

Consultation and decision paper

CP17/44

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# **PSR regulatory fees**

Policy decision on the approach to the collection of PSR regulatory fees from 2018/19 and further consultation on the fees allocation method

**December 2017**

In this consultation we set out a number of proposals for collecting, allocating and calculating the regulatory fees for the Payment Systems Regulator (PSR). The fees are used to fund the PSR's functions under the Financial Services (Banking Reform) Act 2013, the Payment Card Interchange Fee Regulations 2015, and the Payment Services Regulations 2017. The proposals will affect the 2018/19 PSR fees and PSR fees in future years.

Please consider our proposals and send us your comments on the questions in this consultation paper by **5pm on 26 January 2018**.

You can email us at [PSRfees@psr.org.uk](mailto:PSRfees@psr.org.uk) or write to us at the following address:

Payment Systems Regulator  
Fees team  
25 The North Colonnade  
Canary Wharf  
London E14 5HS  
Email: [PSRfees@psr.org.uk](mailto:PSRfees@psr.org.uk)

You can download this consultation from our website:  
[www.psr.org.uk/psr-publications/consultations/CP-17-44-PSR-fees](http://www.psr.org.uk/psr-publications/consultations/CP-17-44-PSR-fees)

We may publish all non-confidential responses to our consultation paper along with our final policy statement. We will not regard a standard confidentiality statement in an email message as a request for nondisclosure. Stakeholders who wish to claim commercial confidentiality over specific items in their response should 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.

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# 1 Overview

## Introduction

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- 1.1** In this document, which forms part of our review of our approach to allocating and collecting regulatory fees for the Payment Systems Regulator (PSR), we set out our decisions on some of the questions we asked in our August 2017 consultation (CP17/30)<sup>1</sup>, and propose further questions for consultation.
- 1.2** For convenience, when this document refers to ‘we’ or ‘us’, this means the Financial Conduct Authority (FCA) and the PSR jointly, although the fees rules in the FCA Handbook are made by the FCA.
- 1.3** In CP17/30, we asked stakeholders to comment on the potential changes to:
- a. The way we **collect** PSR regulatory fees, including a draft instrument for the change.
  - b. The way we **allocate** PSR regulatory fees, including:
    1. the guiding principles for reviewing our fees allocation methodology
    2. the options for fees allocation methodology
    3. other policy questions including how we should take PSD2 into account and how ring-fenced banks should be treated for the purpose of PSR fees
- 1.4** We have considered the submissions we received from stakeholders, which have shaped our thinking on the preferred approaches in relation to all the potential changes above. Over the summer we also collected more data to inform our thinking.
- 1.5** In this document, we:
- a. Publish our decision on our **fees collection method** which we consulted on in CP17/30; provide further details on how this will be implemented including what operators and fee payers will be expected to do; set out the amendments to the fees rules (FEES 9) to implement this decision (as set out in **Annex 3**); and ask further questions to help us refine our fees collection method (**Chapter 3**).
  - b. Make further proposals on our **fees allocation method**. In particular, we restate our guiding principles for reviewing our fees allocation method, discuss our analysis and proposal on the allocation method that we think is appropriate, ask further consultation questions to help us refine the way we allocate fees, and propose amendments to our fees rules (as set out in **Annex 4**) (**Chapter 4**).
  - c. Discuss **other policy issues regarding fees allocation**, including decisions on questions in CP17/30 and new issues raised in this consultation (**Chapter 5**).
- 1.6** Following this round of consultation, we expect to be able to decide on an approach to allocating and collecting PSR fees that will be sustainable and more predictable for fee-payers. Our intention is that we would not consult again in future years unless we propose material changes to our approach.
- 1.7** Our original plan was to publish this consultation in November. However, after reviewing the responses we received to the August consultation, we concluded we needed more time to consider the proposals in greater depth. We have used this time to develop our thinking and analyse the data the operators have provided to us. Our revised timetable is set out in **Chapter 2** and we do not anticipate the overall timetable will be affected.
- 1.8** This consultation closes on **26 January 2018**.

