are issued by us. However, we need to ensure that the allocation, calculation and collection methodologies we use for PSR fees do not inadvertently increase the cost of our regulation by causing a taxable supply (which would be subject to VAT) – for example, if fees were passed on by operators to PSPs. This is therefore a key consideration for us in how we collect PSR fees.

- 4.4 Our calculation and collection methodologies must be compatible with the FCA's general duties (as it is the FCA that issues the fees rules). They also take into account the PSR's regulatory principles (as the methodologies are developed by and agreed with the PSR). Our assessment of how these criteria are met is set out in paragraphs 4.55-4.71 below. This includes:
- the need to use our resources in the most efficient and economical way
  - 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
  - the principles of proportionality and transparency.
- 4.5 Our original approach of levying fees on the operators, rather than other participants in the payment systems we regulate, was driven by a desire to provide transparency and to minimise our administrative costs,<sup>24</sup> and was made in the full expectation that these regulatory costs would be passed on to the direct members of each regulated payment system. The original 'billing operators' approach is reflected in the fees rules that were enacted with effect from 1 April 2015. These fees rules were included in the March CP15/14 document and were issued in the FCA Fees Handbook at FEES 9<sup>25</sup>. Although the fees rules were enacted, no fee levels were set for recovery given that a decision on our March 2015 consultation on fee levels was not made in May/June of this year and, instead, is included Chapter 3 of this document.
- 4.6 At the time we formulated our original 'billing operators' approach we were, however, unaware of the full implications of this approach.
- 4.7 First, although our invoicing of PSR regulatory fees to operators would be outside the scope of VAT, when operators issue invoices for passing on PSR fees to their direct members, this could be deemed a taxable supply and those operators' invoices could be within the scope of VAT.
- 4.8 Secondly, levying PSR fees imposes additional regulatory costs for those operators which are also 'recognised payment systems' (regulated for financial stability purposes by the Bank of England) under the Banking Act 2009. These recognised payment systems must have regard to the CPMI IOSCO Principles. Principle 15 requires each of these payment systems to '*hold liquid net assets funded by equity so that it can continue operations and services as a going concern if it incurs general business losses*', and '*at a minimum... hold liquid net assets funded by equity equal to at least six months of current operating expenses*'. Bacs, CHAPS, FPS and Visa are all recognised payment system. The Bank of England asked Bacs, CHAPS and FPS in 2011/12 (and going forward) to hold appropriate levels of reserves equal to at least six months of operating expenses plus a reasonable buffer. Each operator determines the exact additional buffer which it considers is appropriate for its system. By raising PSR fees on these operators (no equivalent requirement has been placed on Visa to date by the Bank of England), we would increase the level of reserves they are required to hold, as the PSR fees would be seen as an operational cost by the Bank of England.

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<sup>24</sup> See <https://www.psr.org.uk/psr-publications/consultations/cp-14.26-fees-levies> at paragraph 2.15

<sup>25</sup> <http://fshandbook.info/FS/html/FCA/FEES> and specifically for the PSR <http://fshandbook.info/FS/html/FCA/FEES/9>



- 4.9 The full impact on regulatory burden of these two unexpected consequences to our 'billing operators' approach is set out in Table 6 below:

**Table 6: Regulatory cost to industry under 'billing operators' approach**

Allocation per regulated pan-UK payment system					
Regulated payment system	%	£ million	Regulatory reserves* if triggered (6 months) £ million	VAT if triggered (20%) £ million	Total regulatory burden* £ million
Bacs	14.3%	4.01	1.14	1.03	6.18
CHAPS	14.3%	4.01	1.14	1.03	6.18
Cheques	14.3%	4.01	N/A	0.80	4.81
C&C		3.91	N/A	0.78	4.69
N/ICC		0.11	N/A	0.02	0.13
FPS	14.3%	4.01	1.14	1.03	6.18
LINK	14.3%	4.01	N/A	0.80	4.81
MasterCard	14.3%	4.01	N/A	0.80	4.81
Visa	14.3%	4.01	N/A*	0.80	4.81
<b>Total</b>	<b>100.0%</b>	<b>28.10</b>	<b>3.41</b>	<b>6.29</b>	<b>37.78</b>

\* As per paragraph 4.8. In calculating the regulatory reserves requirement we have assumed the minimum required by the CPMI-IOSCO Principles (6 months operating expenses = £2.27 million for ongoing PSR costs multiplied by 6/12 = £1.14 million. In estimating the total regulatory burden we have assumed that VAT is payable on all amounts invoiced by operators (including the amount relating to regulatory reserves). Figures may not sum exactly due to rounding.

- 4.10 We note that the impact of regulatory reserves on direct members is felt primarily in the first year in which the reserves are constituted. In subsequent years, the regulatory reserves are maintained and may simply need some minor increases (or decreases) to reflect any increases (or decreases) in the PSR's annual operating costs and resulting AFR.
- 4.11 As Table 6 above shows with respect to the 'billing operators' approach, the potential impact of the increase in regulatory reserves is £3.4 million and the potential impact of the application of VAT is £6.3 million. Together these could increase the PSR's regulatory 'year one' burden from £28.1 million to £37.8 million, i.e. an additional ~34% in total.
- 4.12 We engaged with HMRC to seek clarity on the VAT status of our 'billing operators' approach. We have also discussed the question of regulatory reserves with the Bank of England.
- 4.13 As a result of the need to consider the VAT and regulatory resources implications of our 'billing operators' approach, there has been a delay as compared to the usual FCA fee cycle (see paragraph 2.4). As a consequence, additional costs have been generated by the need to pay interest on the funds that have been advanced to date to fund the PSR's set-up and operation. However, these costs are relatively small compared with the cost (to direct participants and end users) of inadvertently increasing the cost of our regulation by an estimated ~34%. For the period August to December 2015, we estimate these additional interest costs to be in the order of £89,000 (this will be absorbed within the PSR's 2015/16 AFR).

## PSR regulatory fees and VAT

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- 4.14 HMRC had previously confirmed to us that PSR regulatory fees are outside the scope of VAT under Article 13(1) Principal VAT Directive when invoices are issued by us (for example, to operators or to direct PSPs).
- 4.15 However, HMRC could not confirm that if we used the ‘billing operators’ approach, the invoices issued by operators when passing the PSR fees on to their direct members would also be outside the scope of VAT. Such invoices may be deemed to be a taxable supply, and could therefore be subject to VAT.
- 4.16 On 9 August 2015, HMRC issued a ruling setting out that, subject to certain conditions in terms of how the fees are calculated and collected, PSR fees levied on the direct members of regulated payment systems, but collected by the operators (acting as collection agents on behalf of the PSR and FCA), would be outside the scope of VAT (as opposed to being VAT exempt). We describe this ‘indirect billing’ regime below in paragraphs 4.21-4.23. The HMRC ruling is included as Annex 1.

## Consideration of the ‘billing operators’ and ‘indirect billing’ approaches

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- 4.17 Our original approach, as set out in CP14/26 and CP15/14, was ‘billing operators’. Under this approach, liability for the payment of PSR fees would rest with each operator on whom the PSR fees are levied. We expected each operator to pass PSR fees onto their direct members using their own allocation methodologies, which typically take transaction volumes into account.
- 4.18 As set out in CP14/26<sup>26</sup>, we considered that the advantages of levying PSR fees on the operators (rather than their direct participants) were transparency and administrative simplicity. It would cost less for us to administer, because we would only have to issue eight invoices and would not have to consider how to calculate the PSR fees for direct members in a given payment system, or be involved in the collection of fees from direct members.
- 4.19 As described above in paragraphs 4.7-4.12 and shown in Table 6, there are, however, two disadvantages to the ‘billing operators’ approach:
- The need for some operators to invoice additional amounts to their direct members in order to constitute additional regulatory reserves to reflect the operators’ higher operating costs.
  - Uncertainty as to whether the passing on of PSR fees by operators to their direct members would be a taxable supply, to which VAT would therefore apply.
- 4.20 The ‘billing operators’ approach therefore has the potential to inadvertently increase the cost of our regulation significantly, as set out in Table 6 above. We have therefore considered an alternative approach, which we call the ‘indirect billing’ approach.<sup>27</sup>

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<sup>26</sup> See <https://www.psr.org.uk/psr-publications/consultations/cp-14.26-fees-levies> at paragraph 2.15

<sup>27</sup> We have also considered whether ‘direct billing’ would be a better alternative than ‘indirect billing’, but we have discounted it as it would increase the burdens on the PSR without any benefit to the operators. We therefore consider that ‘direct billing’ does not have the advantages that ‘indirect billing’ has in terms of efficiency and so do not propose to pursue this approach.

## Our proposed 'indirect billing' approach

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### *Background*

- 4.21 This section sets out a description of our proposed 'indirect billing' regime, the implications for our fees rules, and an assessment of the 'indirect billing' approach against our regulatory duties and principles. Finally, we ask five consultation questions.
- 4.22 In the proposed 'indirect billing' approach, the liability for payment of PSR fees lies with the direct members of a regulated payment system, rather than with the operator of that system. The amended fees rules will require the operators to act as our collection agents for PSR fees from direct members of their system. Under this approach operators would invoice their direct members (in accordance with PSR fees rules on calculation methodology), collect the fees on our behalf, and then pay the amounts collected to us.
- 4.23 While this proposed approach has some operational similarities to our 'billing operators' approach, there are several important differences:
- We, and not the operator, determine the calculation methodology for PSR fees for individual direct members within each regulated payment system.<sup>28</sup> Our fees rules must therefore contain clear instructions on the calculation of the PSR fee applicable to each regulated payment system's direct members, and would not give operators discretion in the methodology for calculating that fee (which they would have had in the 'billing operators' option).
  - As part of the conditions for 'indirect billing' to be outside the scope of VAT, HMRC has confirmed in its ruling that operators, acting as collection agents for us, would need to issue separate invoices for PSR fees to the direct members, without adding any handling or administrative fee of their own.<sup>29</sup>
  - Liability for payment rests with the direct member, not the operator. This means that if a direct member fails to pay its PSR fee to the operator (acting as our collection agent) on a timely basis, the operator would bring this to our attention, and we would take up issues of non-payment or late payment directly with the direct member in question.<sup>30</sup>

### *Advantages of this proposed approach*

- 4.24 We believe that this proposed approach has a number of advantages.
- 4.25 First, we have received a ruling from HMRC that, subject to certain conditions being met (which are reflected in the draft fees rules included as Annex 2), PSR regulatory fees raised through the 'indirect billing' approach would not result in taxable supply, and would be outside the scope of VAT. This approach would therefore be less costly to the industry we regulate than the 'billing operators' approach.

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<sup>28</sup> This is a condition set out in the HMRC ruling (paragraphs 2 to 4) set out at Annex 1. We are also consulting on the amendments to the fees rules (the draft of which is at Annex 2) – see FEES 9 Annex 1 in particular.

<sup>29</sup> HMRC ruling at paragraph 5 (ii)

<sup>30</sup> This is a condition set out in the HMRC ruling (paragraph 1). See also the draft fees rules on which we are also consulting (FEES 9.2.1).

- 4.26 Secondly, we believe that there will be limited additional administrative burden on operators, compared to the 'billing operators' approach. This is because, under the 'billing operators' approach, operators would have been invoicing their direct members in any event to recover our fees. An advantage of using operators as our collection agents is that they are in regular contact with their direct members, including invoicing them for services, and therefore have established processes and up-to-date information on direct members to enable them to issue invoices.
- 4.27 Most of the operators had informed us that they had intended, under the 'billing operators' approach, to issue a separate invoice to their direct members when passing the PSR fees on. We therefore anticipate that complying with HMRC's separate invoicing condition for 'indirect billing' should not create any significant additional administrative burden on operators compared to the 'billing operators' approach. This HMRC condition is reflected in our proposed rules (see HMRC ruling at paragraph 5(ii)).
- 4.28 The task of following up with direct members in the event of late or non-payment would fall on us, rather than the operator. This will make the operators' tasks as collection agents easier (as compared to the 'billing operators' approach).
- 4.29 Thirdly, the Bank of England has confirmed that, because the operators would only be acting as our collection agent and liability for payment would lie with direct members, PSR fees would not constitute operating costs of the systems and there would therefore be no additional regulatory cost for those systems that are deemed 'recognised payment systems' by the Bank of England.

#### ***Disadvantages of this proposed approach***

- 4.30 This approach is more complex for us than our original 'billing operators' approach. In particular, 'indirect billing' requires us to specify in our fees rules the exact methodology that would be applied by each operator when calculating the PSR fee that each of their direct members must pay, and requires the operators to follow those detailed fees rules. We set out our proposals in relation to the calculation of fees payable by direct members below. For further information about the draft rules on which we are also consulting, please see paragraphs 4.43-4.54 below.
- 4.31 The PSR must monitor that the operators have correctly applied the fee methodology within each payment system.<sup>31</sup> Operators will be required to send the PSR a copy of their calculations of individual members' allocation of PSR fees, as well as the relevant underlying data.
- 4.32 The task of following up in the event of late or non-payment would be fall to us.<sup>32</sup> We note that we would not expect direct members of regulated payment systems to fail to pay or be late in paying their PSR fees to operators, other than in exceptional circumstances. If a direct member did fail to pay or paid late, the FCA can pursue this as a debt through the civil courts.

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<sup>31</sup> See the condition in the HMRC ruling at paragraph 5(iii)

<sup>32</sup> This is a condition set out in the HMRC ruling (paragraph 1(ii)).

### ***Calculation of PSR fees under the 'indirect billing' approach***

- 4.33 The allocation of PSR fees between regulated payment systems would be as set out in Chapter 3, based on equal allocation across regulated pan-UK payment systems (see Table 5).
- 4.34 The fees rules would specify the exact methodology that each operator should apply when calculating the PSR fee applicable to each direct member within their system.<sup>33</sup>
- 4.35 We have discussed calculation methodologies with the operators and sought their input on how PSR fees for direct members should be calculated. Our proposed approach is designed to reflect the cost apportionment methodologies normally used by operators (including for example, for the dates and durations of the relevant time periods or dates which should be taken into account), and which they had intended to apply under the 'billing operators' approach. This means that it should be relatively easy for the operators to implement these methodologies when calculating the PSR fees applicable for their individual direct members. We provide further information about the proposals in relation to the calculation of fees payable by individual members below.