<sup>1</sup> [www.psr.org.uk/sites/default/files/media/PDF/CP17-30-PSR-fees-18-19.pdf](http://www.psr.org.uk/sites/default/files/media/PDF/CP17-30-PSR-fees-18-19.pdf)

## Objectives of this fees consultation

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- 1.9** The current approach to allocating PSR fee liability and collecting fees was largely developed by the FCA and the PSR to fund the PSR's activities in its first year of operations. We have since continued with the same methodology, adapting it to accommodate new functions. We said that we would review the current methodology for the 2018/19 fees cycle in response to concerns some stakeholders have raised about our existing approach, particularly in relation to the way we collect PSR fees. Furthermore, given that a number of significant changes in the payments landscape are on the horizon, it seems to us that now is the right time to consider whether our approach is still fit for purpose.
- 1.10** In this consultation, we aim to identify a method for collecting and allocating fees that is proportionate, simple and efficient to administer, resilient enough to not require frequent rule changes, and unlikely to introduce any negative impact on competition.

## Background to the PSR's powers and funding

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- 1.11** Every year, the PSR receives regulatory fees ('PSR fees') from its fee payers. The fees are levied to fund the PSR's operations to perform the functions it has under its powers. These include functions under and as a result of the Financial Services (Banking Reform) Act 2013 (FSBRA), in relation to the EU Interchange Fee Regulation (IFR) and, from 2018, in relation to the second EU Payment Services Directive (PSD2).
- 1.12** In CP17/30, we set out our powers under FSBRA, IFR and PSD2. We also set out the FCA's fee-raising powers in relation to PSR fees. More details of this can be found in **Chapter 1** of CP17/30.
- 1.13** We consulted on our approach to fees in relation to the PSR's PSD2 functions. More details on our decision can be found in **Chapter 5** of this document.

## Structure of this consultation

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**1.14** This document is structured as follows.

- **Chapter 1** is this overview.
- **Chapter 2** describes **our fees consultation plan** and sets out the next steps.
- **Chapter 3** sets out our **confirmed approach to fees collection**.
- **Chapter 4** sets out our confirmed **guiding principles** for determining our fees allocation methodology and describes our **proposed allocation option**.
- **Chapter 5** sets out a number of other **policy issues relevant for fees allocation**.
- The **Annexes** include the following:
  - **Annex 1** lists our **consultation questions for this consultation**.
  - **Annex 2** sets out the **allocation options consulted on in CP 17/30**.
  - **Annex 3** is the **fees instrument** setting out the amendments to the PSR fees rules (FEES 9 of the FCA handbook) which has been made (Chapter 3). This was previously consulted on in August 2017 and its content has not changed.
  - **Annex 4** is a **draft fees instrument** setting out the proposed amendments to the PSR fees rules in relation to both fees collection (Chapter 3) and fees allocation (Chapter 4).
  - **Annex 5** sets out the **compatibility assessment** for our proposals.
  - **Annex 6** is a **glossary** of terms.

## Who should be interested in this consultation?

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**1.15** This consultation will be of interest to the following groups:

- participants in regulated payment systems under FSBRA
- IFR regulated persons
- PSD2 regulated persons

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

## What do you need to do next?

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**1.17** Please consider our proposals and send us your comments on the questions in this consultation paper by **5pm on 26 January 2018**. You can email us at [PSRfees@psr.org.uk](mailto:PSRfees@psr.org.uk) or write to us at the following address:

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

## 2 The PSR regulatory fees consultation process and the timeline for 2018/19 fees

In this chapter, we describe the consultation process for PSR regulatory fees and the provisional timeline for fees consultation and payment in the 2018/19 cycle.

### The fees consultation process

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- 2.1** To enable us to fully consider the policy options and proposed rule changes, we have begun the consultation for the 2018/19 fees cycle earlier and published the first fees consultation paper in August 2017.
- 2.2** Following a review of the responses to that consultation, we are issuing this second consultation in December 2017, and expect to issue:
- a third consultation, including a decision on our confirmed allocation method and other policy issues, in Spring 2018
  - a policy statement with our final decision on the fee rates for 2018/19 in Summer 2018
- 2.3** These will be published at approximately the same time as the FCA's consultation on FCA fees for 2018/19 but in separate documents that are jointly published by the FCA and the PSR.
- 2.4** **Table 1** provides a brief overview of the fees consultation and payment timeline. This timeline is only indicative and will depend on the outcome of this consultation. We will publish further details if the timeline changes.