### ***Proposed 'indirect billing' approach***

- 4.36 Overall, we consider that the advantages of the proposed 'indirect billing' approach significantly outweigh its disadvantages (see paragraphs 4.24-4.32 above), and also outweigh the advantages of the proposed 'billing operators' approach (see paragraph 4.18 above).
- 4.37 Consequently, we no longer consider that our 'billing operators' approach is the best way forward, and we consider that the alternative 'indirect billing' approach is more appropriate. Therefore, subject to the feedback to this consultation, we will proceed with the 'indirect billing' regime as our preferred approach, and will make the resulting changes to the fees rules to give effect to 'indirect billing'.
- 4.38 The remainder of this chapter considers how the PSR fees payable by direct members should be calculated, and the amendments to the fees rules to give effect to the 'indirect billing' approach.

### **Calculation of PSR fees payable by direct members**

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- 4.39 We describe below the proposed calculation methodology for determining fees payable by individual direct members for each regulated payment system, which is also set out in the proposed amendments to FEES 9 at Annex 1. The relevant time periods/dates are those to be taken into account when calculating the PSR fees applicable for 2015/16 to individual direct members.
- 4.40 The calculation methodology for individual fees takes into account transaction volumes processed by each direct member (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 on the Bank of England. This also means that when considering transaction volumes (numbers of transfers of funds), volumes attributed to the Bank of England are not to be taken into account).

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<sup>33</sup> See the proposed amendments to FEES 9 Annex 1, which are also described below in paragraph 4.41.

- 4.41 The proposed 2015/15 PSR fee calculation methodologies for each regulated payment system are as set out below. Direct members can estimate their indicative PSR fees using the transaction volumes data published in previous PSR fees consultation documents.<sup>34</sup>
- a. **Bacs:** The PSR fee to be recovered from individual direct members of the Bacs payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct member through Bacs during the relevant time period. The relevant time period for transaction volumes processed through the Bacs regulated payment system is between 1 January and 31 December 2014. The direct members are listed at <http://www.bacs.co.uk/Bacs/Corporate/CorporateOverview/Pages/OurMembers.aspx>.
  - b. **C&C:** The PSR fee to be recovered from individual direct members of the C&C payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct member through C&C during the relevant time period. The relevant time period for transaction volumes processed through the C&C regulated payment system is between 1 October 2014 and 31 March 2015. Transaction volumes include cleared transaction volumes 'in clearing' and 'out clearing' for GBP, USD and EUR. The direct members are listed at [http://www.chequeandcredit.co.uk/about\\_us\\_and\\_our\\_members/our\\_members/](http://www.chequeandcredit.co.uk/about_us_and_our_members/our_members/).
  - c. **CHAPS:** The PSR fee to be recovered from individual direct members of the CHAPS payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct member through CHAPS during the relevant time period. The relevant time period for transaction volumes processed through the CHAPS regulated payment system is between 1 January and 31 December 2014. Transaction volumes include CHAPS' internal MT103 and MT202 categories of transfers of funds. The direct members are listed at <http://www.chapsco.co.uk/participation/currentparticipants/>.
  - d. **FPS:** The PSR fee to be recovered from individual direct members of the FPS payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct member through FPS during the relevant time period. The relevant time period for transaction volumes processed through the FPS regulated payment system is between 1 July 2014 and 30 June 2015. The direct members are listed at <http://www.fasterpayments.org.uk/membership/access-options/direct-membership/current-members>.
  - e. **LINK:** The PSR fee to be recovered from individual direct members of the LINK payment system will be calculated proportionally to the transaction volumes issued and acquired on behalf of that direct member through LINK during the relevant time period. The relevant time period for transaction volumes issued and acquired through the LINK regulated payment system is between 1 January and 31 December 2014. The direct members are listed at <http://www.link.co.uk/AboutLINK/Pages/Members.aspx>.

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<sup>34</sup> See Updated Table 7.2 in our May 2015 Supplementary Paper (<https://www.psr.org.uk/supplementary-document-fca-cp-1514-psr-fees>). We note that these transaction volumes will require updating to reflect the exclusion of the Bank of England volumes and any other system-specific adjustments set out in paragraph 4.41 and in the proposed amendments to FEES 9 Annex 1 (included as Annex 2 to this paper).

- f. **MasterCard:** The PSR fee to be recovered from individual direct members of the MasterCard payment system will be calculated proportionally to the transaction volumes issued and acquired on behalf of that direct member through MasterCard in the United Kingdom during the relevant time period. The relevant time period for transaction volumes issued and acquired through the MasterCard regulated payment system in the United Kingdom is between 1 July 2014 and 30 June 2015. Each transaction is counted once as an issuing transaction and once as an acquiring transaction. The relevant transaction volumes are Point of Sale (POS)/Merchant Sales Volumes (MSV) in the United Kingdom. The direct members are all principal issuers and acquirers based in the United Kingdom that hold a MasterCard license to operate in the United Kingdom.
- g. **NICC:** The PSR fee to be recovered from individual direct members of the NICC payment system will be calculated proportionally to its 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 2014. The direct 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.
- h. **Visa Europe:** The PSR fee to be recovered from individual direct members of the Visa Europe payment system will be calculated proportionally to the transaction volumes issued and acquired on behalf of that direct member through Visa Europe in the United Kingdom during the relevant time period. The relevant time period for transaction volumes issued and acquired through the Visa Europe regulated payment system in the United Kingdom is between 1 January and 31 December 2014. Each transaction is counted once as an issuing transaction and once as an acquiring transaction. The relevant transaction volumes are Point of Sale (POS)/Merchant Sales Volumes (MSV) in the United Kingdom, as reported in their respective Operating Certificates. The direct members are all Visa Europe issuers and acquirers operating in the United Kingdom.

4.42 The table below summarises the allocation methodology decided on between payment systems, and sets out the proposed PSR fee calculation methodology within individual payment systems:

**Table 7: Table relating to FEES 9 Annex 1 – Allocation methodology by regulated payment system and proposed calculation methodology for PSR fee payable by direct members within those payment systems**

Regulated payment system	Allocation methodology across regulated pan-UK payment systems (decided on)		Proposed calculation methodology for PSR fee payable by direct members within regulated payment systems		
		%		£ million	
Bacs	Equal allocation to pan-UK payment systems = 1/7	14.3%	4.01	The PSR fee is calculated for each individual direct member proportionally to the transaction volumes processed on behalf of that direct member through the regulated payment system in question during the relevant time period.	
CHAPS	Equal allocation to pan-UK payment systems = 1/7	14.3%	4.01		
FPS	Equal allocation to pan-UK payment systems = 1/7	14.3%	4.01		
Cheques	Equal allocation to pan-UK payment systems = 1/7	14.3%	4.01		
C&C	Within cheques: 97%	13.9%	3.91		
NICC	Within cheques: 3%	0.4%	0.11		The PSR fee is calculated for each individual direct member proportionally to its shareholding in the operator of the NICC regulated payment system during the relevant time period.
LINK	Equal allocation to pan-UK payment systems = 1/7	14.3%	4.01		The PSR fee is calculated for each individual direct member proportionally to the transaction volumes issued and acquired on behalf of that direct member through the regulated payment system in question during the relevant time period.
MasterCard	Equal allocation to pan-UK payment systems = 1/7	14.3%	4.01		
Visa Europe	Equal allocation to pan-UK payment systems = 1/7	14.3%	4.01		
Total		100.0%	28.1		



## **Amendments to fees rules under the 'indirect billing' approach**

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- 4.43 This section sets out a summary of the amendments to the fees rules to give effect to the 'indirect billing' approach. The current fees rules (FEES 9) are available at <http://fshandbook.info/FS/html/handbook/FEES/9>. The proposed amendments are set out in a fees instrument included as Annex 2 to this document. The amended fees rules which give effect to the 'indirect billing approach' (and which require the operators to act as our collection agents) are scheduled to take effect from 29 October 2015, subject to the outcome of this consultation.
- 4.44 Where a rule is being modified as a result of the conditions in the HMRC ruling this is indicated.
- 4.45 The modifications to the fees rules include adding some new definitions and modifying some existing definitions. These modifications to the fees glossary are set out in Annex A to the amended fees rules in Annex 2 to this document.
- 4.46 The main proposed amendments to the fees rules to give effect to the 'billing operators' approach, and in particular the role of operators as collection agents, include:
- the requirement on operators to issue separate invoices on a timely basis to their direct members (without adding any other charges, fees, administrative or handling fees)<sup>35</sup>
  - the requirement on direct members to pay their PSR fees to the operator of each regulated payment system, acting as our collection agents,<sup>36</sup> by electronic transfer unless otherwise advised to the operator<sup>37</sup>
  - the dates by which direct members must make payments of their share of the PSR fees to the operators of the payment systems in question<sup>38</sup> (typically 15 August, unless the on-account rules apply – see below)
  - the requirement on operators to issue invoices on a sufficiently timely basis to enable their direct members to pay their PSR fee on time<sup>39</sup>
  - the requirement on operators to pay the amounts they have collected to us<sup>40</sup>
  - the dates by which the operators must pay the amounts that they have collected to us<sup>41</sup> (typically 30 August, unless the on-account rules apply – see below)
- 4.47 The actual fees calculation methodology which must be followed by operators, and which is described in detail in paragraphs 4.39-4.42 above, is set out in modifications to the fees provisions in FEES 9 Annex 1.

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<sup>35</sup> See FEES 9.2.4C(i) and (ii) and HMRC ruling at paragraphs 5(i) and (ii)

<sup>36</sup> See FEES 9.2.4A and HMRC ruling at paragraph 5

<sup>37</sup> See FEES 9.2.4

<sup>38</sup> See FEES 9.2.2 and 9.2.3

<sup>39</sup> See FEES 9.2.AC(iii)

<sup>40</sup> See FEES 9.2.4B and HMRC ruling at paragraph 5(iv)

<sup>41</sup> See FEES 9.2.2A and 9.2.3A

- 4.48 The HMRC ruling also requires us to enable the PSR to monitor that the operators have correctly applied the fee methodology within each payment system<sup>42</sup>. The proposed fees rules therefore also require the operators to send the PSR a copy of their calculations of individual members' allocation of PSR fees, as well as the relevant underlying data (total transaction volumes (excluding the Bank of England) and transaction volumes for individual direct members, and (for NICC) shareholding information.<sup>43</sup> They must do this no later than the date they issue invoices to their direct members.
- 4.49 We have proposed modifying the transitional provisions to reflect the dates by when the direct members and operators must make their payments for the 2015/16 PSR fees as set out below:<sup>44</sup> We expect that operators will issue invoices to their direct members at the end of October/first days of November to enable these dates to be met.
- a. Direct members are required to pay their 2015/16 PSR fees to operators by 10 December 2015.
  - b. Operators will pay to us the amounts collected by 21 December 2015.
- 4.50 We note that the on-account fees rules will be applicable in April 2016 for the first time, in relation to the 2016/17 PSR fees. We are accordingly proposing modifying the levels and dates set out in on-account fees rules in light of the 'indirect billing approach' as follows:<sup>45</sup>
- a. If a direct member has paid more than £20,000 in 2015/16 PSR fees to an operator (in relation to its participation in that specific regulated payment system), it must pay 50% of its 2015/16 PSR fee 'on account' to the operator (acting as our collection agent) by 15 April 2016 to help fund the PSR in 2016/17.<sup>46</sup>
  - b. The remainder of its 2016/17 fee will be payable to the operator by 15 August 2016.<sup>47</sup>
  - c. The operators will be required to pay to us the amounts collected on account for the 2016/17 PSR fees by 30 April and 1 September respectively.<sup>48</sup>
  - d. If no on-account fees are due, the direct member must normally pay its entire 2016/17 PSR fee to the operator of the relevant regulated payment system by 15 August 2016.<sup>49</sup>
- 4.51 We are also proposing modifications to the existing rules which set out what happens if a regulated payment system ceases to be designated by the Treasury, to also cover the situation of a payment service provider ceasing to be a direct member of a regulated payment system.<sup>50</sup>
- 4.52 Our policy approach on what happens if a payment system is designated during the course of a fee year is set out in our March CP15/14 document at paragraphs 7.29 to 7.36, and is summarised in paragraph 3.5 above. As we indicated, if a payment system is designated, we will conduct a separate consultation on: the amount of the 2015/16 fee allocated to it, based on the policy approach; the calculation methodology for determining the PSR fee applicable to direct members in the regulated payment system; and, if appropriate, the collection methodology. We therefore do not propose to introduce specific rules at this point in time on what happens when a payment system is designated for FSBRA regulation.

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<sup>42</sup> See HMRC ruling at paragraph 5(iii)

<sup>43</sup> See FEES 9.2.4D

<sup>44</sup> See FEES TP12

<sup>45</sup> See FEES 9.2.2 and 9.2.3

<sup>46</sup> See FEES 9.2.2(i)

<sup>47</sup> See FEES 9.2.2(ii)

<sup>48</sup> See FEES 9.2.3A

<sup>49</sup> See FEES 9.2.3

<sup>50</sup> See FEES 9.25, 9.2.6 and 9.2.6A

- 4.53 We also do not propose at this point in time to introduce a specific rule with respect to what happens when a payment service provider becomes a direct member of a regulated payment system during the course of a fee year. The practical impact of this is that, for the time being, a new direct member will not be required to pay PSR fees to operators in the first year that they have become a direct member of a regulated payment system, reflecting the fact that at the time they become a direct member, their historic transaction volumes (as a direct member) are nil. We will consider the paying of PSR fees by new direct members in due course.
- 4.54 The rules on late payment penalties and relieving provisions are also proposed to be modified:
- a. to reflect that liability for payment of the PSR fee rests with the direct members of regulated payment systems, rather than with the operators<sup>51</sup>
  - b. to set out how unpaid fees can be recovered<sup>52</sup>

### **Assessment of compatibility with FCA duties and PSR regulatory principles**

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- 4.55 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 the 2012 Act and FSBRA. The FCA is exempt from the obligation to carry out a cost benefit analysis in relation to PSR fees rules.<sup>53</sup>
- 4.56 When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to explain why it believes making the proposed rules is compatible with the FCA's strategic objective, advances one or more of its operational objectives, and has regard to the regulatory principles in s.3B FSMA.
- 4.57 We set out our view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way that promotes effective competition in the interests of consumers (s.1B(4)). 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.
- 4.58 We also set out our view of how the proposed rules are compatible with the regulatory principles applicable to the PSR under s.53 FSBRA.