## Provisional PSR fees consultation and payment timeline

**Table 1: Provisional fees timeline for the 2018/19 cycle (subject to the outcome of this consultation)**

<b>August 2017</b>	<p><b>First consultation paper published</b>, CP17/30, which includes:</p> <ul style="list-style-type: none"> <li>• Consultation on proposed (i) changes to the <b>PSR's approach to fees collection</b> and (ii) relevant amendments to the PSR's fees rules.</li> <li>• Consultation on the guiding principles and high-level policy options on <b>the PSR's approach to fees allocation and calculation</b>.</li> <li>• Consultation on <b>related issues</b>.</li> </ul>
<b>September 2017</b>	<i>First consultation closed</i>
<b>December 2017</b>	<p><b>Second consultation paper and policy statement published (this document)</b>. This includes:</p> <ul style="list-style-type: none"> <li>• Our response to stakeholders' submissions to the August consultation.</li> <li>• Decision on the consulted changes to <b>PSR fees collection</b> and the corresponding amendments to the PSR's fees rules.</li> <li>• Consultation on (i) proposed <b>PSR fees allocation method</b>, and (ii) the corresponding draft amendments to the PSR's fees rules.</li> <li>• Decision on <b>other related policy issues</b> that we consulted on in August, including our approach to PSD2 and ring-fenced payment service providers (PSPs).</li> <li>• Further consultation on related issues such as minimum transaction thresholds.</li> </ul>
<b>January 2018</b>	<i>Second consultation closes.</i>
<b>January to March 2018</b>	<p><b>Preparations for collecting on-account fees</b> for 2018/19, based on fees paid in 2017/18.</p> <p>Where relevant, <b>operators submit 2017 transaction data</b> by 1 February.</p>
<b>By 1 April 2018</b>	Where relevant, <b>fee payers pay on-account fees</b> for 2018/19.

<b>Spring 2018</b>	<p><b>Third consultation paper and policy statement published.</b> This is expected to include:</p> <ul style="list-style-type: none"> <li>• Our response to stakeholders' submissions to the December consultation</li> <li>• Decision on proposed changes to <b>PSR fees allocation and calculation</b> and on <b>related issues</b>.</li> <li>• Potential further consultation on specific issues.</li> <li>• Proposed <b>PSR fee rates for 2018/19</b> based on our confirmed fees allocation and collection methodology.</li> <li>• Consultation on changes that will take effect from 2019/20 – including, for example, our approach to on-account fees collection.</li> </ul>
<b>May 2018</b>	<i>Third consultation closes.</i>
<b>Summer 2018</b>	<b>Policy statement:</b> Confirmation of <b>PSR fee rates for 2018/19</b> .
<b>May to August 2018</b>	<b>Preparations for collecting the remainder of PSR fees</b> for 2018/19.
<b>By 1 September 2018</b>	Fee payers pay <b>final fees</b> for 2018/19, after deducting any on-account payments made and, where relevant, rebate amounts from the previous fee year.

## 3 The way we collect PSR regulatory fees

In CP17/30, we proposed to end our current indirect billing method where operators collect PSR fees from fee payers on our behalf, and introduce a billing approach where the FCA would directly collect PSR fees from fee payers. Based on the responses to our consultation, we decided to implement our proposal in full in 2018/19.

In this chapter we:

- summarise the responses we received to our fees collection proposal in CP17/30.
- describe our decision on the proposal.
- provide more clarity on a number of questions that were asked about the way the new collection method will be implemented.
- consult on a number of further changes to the fees rules around fees collection to implement our proposal and align our approach with the FCA's requirements.

Annex 3 contains the fees instrument we consulted on in CP17/30. It amends the existing fees rules, which reflect our policy decision in this chapter. Annex 4 contains the further changes we propose to make to the fees rules.

### The collection method we consulted on in CP17/30

- 3.1** We currently collect PSR regulatory fees by indirectly billing payment service providers (PSPs) that are fee payers. Operators are required to calculate and invoice the relevant participants for the appropriate fees and collect them on our behalf, according to the fee allocation and calculation methodology that we publish every year.
- 3.2** This results in higher administrative costs for industry participants, as each operator has to run its own process of determining and collecting fees from groups of fee payers which overlap across operators. In our previous consultations, a number of operators have expressed their dissatisfaction with this process and the consequent administrative burden.
- 3.3** Some PSPs have also expressed dissatisfaction with the arrangement. Some of the participants receive multiple invoices from different operators. The sign-off process for each invoice can be long and cumbersome. A significant proportion of our fee payers also pay separate regulatory fees to the FCA.
- 3.4** Taking these views into account, we indicated in our March 2017 consultation on PSR fees<sup>2</sup> that we would review our current method of collecting PSR fees and explore ways we could make it more efficient.
- 3.5** Therefore, in CP17/30, which was published in August, we proposed to move away from the current method of indirectly billing fee payers via operators. Instead, the FCA would calculate, invoice and collect the PSR fees as part of the annual FCA fees process. Operators would no longer be required to calculate the fees liability of their participants who are PSR fee payers, and would no longer be required to invoice or collect fees from them.
- 3.6** Under this proposal, the FCA would calculate the PSR fees payable by each individual fee payer using the data operators will provide to the PSR.<sup>3</sup> The FCA would then invoice the relevant fee payers and collect the PSR fees. These proposed changes would include the collection of on-account fees (if applicable) as well as the remainder of PSR fees for each financial year.