#### **(a) The FCA's objectives and regulatory principles**

- 4.59 The proposals we set out in this consultation are not intended in themselves to advance the FCA's operational objectives. However, they will contribute to enabling the FCA to ensure the PSR is capable of discharging its functions by funding the activities the PSR needs to undertake in 2015/16 to meet its responsibilities under FSBRA. 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

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<sup>51</sup> See FEES 9.2.7 and 9.2.10

<sup>52</sup> See FEES 9.2.7A

<sup>53</sup> FSBRA Schedule 4, para 9(9)

- Building competitive markets – promoting effective competition in the interests of consumers

4.60 We also consider that these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they will again contribute to enabling us to fund the activities to meet this strategic objective. References below to objectives mean both the FCA's strategic objective and operational objectives.

4.61 The proposals in this consultation aim to put in place a methodology for calculating and collecting fees to fund the PSR to enable it to meet its statutory objectives:

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

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

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

4.63 Our proposed approach to calculating and collecting PSR fees reflects an appropriate balance between an approach that is relatively simple, transparent and predictable (and, as a result, low-cost) and one that is not disproportionately burdensome or unfair to individual payment systems or individual direct members of payment systems. 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 industry.

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

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

**(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**

4.65 We have set 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.

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

4.66 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 direct member in a regulated payment system and collecting PSR fees (via the operators acting as collection agents).

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

4.67 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.

4.68 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 members of existing regulated payment systems.

**(g) Equality and diversity**

4.69 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. Our EIA concluded that none of our current proposals are relevant to the equality and diversity agenda.

4.70 However, we would welcome comments on any equality and diversity issues you believe may arise from our proposals.

4.71 The funding for the PSR will enable it to progress its programme of work. This may in due course lead to consideration of new general directions or generally applicable requirements (or modifications to existing ones). We note that where the PSR proposes to impose general directions or generally applicable requirements under FSBRA (or modify existing ones), it carries out an EIA with respect to those specific proposals.

## Consultation questions

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4.72 We are asking for responses to the following consultation questions:

- Q1:** Our preferred approach is the 'indirect billing' approach, as it will minimise the regulatory burden on participants, while not imposing significant additional administrative burden on operators compared to the 'billing operators' approach. The 'indirect billing' approach means that PSR fees would be levied on direct members of a regulated payment system, calculated according to the methodology we specify, and collected on our behalf by operators. Should we proceed with this approach for your system for 2015/16?
- Q2:** Do you have any other comments on the proposed 'indirect billing' approach?
- Q3:** We do not propose to proceed with the originally proposed approach ('billing operators') as it may result in taxable supply by operators to their direct members, and would require some operators to create additional regulatory reserves – thereby increasing the regulatory burden on industry. Are there any factors that we have not considered that you think we should take into account and that would support proceeding with the 'billing operators' approach?
- Q4:** Do you have any comments on our proposed approach to calculating fees for direct members within each regulated payment system (in 'indirect billing')? If so, please identify which payment system you are commenting on.
- Q5:** Do you have any comments on the proposed fees rules listed in Annex 2 to this document and described in paragraphs 4.43-4.54 above?

# Annexes

# **Annex 1**

## **HMRC ruling dated 9 August 2015**





HM Revenue  
& Customs

Payment System Regulator  
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LONDON  
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**Local Compliance  
Mid-size Business**  
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**Date** 9 August 2015  
**VAT number** 480 8791 09

**Web** [www.gov.uk](http://www.gov.uk)

Dear Ms Johnson

### **VAT Treatment of Payments System Regulator (PSR) Fees**

Thank you for your correspondence of 3 August 2015 in respect of the VAT treatment of PSR Fees.

Under paragraph 9, schedule 4 Financial Services (Banking Reform) Act 2013 (FSBRA), the PSR's costs in discharging its functions are to be met through fees levied on participants in regulated payment systems. There are currently eight regulated payment systems, which have been designated by HM Treasury in accordance with s.43 FSBRA (specifically: Bacs, CHAPS, Cheque & Credit, Faster Payments Scheme, LINK, Northern Ireland Cheque Clearing, MasterCard and Visa Europe).

You have described the steps that will be implemented in relation to the levying of PSR regulatory fees on industry participants and I am now in a position to provide you with a ruling based on the information that you have provided to date.

Industry participants fall within two categories, direct participants and indirect participants. The treatment of the fees in relation to these two categories will differ.

#### **Direct Participants**

The regulatory fees when paid by the direct participants will be outside the scope of VAT, subject to the conditions described below, as they are not considered to be consideration for any supply for VAT purposes.

You refer to the proposed process as indirect billing and this is the term that shall be used going forwards.

The indirect billing process outlined below is taken from your proposals, with some caveats.

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Information is available in large print, audio and Braille formats.  
Text Relay service international number – +44 151 494 1260



1. Liability for the payment of PSR regulatory fees will lie with the direct members in each regulated payment system (not the operators of those regulated payment systems).
  - i) No invoice will be issued to the Payment System Operator (PSO)
  - ii) The PSR will take up issues of non-payment or late payment directly with the members, not through the PSO.
2. Each year, following appropriate industry consultation, PSR will determine the method used to apportion the total PSR annual funding requirement between regulated payment systems, and will set the total amount to be collected from the direct members of each regulated payment system.
3. Within each regulated payment system and following appropriate consultation each year, PSR will determine the method used to apportion PSR fees between individual direct members in that regulated payment system.
4. The operators of regulated payment systems will not have any discretion to determine the apportionment of fees to individual direct members of their regulated payment system.
5. The operators of each regulated payment system will act as collection agents for the PSR in respect of their given regulated payment system, and will apply the calculation methodology that the PSR specify. Specifically:
  - i. PSR will direct the operators of each regulated payment system to issue invoices for PSR regulatory fees to their direct members on behalf of the PSR.
  - ii. PSR will specify that such invoices must be separate invoices which relate solely to PSR regulatory fees, and must not include any additional administrative, handling or other charge. These fees must be ring-fenced, and must clearly be a separate payment.
  - iii. PSR will monitor the amounts invoiced by operators to direct members of regulated payment systems to ensure that the operators are correctly applying the calculation method we specify.
  - iv. The operators will then transfer the cash they collect to PSR (and in so doing will be acting on behalf of their direct members to make that payment to the FCA).

It is important to recognise that the fees charged under the indirect billing regime will be outside the scope of VAT, and not exempt.

### **Indirect participants**

The regulatory fees, when paid by the indirect participants would be within the scope of VAT. This is because the fees will be charged on as a cost component of a 'bundle of services' provided by the direct participants to the indirect participants. This supply will not fall within the process shown above.

Indirect participants may become direct members. If this happens they will in turn fall within the indirect billing regime as described above.

### **What to do if you disagree**

If you disagree with our decision, you need to write to us within 30 days of the date of this notice, telling us why you think our decision was wrong and we will look at it again. If you prefer, we will arrange for a review by an HMRC officer not previously involved in the matter. You will then have the right to appeal to an independent tribunal. Alternatively you can appeal direct to the tribunal within 30 days of this notice.

You can find more information about appeals and reviews in factsheet HMRC1, 'HM Revenue & Customs decisions – what to do if you disagree'. You can get this factsheet from our website. Go to [www.gov.uk](http://www.gov.uk) and search 'what to do if you disagree' or you can phone our orderline on **0300 200 3610**.

You can find out more about tribunals on the Tribunals Service website. Go to [justice.gov.uk/tribunals/tax](http://justice.gov.uk/tribunals/tax)

Alternatively, if you have any additional information that may affect my decision please advise me within 30 days of the date of this letter.

Please note that our new address is Local Compliance, Mid-size Business, S0836, NEWCASTLE, NE98 1ZZ, United Kingdom. If you write to us but do not use this address then we may not get your post.

Yours faithfully

**Mrs Ruth Greaves**  
VAT Specialist

To find out what you can expect from us and what we expect from you go to [www.gov.uk/hmrc/your-charter](http://www.gov.uk/hmrc/your-charter) and have a look at 'Your Charter'.

# **Annex 2**

## **Proposed amendments to the PSR fees rules (FEES 1 and 9, FEES TP12, and FEES 9 Annex 1)**

**FEES (PAYMENT SYSTEMS REGULATOR) (INDIRECT BILLING)  
INSTRUMENT 2015**

**Powers exercised**

- A. The Financial Conduct Authority makes this instrument in the exercise of:
- (1) the powers in paragraph 9 (Funding) of Schedule 4 (The Payment Systems Regulator) of the Financial Services (Banking Reform) Act 2013 (“FSBRA”); and
  - (2) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
    - (a) section 137T (General supplementary powers);
    - (b) section 139A (Power of the FCA to give guidance); and
    - (c) paragraph 23 of schedule 1ZA (Fees).
- B. The rule-making powers listed above are specified for the purpose of paragraph 9 of schedule 4 to FSBRA and section 138G (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on [29 October 2015].

**Amendments to the FCA Handbook**

- D. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- E. The Fees manual (FEES) is amended in accordance with Annex B to this instrument.

**Notes**

- F. In the Annexes to this instrument, the “notes” (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.

**Citation**

- G. This instrument may be cited as the Fees (Payment Systems Regulator) (Indirect Billing) Instrument 2015.

By order of the Board  
[22 October 2015]

## Annex A

### Amendments to the Glossary of definitions

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

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

*direct access* 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).

[**Note:** see section 42(6) *FSBRA*]

*direct payment service provider* 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*.

*payment system allocation* 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*.

*payment system denominator* 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.

*relevant time period* 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.

*transaction volumes* 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*.

Amend the following definitions as shown.

*participant* (a) (except in *FEES 9*) (in accordance with section 235(2) of the *Act* (~~*Collective investment*~~ *Collective investment* schemes)) a *person* who participates in a *collective investment scheme*.

(b) (in *FEES 9*) in relation to a *regulated payment system*, any *operator*, *payment service provider* and *infrastructure provider* to

that regulated payment system.

[**Note:** see section 42(2) *FSBRA*]

- payment system* (a) (in accordance with section 41 of *FSBRA*), 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;
- (b) but “payment system” does not include:
- (i) any arrangements for the physical movement of cash;
  - (ii) a system which does not make any provision for the transfer of funds by payers, or to recipients, in the *United Kingdom*;
  - (iii) a securities settlement system operated by a *person* approved under regulations made under section 785 of the Companies Act 2006 (provisions enabling procedures for evidencing the transferring title);
  - (iv) a system operated by a *recognised clearing house*;
  - (v) any other system whose primary purpose is not that of enabling *persons* to transfer funds.

[**Note:** section 42(3) of *FSBRA*]

*PSR* The Payment Systems Regulator Limited, the *body corporate* established by the *FCA* under section 40(1) of *FSBRA*.

*PSR fee* the fee payable to the *FCA* by an *operator of a regulated payment system* a direct payment service provider under *FEES* 9.2.1R.

## Annex B

### Amendments to the Fees manual (FEES)

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

#### 1 Fees Manual

##### 1.1 Application and purpose

...

Application

...

- 1.1.2A R *FEES 1 and FEES 9 apply to ~~an operator~~ operators of a regulated payment ~~system~~ systems and direct payment service providers.*

...

#### 9 Payment Systems Regulator funding

##### 9.1 Application and purpose

Application

- 9.1.1 R This chapter applies to ~~an operator~~ operators of a ~~regulated payment system~~ systems and direct payment service providers.

Purpose

- 9.1.2 G This chapter sets out the fee payable by ~~an operator~~ of a ~~regulated payment system~~ a direct payment service provider to establish and fund the PSR.

...

- 9.1.4 G (1) Paragraph 9 of Schedule 4 of *FSBRA* allows the *FCA* to make *rules* requiring ~~participants~~ participants in *regulated payment systems* to pay the *FCA* specified amounts or amounts calculated in a specified way to:

...

...

...

##### 9.2 PSR fees

Obligation to pay PSR fees



9.2.1 R ~~An operator of a regulated payment system~~ A direct payment service provider must pay the ~~applicable PSR fee fees~~ applicable to it and calculated as set out in FEES 9 Annex 1R:

- (1) in full and without deduction; and
- (2) in accordance with this chapter.

Time of payment

9.2.2 R ~~If an operator of a regulated payment system's fee~~ the PSR fee paid by a direct payment service provider for the previous ~~fee year~~ for a particular regulated payment system was at least ~~£50,000~~ 20,000, that ~~operator~~ direct payment service provider must pay:

- (1) an amount equal to 50% of the *PSR fee* payable for the previous *fee year*, by ~~30~~ 15 April in the current *fee year*; and
- (2) the balance of the *PSR fee* due by ~~1 September~~ 15 August in the current *fee year*.

9.2.2A R The operator of each regulated payment system must pay the amounts collected (as collection agent for the FCA) under FEES 9.2.2R to the FCA by the following dates:

- (1) 30 April in the current fee year;
- (2) 1 September in the current fee year.

9.2.3 R ~~If an operator of a regulated payment system's fee~~ the PSR fee paid by a direct payment service provider for a particular regulated payment system for the previous *fee year* was less than ~~£50,000~~ 20,000, the ~~operator of that regulated payment system~~ direct payment service provider must pay its *PSR fee* in full:

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

9.2.3A R The operator of each regulated payment system must pay the amounts collected (as collection agent for the FCA) under FEES 9.2.3R to the FCA by the following date:

- (1) 30 August in the current fee year; or
- (2) if later, within 15 days of the date payment of an amount in respect of PSR fees is received by the operator from a direct payment service provider.