<sup>2</sup> CP17/9, *PSR regulatory fees 2017/18* (March 2017): [www.psr.org.uk/sites/default/files/media/PDF/CP-17-9-PSR-Regulatory-Fees-2017-18.pdf](http://www.psr.org.uk/sites/default/files/media/PDF/CP-17-9-PSR-Regulatory-Fees-2017-18.pdf)

<sup>3</sup> Currently, operators are required to send transaction data to the PSR and seek confirmation before they invoice their members for PSR fees.

- 3.7** As the PSR's fee process would now be aligned with the FCA's fee collection timetable, for each fee payer also required to pay FCA fees, the FCA would consolidate and collect all the regulatory fees payable at the same time within a single invoice, reducing the administrative burden on all parties.
- 3.8** Fee payers that already pay fees to the FCA would see an additional line in their FCA invoice detailing their PSR fees. Payments would be due at the same time as their FCA fees. Fee payers that are not paying the FCA any fees at the moment would receive an invoice from the FCA showing the amount they are due to pay in respect of PSR fees and the payment date.
- 3.9** Operators would still have an essential role in the fees process, as we would still require them to provide us with the necessary data to ensure that the PSR fees can be correctly allocated, invoiced and collected.
- 3.10** Some of the changes to the fees rules necessary to implement this proposal were consulted on in CP17/30 (Chapter 3 and Annex 2 of that document).

### **Summary of stakeholder submissions and our response**

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- 3.11** Most respondents to CP17/30 were broadly or strongly supportive of our proposal to simplify our approach to invoicing and fees collection:
- a. Operators said that our proposed method is simpler, easier to administer, and less administratively burdensome than the current arrangements.
  - b. PSPs said that it is easier and more efficient, requires only one invoice unlike the current method, and reduces overheads. They are also pleased with our commitment to ensure that VAT is outside the scope of regulatory fees.
- 3.12** In the paragraphs that follow, we summarise the consultation submissions we received. Submissions are summarised by theme rather than by individual response. Each summary is followed by our response.
- 3.13** There was a general agreement among respondents that operators have a continuing role to provide us with transaction data. One operator suggested we give consideration to the precise type of data that we will require from operators.

#### **Our response**

We have set out later in this document the data we would require from operators, including the transactions of their members and their contact information, to enable us to collect the fees. We have also set out in this document our proposed fees allocation option, which would affect the type of transaction data we would need to calculate the fee liability of individual PSR fee payers.

- 3.14** One PSP agreed that operators should ensure PSPs have the opportunity to verify transaction data before it's passed to the PSR for fees calculations.

**Our response**

We agree with this observation and recognise that any errors will affect the fee liability of all other PSPs liable to pay PSR fees. This is why we propose to include guidance within the fees rules that says operators should verify the data that they will be submitting to the FCA with their members. Any disputes regarding the information provided to us by operators should therefore be dealt with by the operators.

- 3.15** Two PSPs recommended that the future FCA invoice has a clear breakdown of the fees by payment system in which the fee paying PSP participates, that relate to the PSR's regulatory fees.

**Our response**

We can confirm that the FCA invoices will separate the PSR fees from the FCA fees in a clear manner and on separate lines. However, the PSR item on a fee payer's invoice will not be broken down any further into the fee arising from participation in each scheme. We note that the complete methodology that the FCA will use to calculate each fee payer's fee liability will be provided in the table in the Annex to the fees rules. This allows individual PSPs to calculate their own fee liability if they wish to do so, by applying their relevant transaction values and volumes to the formula.

- 3.16** One operator requested further clarity on how direct billing will operate in practice (for example, in the case of PSPs who may be unaware of this change) and the role operators may need to play to facilitate initial contact with their members. It argued that operators may be unable to provide contact details for individuals working in those PSPs without prior permission to do so. They also asked the PSR to draft a letter for the operator to send to its members. They asked for more clarity on what the PSR will do if those PSPs that do not already have direct billing relationships with the FCA do not respond to communications.

**Our response**

In this document we provide more details on how the direct billing process will be rolled out. Together with the FCA, the PSR has been in touch with – and will continue to communicate with – stakeholders and fee payers to let them understand the changes to fees collection. However, the PSR does not hold the contact details of all the fee payers affected by these changes. We will therefore collaborate with the operators to obtain the necessary information. In particular, we have proposed amendments the fees rules to require operators to provide all relevant information to the FCA to enable it to issue invoices to PSR fee payers. We will also send a letter to the operators explaining the changes that we have made to our collection method, which they can subsequently share with their members.

Ultimately a failure to pay PSR fees is enforceable as a debt by the FCA and consequent action can be taken by the FCA in these circumstances against any unpaid fee by a PSR fee payer.

## Our policy decision on direct billing

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- 3.17** We believe that the proposal will reduce the administrative burden on operators and the PSPs. Taking account of the submissions we have received, we have decided to end our current indirect billing approach and move to direct billing and fees collection by the FCA.
- 3.18** Draft rules were consulted on in CP17/30 in August and no responses were received on their content. The rules will now be implemented in the same form and are set out in **Annex 3**. These rules will allow the FCA to carry out direct billing for PSR fees from 2018/19, including the first collection in that fee year (i.e. on-account fees due by April 2018).

## Further consultation on proposed changes to enable direct billing

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- 3.19** In addition to implementing the rules consulted on in CP17/30, we are proposing further amendments in our fees rules in **Annex 4**. These additional changes are proposed to enable us to collect PSR fees directly from fee payers and to align the rules with the FCA's procedures. The decisions on these proposed amendments will be made in Spring 2018.
- 3.20** We need to change the payment date for one of the payments during the fees cycle. In our draft instrument we have specified 1 September as the payment date (to pay the full amount of their fee liability) for all fee payers. However, in order to align our billing cycle with the FCA cycle, we need to introduce two separate deadlines for the second round of collection:
- a. August for fee payers that do not need to pay on account by 1 April (see Annex 4(B), paragraph 9.2.3R(1))
  - b. September for fee payers that need to pay on account by 1 April (paragraph 9.2.2R(2))
- 3.21** We also need to further change the fees rules in relation to the provision of data:
- a. Operators would need to provide us with the contact details and reference data of all the fee payers every year when they submit the transaction data to us (paragraph 9.2.4DR). This is to allow the FCA to get in touch with them and to ensure that FCA can correctly identify the fee payers and match them with their existing database of fee payers. We will require operators every year to provide us with details including, without limitation, contact information, FCA reference number if applicable and company information, to identify the correct PSR fee payer.
  - b. Before that data is supplied to us, operators should take reasonable steps to verify the data with PSPs. We have included guidance in the fees rules to reflect our expectations from operators (paragraph 9.2.4HG). There are a number of reasons for requiring the data to be verified:
    1. This process ensures that the information sent to us by the operators is as accurate as possible before it becomes significantly more costly to identify and address any inaccuracy in the transaction data or firm data. e.g. after that data has been used to calculate the fee rates that would affect the amounts of fees allocated to all fee payers.
    2. It improves transparency. PSPs would know the transaction data supplied to us before the data is used to calculate the fee rates. It will also enable PSPs to independently check the calculation of the fees allocated to them, upon receipt of the invoice from the FCA.

## Consultation questions

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**3.22** We invite your views on the following questions:

**Question 1** Do you agree with our proposed amendments to the fees rules?  
If not, please explain.

**Question 2** Do operators or their members have any concerns that operators will be unable to provide accurate data to enable the FCA to calculate and collect the PSR fees owed by each potential fee payer?

## 4 The way we allocate PSR regulatory fees: the guiding principles and the allocation method

Having listened to stakeholder feedback and in the light of imminent regulatory and industry changes, we decided to re-examine our current approach to allocating PSR regulatory fees to individual fee payers. In CP17/30, we proposed a number of fees allocation options and four guiding principles to support our assessment.

Based on the responses to our consultation, we decided to use the proposed guiding principles to support our assessment of the appropriateness of the fees allocation options. We also decided to consult further in this document on the fees allocation option 4 from CP17/30, which allocates PSR fees based on the fee payers' transaction volumes and values across different payment systems.

In this chapter we:

- summarise the responses we received to our proposed guiding principles and the allocation options in CP17/30, and discuss our response.
- explain the reasons for choosing our preferred allocation option.
- explain the potential impact this approach to fees allocation may have.
- consult on the details of our preferred allocation option, including the proposed amendments to the fees rules.

Annex 4 contains the draft instrument that includes the changes we propose to make to the fees rules.