**[Note: Transitional provisions apply to both FEES 9.2.2R and FEES 9.2.3R: see FEES TP 12.]**

Method of payment and invoicing

- 9.2.4 G An operator of a regulated payment system A direct payment service provider should pay its fees by electronic credit transfer and should notify the FCA operator to whom it is paying the relevant PSR fee if it intends to pay in another way.
- 9.2.4A R A direct payment service provider must pay its PSR fees to the operator (acting as collection agent for the FCA ) of the regulated payment system to which the fee relates.
- 9.2.4B R The operator of a regulated payment system, acting as collection agent for the FCA, must pay to the FCA the amounts it receives from direct payment service providers under FEES 9.2.4AR.
- 9.2.4C R With respect to invoices for PSR fees:
- (1) the operator of each regulated payment system is required to issue invoices to its direct payment service providers for the amount of the PSR fee relating to each direct payment service provider for their participation in that regulated payment system;
  - (2) invoices are required to be separate invoices which include only the amount of the PSR fee applicable to each direct payment service provider, and must include no other charges, fees, administrative or handling fees;
  - (3) invoices are required to be issued by the operator on a sufficiently timely basis to enable the direct payment service providers to pay PSR fees to the operator (acting as collection agent for the FCA) by the dates specified in FEES 9.2.2R and 9.2.3R.
- 9.2.4D R (1) The operator of a regulated payment system must provide to the PSR for each of its direct payment service providers a copy of:
- (a) its calculations (as specified in column 3 of Table A of FEES 9 Annex 1R); and
  - (b) the underlying data as specified in column 5 of Table A of FEES 9 Annex 1R.
- (2) The operator of a regulated payment system must provide the information in (1) no later than the date it issues invoices to direct payment service providers in accordance with FEES 9.2.4C.
- 9.2.4E G An operator of a regulated payment system should pay the amounts due to the FCA under FEES 9.2.4BR by electronic credit transfer and should notify the FCA if it intends to pay in another way.

Regulated payment systems ceasing to be a designated payment system Ceasing to be designated as a regulated payment system and ceasing to be a direct payment system provider of a regulated payment system

- 9.2.5 G The *FCA* will not relieve or refund a *PSR fee* if a *payment system* ceases to be a *regulated payment system*, or if a person ceases to be a *direct payment service provider of a regulated payment system*, after the start of that *fee year*.
- 9.2.6 R If a *payment system* ceases to be a *regulated payment system*, ~~the operator~~ all *direct payment service providers* of that system must pay any outstanding *PSR fees* before it ~~the system~~ ceases to hold that status.
- 9.2.6A R If a person ceases to be a *direct payment service provider of a regulated payment system*, it must pay any outstanding *PSR fees* in respect of that system, before it ceases to be a *direct payment system provider of the system*.

Late payments

- 9.2.7 R If ~~an operator of a regulated payment system~~ a *direct payment service provider* does not pay the total amount of its *PSR fees* before the end of the date on which it is due it must pay to the *FCA*:
- (1) an administrative fee of £250; plus
  - (2) interest on any unpaid part of the fee at an annual rate of 5% above the Official Bank Rate from time to time in force, accruing daily from the date on which the amount concerned became due.
- 9.2.7A G (1) The *FCA* may recover a *PSR fee* as a debt owed to the *FCA* under paragraph 23 (8) of Schedule 1ZA of the Act.
- (2) The *FCA* will consider taking action for the recovery (including interest) through the civil courts.

Reduction, remission and repayment of fees

...

- 9.2.10 G The *FCA* will not consider a claim to refund a *PSR fee* due to a mistake of fact or law by the fee paying ~~operator of a regulated payment system~~ *direct payment service provider* if the claim is made more than two years after the beginning of the *fee year* to which the fee relates.

...

[continued]

**9 Annex 1R PSR fees for the period 1 April 2015 to 31 March 2016**

The table below shows the *PSR fee* applicable to the ~~operator~~ *direct payment system providers* of each *regulated payment system*.

**Table A**

Name of regulated payment system	Amount payable by the relevant operator (£)
[tbc]	[tbc]

Substitute the following new table for the table in 9 Annex 1R. The text is not underlined.

Regulated payment system (column 1)	Payment system allocation for 2015/16 (£) (column 2)	Calculation methodology for PSR fee payable by direct payment service providers of regulated payment systems (column 3)	Relevant time period (column 4)	Relevant transaction volumes or shareholdings, as applicable (column 5)	Payment system denominator (column 6)
Bacs	4,014,300	The <i>PSR fee</i> is calculated for each individual <i>direct payment service provider</i> proportionally to the <i>transaction volumes</i> processed on behalf of that <i>direct payment service provider</i> through the <i>regulated payment system</i> in question during the <i>relevant time period</i> .  The calculation formula is: <i>payment system allocation</i> multiplied by <i>direct payment service provider's</i>	1 January to 31 December 2014	All transactions processed through the Bacs <i>regulated payment system</i> .	[tbc]
C&C	3,905,400		1 October 2014 to 31 March 2015	All transactions including in clearing and out clearing transactions for GBP, USD and EUR processed through the C&C <i>regulated payment system</i> .	[tbc]
CHAPS	4,014,300		1 January to 31 December 2014	All transactions (including CHAPS' internal MT103 and MT202 categories of transfers of funds) processed through the CHAPS <i>regulated payment system</i> .	[tbc]
FPS	4,014,300		1 July 2014 to 30 June 2015	All transactions processed through the FPS <i>regulated payment system</i> .	[tbc]

Regulated payment system (column 1)	Payment system allocation for 2015/16 (£) (column 2)	Calculation methodology for PSR fee payable by direct payment service providers of regulated payment systems (column 3)	Relevant time period (column 4)	Relevant transaction volumes or shareholdings, as applicable (column 5)	Payment system denominator (column 6)
LINK	4,014,300	<i>transaction volumes</i> divided by <i>payment system denominator</i> .	1 January to 31 December 2014	All transactions issued and acquired through the LINK <i>regulated payment system</i> . Each transaction is counted once as an issuing transaction and once as an acquiring transaction.	[tbc]
MasterCard	4,014,300		1 July 201 to 30 June 2015	All transactions issued and acquired in the United Kingdom through the MasterCard <i>regulated payment system</i> , including point of sale and merchant sales volumes in the United Kingdom.. Each transaction is counted once as an issuing transaction and once as an acquiring transaction.	[tbc]
Visa Europe	4,014,300		1 January to 31 December 2014	All transactions issued and acquired in the United Kingdom through the Visa Europe <i>regulated payment system</i> , including point of sale and merchant sales volumes in the United Kingdom.. Each transaction is counted once as an issuing transaction and once as an acquiring transaction.	[tbc]
NICC	108,900	<p>The <i>PSR fee</i> is calculated for each <i>direct payment service provider</i> proportionally to its <i>shareholding</i> in the <i>operator</i> of the NICC <i>regulated payment system</i> during the <i>relevant time period</i>.</p> <p>The calculation formula is: <i>payment system allocation</i> multiplied by <i>direct payment service provider's</i> shareholding in the capital of the</p>	31 December 2014	All shareholdings held in Belfast Bankers' Clearing Company Ltd, the <i>operator</i> of the NICC <i>regulated payment system</i> .	

<b>Regulated payment system</b> (column 1)	<b>Payment system allocation for 2015/16 (£)</b> (column 2)	<b>Calculation methodology for PSR fee payable by direct payment service providers of regulated payment systems</b> (column 3)	<b>Relevant time period</b> (column 4)	<b>Relevant transaction volumes or shareholdings, as applicable</b> (column 5)	<b>Payment system denominator</b> (column 6)
		Belfast Bankers' Clearing Company Ltd (expressed as a percentage).			