## The proposed guiding principles we consulted on in CP17/30

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- 4.1** Our August consultation (CP17/30) included a set of proposed guiding principles to support our assessment of the different options for how we allocate PSR fees to individual fee payers. They were developed with reference to the regulatory principles applicable to the PSR under section 53 FSBRA.
- 4.2** These proposed principles were intended as a guide to consider the appropriateness of the proposed allocation options and not to be used as criteria to score them.
- 4.3** Details of these proposed principles can be found in Chapter 4 of CP17/30. Briefly, the guiding principles that we consulted on were:
- a. **Proportionality in relation to the allocation outcomes:** Any fee allocation options we consider should take into account (a) the fee payers' frequency in using the regulated payment systems, (b) the economic benefit they derive from using the systems, and (c) the size of the fee payers. We stated that, as we have set out in the past, it is inappropriate to allocate fees based on the amount of regulatory oversight or resources spent on particular systems or participants, because that can shift significantly from year to year, and does not reflect the breadth of the benefit our regulation brings to the industry (beyond the particular systems or participants).
  - b. **Simplicity and efficiency of the allocation process:** The process of fees allocation should be easy to administer and the allocated amounts should be easy to understand. More complex ways of fees allocation would increase the total cost of the fees process, and any benefit from the added complexity (to all fee payers as a whole) is unlikely to be proportionate to the cost involved.
  - c. **Sustainability and long-term stability of the allocation method:** We want to make our fees process sustainable and predictable, so that it will not be subject to frequent incremental changes (i.e. we have made changes to our fees process every year since the PSR became operational). We want the process to be flexible enough to run on a business-as-usual basis without the need for annual adjustment and sustain any change we may see in the industry. We also stated that consulting every year on potential changes to our fees collection or allocation method is costly and inefficient.
  - d. **Impact on competition of the allocation result, if any:** We want our chosen allocation method to have minimal impact on competition, including the competition between payment systems as well as the competition further downstream (i.e. between participants).
- 4.4** We also set out a separate assessment of this consultation's compatibility with FCA duties and PSR regulatory principles in Annex 5 of CP17/30.

## Summary of stakeholder submissions regarding the principles and our response

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- 4.5** Most stakeholders that responded to our consultation support the guiding principles set out above.
- 4.6** One stakeholder stated that when applying our allocation methodology we should also take into account the principle of 'non-discrimination'. It argued that under this principle, entities that are similar should be treated in a similar manner and entities that are different should be treated differently. It said treating smaller systems in the same way as larger systems would be discriminatory.

### Our response

We acknowledge the need to treat different fee payers and operators differently when they are in significantly different situations. There are a number of possible ways this can be achieved. We have already factored this into our assessment of any new allocation methodology under the guiding principle of proportionality. We set out in CP17/30 the various ways of assessing proportionality and distinguishing fairly between different fee payers, namely: the frequency of using payment systems; the economic benefit derived from using payment systems; the size of the fee payer; and the benefit received from PSR activities.

- 4.7** Some stakeholders argued that we should take into account the amount of regulatory oversight with reference to our powers – i.e. whether the oversight relates to our powers under FSBRA, IFR or PSD2. Some argued that payment systems should be treated differently based on whether they are designated under FSBRA or not. Others went further and considered that our regulatory fees should be directly reflective of the time and resources we spend on specific systems.

### Our response

Our allocation methodology should not be based on specific regulatory oversight or activities. Our work, including that focused on a particular issue, benefits the entire industry and any form of cost-based fees allocation methodology centred on specific powers or payment systems would not reflect that. This focus on the benefit experienced by the users of payment systems is consistent with our position in previous consultations on fees allocation.

Given the PSR's small size and the fact that the time spent on each regulatory project varies significantly from year to year, using the time or resources we spend on each regulatory or enforcement activity could lead to large, unpredictable swings for individual fee payers every year.

An approach to allocating regulatory fees that is directly linked to the cost of regulation may give potential PSR fee payers an incentive to avoid actively engaging with the PSR. Given the types of work we do, that model of fees allocation is not appropriate.

- 4.8** One stakeholder proposed that we should add transparency to our guiding principles. It wanted the calculation, allocation and timing of fees to be clear to fee payers.

**Our response**

We have already stated in CP17/30 that we are seeking to ensure our approach is transparent. Moreover, we are already under a statutory duty to exercise our functions 'as transparently as possible' (in accordance with the regulatory principles under section 53 FSBRA), as we outlined in our compatibility statement in CP17/30.

- 4.9** One stakeholder stated that our fees allocation methodology should not have any impact on competition.