Amend the following as shown.

**TP 12 Transitional provisions relating to operators of regulated payment systems direct payment service providers**

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
12.1	<i>FEES 9.2.2R and FEES 9.2.3R</i>	R	Replace the current <i>FEES 9.2.2R</i> and <i>FEES 9.2.3R</i> with the following: “ <del>An operator of a regulated payment system</del> <u>A direct payment service provider</u> must pay its <i>PSR fee</i> in full to the <u>operator (acting as collection agent for the FCA)</u> of the <u>regulated payment system to which the PSR fee relates</u> by <u>no later than 1 August 2015 10 December 2015</u> <del>or, if later, within 30 days of the date of the invoice to which the PSR fee relates.</del> ”	From 1 April 2015 until 31 March 2016	<del>1 April 29 October</del> 2015
<u>12.2</u>	<u><i>FEES 9.2.2AR and FEES 9.2.3AR</i></u>	R	Replace the current <u><i>FEES 9.2.2AR</i></u> and <u><i>FEES 9.2.3R</i></u> with the following: “ <u>The operator of each regulated payment system must pay the amounts collected in respect of PSR fees (acting as collection agent for the FCA) pursuant to FEES 9.2.4AR to the FCA by no later than 21 December 2015.</u> ”	From 1 April 2015 until 31 March 2016	<u>29 October 2015</u>

# Annex 3 Glossary



# Glossary

This table includes the glossary and abbreviations used for the purposes of this *PSR regulatory fees 2015/16* CP15/26 document.

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

Term or abbreviation	Description
<b>AFR</b>	Annual funding requirement
<b>allocation</b>	The methodology whereby the PSR AFR is allocated across regulated payment systems to be recovered
<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>'billing operators' approach</b>	The approach to raising PSR fees whereby PSR fees are levied on operators of regulated payment systems, as set out in CP14/26 and CP14/15
<b>C&amp;C (Cheque &amp; 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>CA98</b>	Competition Act 1998
<b>calculation</b>	The methodology whereby the PSR AFR allocated to a specific regulated payment system is calculated for an individual direct member
<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>CP14/26</b>	<i>'Regulatory fees and levies: policy proposals for 2015/16'</i> – a document published in November 2014 at <a href="https://www.psr.org.uk/psr-publications/consultations/cp-14.26-fees-levies">https://www.psr.org.uk/psr-publications/consultations/cp-14.26-fees-levies</a>
<b>CP15/14</b>	<i>'FCA Regulated fees and levies: Rates proposals 2015/16'</i> – a document published in March 2015 at <a href="https://www.psr.org.uk/cp15-14-fca-reg-fees-levies-rates-proposals-15-16">https://www.psr.org.uk/cp15-14-fca-reg-fees-levies-rates-proposals-15-16</a>
<b>CP15/26</b>	<i>'PSR regulatory fees 2015/16'</i> – a document published in August 2015 at <a href="https://www.psr.org.uk/about-psr/how-psr-funded">https://www.psr.org.uk/about-psr/how-psr-funded</a> and <a href="http://www.fca.org.uk">www.fca.org.uk</a>

<b>CPMI IOSCO Principles</b>	Principles for Financial Market Infrastructures published by CPSS-IOSCO in April 2012. These were adopted as principles by the Bank of England under section 188 of the Banking Act 2009 for payment systems recognised by the Bank (i.e. Bacs, CHAPS, FPS and Visa)
<b>direct access</b>	<i>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). See also s.42(6) FSBRA</i>
<b>direct payment service provider (also referred to as 'direct member' of a regulated payment system)</b>	<i>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</i>
<b>EA02</b>	Enterprise Act 2002
<b>FCA</b>	Financial Conduct Authority
<b>FEES 9</b>	<i>PSR fees rules included in the FCA Fees Manual (FEES) at FEES 9 (<a href="http://fshandbook.info/FS/html/FCA/FEES/9">http://fshandbook.info/FS/html/FCA/FEES/9</a>)</i>
<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>FSBRA</b>	<i>Financial Services (Banking Reform) Act 2013</i>
<b>FSMA</b>	<i>Financial Services and Markets Act 2000</i>
<b>HMRC</b>	Her Majesty's Revenue & Customs
<b>HMRC ruling</b>	HMRC ruling dated 9 August 2015 to the PSR on VAT treatment of Payment Systems Regulator (PSR) fees
<b>'indirect billing' approach</b>	The approach to raising PSR fees whereby PSR fees are levied on direct members in regulated payment systems, and are collected on behalf of the FCA and PSR by operators acting as collection agents. The operators also issue invoices for the PSR fees determined for individual direct members using the calculation methodology. See consultation in Chapter 4 of CP15/26
<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>MasterCard</b>	The regulated payment systems supporting payments made by cards and operated by MasterCard Inc.

<b>operator</b>	<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. See also s.42(3) FSBRA</i>
<b>ORA</b>	Ongoing regulatory activity
<b>participants</b>	<i>Any operator, payment service provider and infrastructure provider to a regulated payment system. See also s.42(2) FSBRA</i>
<b>payment service provider (PSP)</b>	<i>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. This includes direct PSPs and indirect PSPs. (See also s.42(5) FSBRA)</i>
<b>payment system</b>	<i>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 (in accordance with section 41 of FSBRA)</i>
<b>payment system allocation</b>	<i>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</i>
<b>payment system denominator</b>	<i>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</i>
<b>PS15/15</b>	<i>'FCA regulated fees and levies 2015/16' – a document published in June 2015 at <a href="http://www.fca.org.uk/news/ps15-15-fca-regulated-fees-and-levies">http://www.fca.org.uk/news/ps15-15-fca-regulated-fees-and-levies</a></i>
<b>PSR</b>	<i>The Payment Systems Regulator Ltd, the body corporate established by the FCA under section 40(1) of FSBRA</i>
<b>PSR fee</b>	<i>The fee payable to the FCA (by an operator or a direct payment service provider) under FEES 9.2.1R</i>
<b>recognised payment systems</b>	<i>Systems regulated for financial stability purposes by the Bank of England pursuant to the Banking Act 2009. As of the date of publication, the regulated payment systems which are also recognised payment systems are Bacs, CHAPS, FPS and Visa</i>
<b>regulated payment system</b>	<i>Any payment systems designated by the Treasury in accordance with s.43 FSBRA. As of the date of publication, this included Bacs, C&amp;C, CHAPS, FPS, LINK, NICC, MasterCard and Visa</i>
<b>relevant time period</b>	<i>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</i>
<b>service-user</b>	<i>Those who use, or are likely to use, services provided by payment systems</i>

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<b>Supplementary Paper</b>	<i>'Supplementary Paper to FCA CP15/14 on PSR fees'' – a document published in May 2015 – available at <a href="https://www.psr.org.uk/supplementary-document-fca-cp-1514-psr-fees">https://www.psr.org.uk/supplementary-document-fca-cp-1514-psr-fees</a></i>
<b><i>transaction volumes</i></b>	<i>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</i>
<b>(the) Treasury</b>	Her Majesty's Treasury
<b>Visa (Visa Europe)</b>	The regulated payment systems supporting payments made by cards and operated by Visa Europe and Visa UK Limited

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