**Our response**

We stated in CP17/30 that we want the way we allocate and calculate PSR fees to have a minimal impact on competition. In any case, we believe that there is unlikely to be any material competition impact in the first place as our regulatory fees are relatively low.

- 4.10** Having considered the submissions we received, we consider that our proposed allocation principles are appropriate and we will use them to guide our decision around our preferred allocation option.

### The PSR fees allocation options we consulted on in CP 17/30

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- 4.11** In CP17/30 we consulted on our fees allocation method because stakeholders have told us in the past that it is difficult to administer and understand. There are also a number of regulatory and industry developments in the coming years that would mean our existing arrangements, if left unchanged, will no longer be fit for purpose.
- 4.12** The consultation closed on 28 September and we received 13 responses, which we have considered.
- 4.13** We consulted on four fees allocation options. The details of the allocation options can be found in **Annex 2** and in Chapter 5 of CP17/30. We did not propose to change the pool of fee payers (i.e. in most cases, the direct participants in payment systems will continue to be liable to pay PSR fees). We also did not propose to charge PSR fees on the operators as we believe that may attract VAT when the regulatory fees are passed down from the operators to the members of the payment systems.

- 4.14** We put forward the view that we consider option 4 is the most appropriate judging by our guiding principles for fees allocation. This option directly takes into account the relative volume and relative value of all relevant transactions sent/received or issued/acquired by each fee-paying PSPs (or operators acting as fee payers) in the relevant year. We consider this option:
- a. Is more sustainable as it will not require us to make incremental changes to our fees allocation method every time an industry or regulatory change arises. Our current allocation method relies heavily on the structure of the industry and the regulatory landscape (for example, through the use of fluctuating funding pots based on our functions and the equal allocation mechanism across systems designated under FSBRA); this has led to a situation where we had to consult on and make incremental changes to our fees rules every year, and will continue to do so if we do not address this now given the pace of change in the industry.
  - b. Is more proportionate than the other allocation options because:
    1. It takes into account two key variables that reflect a fee payer's use of and benefit from the payment systems we regulate (this means that PSPs pay a higher PSR fee if they benefit more from using the payment systems through more frequent usage or through processing higher value transactions).
    2. The characteristics of the payment systems are taken into account because they are not automatically allocated equal amounts (as is the case of the status quo). Differences in the transactions within each payment system and across different payment systems are recognised through the use of transaction values as a variable.
  - c. Is simpler to understand and administer than the status quo (i.e. option 1), because it does not split our fees into pots by function or employ an 'equal allocation' of fees among payment systems, before allocating fees to participants on the basis of their transaction volumes.
  - d. Does not have any material negative impact on competition.

### **Summary of stakeholder submissions regarding the options and our response**

- 4.15** There was broad support from stakeholders for changing the way we allocate PSR fees but their responses on how we should do that were mixed. Six respondents agreed with the appropriateness of a method based on the fee payers' transaction volumes and values, while five respondents supported one or more of the other fees allocation options.
- 4.16** In the paragraphs that follow, we summarise the consultation submissions we received. Submissions are summarised by theme rather than by individual response. Each summary is followed by our response.
- 4.17** Several respondents raised the concern that including transaction values as a factor in the allocation methodology, rather than relying solely on transaction volumes, introduces unwarranted complexity and is inconsistent with the principle of simplicity and efficiency. Therefore, only transaction volumes should be used.

#### **Our response**

We consider that an allocation method that only takes into account transaction volumes would not meet our principle of proportionality. We believe volume is too crude a measure to capture the benefit that a PSP derives from PSR regulation and does not take into account the different characteristics of each PSP and each system, or the transactions they process (send/receive or issue/acquire). For example, there are some PSPs whose businesses rely on processing very high value transactions, even though the volumes of these transactions can be relatively small. These PSPs can benefit just as much from the PSR regulation and the reliable functioning of the payment systems that enable these transactions as PSPs that process very high volumes of transactions but of much smaller values.

- 4.18** Other respondents indicated that we will need a greater degree of accuracy and consistency in the transaction data we gather from operators to achieve a fair outcome, and that using a value figure is fraught with difficulties relating to inflation.

**Our response**

We do not agree that using value figures introduces complexity or is fraught with the difficulties raised by the stakeholders.

Firstly, we have asked operators to supply us with transaction value data to assess our options. Based on our conversations and experience, most operators have said it was not complex or inefficient to send us that data (or request that data from their supplier that provides the infrastructure).

Secondly, the obligation for operators to be accurate in any data they report to us is not unique to the use of transaction value. Operators already need to be accurate in the transaction volume data they currently give us. Asking for accurate data on transaction values should not place a disproportionate burden on them.

Thirdly, the PSPs' total transaction values are taken into account only in relative terms. Inflationary pressure would affect all transactions taken into account for our fees calculation and therefore broadly cancels out among PSPs who share similar characteristics.

- 4.19** One operator indicated that the ratio between the volume and value parameters is crucial and whatever level is chosen will be entirely arbitrary. Other stakeholders agreed with the principle of using volume and value but raised a similar point about the importance of choosing the right ratio.

**Our response**

We stated in CP17/30 that we would consult further on the exact ratio and did not propose any percentages at that time.

There is a certain degree of judgment with any possible method of fee allocation, including the determination of the volume-to-value ratio. Therefore, we intend to use our guiding principles to support our decision when identifying an appropriate ratio for consultation, as set out in paragraph 4.24.

We also recognise that there will be fee payers that gain or lose under any option or ratio we choose. Where possible, we will seek to minimise the volatility experienced by our fee payers.

- 4.20** One operator indicated that removing the current separation of fee pots linked to our powers (i.e. FSBRA and IFR) will have a disproportionate impact on payment schemes that are regulated only under IFR, because we only allocate 5% of our total AFR to fund our IFR functions.

#### **Our response**

Our quantitative findings, based on the most recent data supplied to us by the operators, suggest that the fees allocated to systems that are regulated by us only under the IFR will not increase significantly. This is because:

1. their transaction volume and value tend to be much smaller relative to other fee payers' transaction volumes and values across all regulated systems
2. under current arrangements, systems can be allocated the same amount of PSR fees from the IFR pot as systems with much larger transaction volumes, due to the current banding arrangement within the IFR pot

Applying the principle of proportionality set out in CP17/30 fairly recognises the differences between fee payers. This is reflected in option 4 through its recognition of the differences in the fee payers' transaction volumes and values. Furthermore, in considering the appropriateness of the options for fees allocation, we also need to strike a balance between proportionality and other guiding principles – for example, simplicity and sustainability.

### **Proposed fees allocation method and specific ratio for consultation**

- 4.21** Taking into account our analysis above, we believe that the justifications that support moving our fees allocation approach to option 4 (as set out in CP17/30) remain unchanged by the consultation responses.
- 4.22** We also carried out further work to evaluate the fees allocation options.
- a. We developed various potential future scenarios in the payments landscape to 'stress test' the sustainability of the options. In particular, we note that there are changes in payment patterns that mean our previous emphasis on transaction volume as a sole variable of fees allocation or equal allocation among systems may not be appropriate. Those changes include, for example, the rapid increase in the use of contactless payments relative to other payment types. We found that our proposed fees allocation method (option 4) continues to work effectively in different hypothetical scenarios, and provides the flexibility we need to easily adjust our fees allocation method to adapt to significant changes in the industry and payment patterns.
  - b. We also conducted an analysis on the impact of our proposed allocation options on our fee payers, which confirmed our view regarding the proportionality of the different allocation options.
- 4.23** Therefore, taking into account the submissions and our internal analysis, we have decided to pursue option 4, which uses the eligible fee payers' transaction volumes and values to allocate PSR fees.

**4.24** We did not consult on a specific volume-to-value ratio in CP17/30. Based on our analysis of the data supplied to us, we propose using an 80–20 volume-to-value ratio, which we believe best meets our guiding principles. This is for the following **reasons**:

- a. As already explained above, there is an element of judgement on the ratio figure chosen. Having given consideration to our guiding principles and in particular the principle of proportionality, we are of the view that fee payers' transaction values should be given a smaller weighting (i.e. less than 50%) than transaction volumes in determining their PSR fee liabilities. This is because:
  1. Transaction volumes are a better indicator of the frequency of use of payment systems, and may have a more direct correlation with the costs of running them. This is notwithstanding the importance of transaction values when differentiating between transactions for fees allocation (as already noted in paragraph 4.17).
  2. The differences in transaction values among fee payers can be very large, and may not proportionately reflect the extent to which those fee payers can benefit from using payment systems, relative to other fee payers.
- b. Furthermore, by giving transaction volumes a greater weighting, we are taking into account the view held by several respondents of CP17/30 that transaction volumes is more preferable as a fees allocation variable compared to transaction values.
- c. By applying a relatively small ratio (i.e. 20%) to the transaction value block in option 4, we can introduce an element of weighting to our allocation formula that recognises the differences among the fee payers and their use of the systems in a simple and efficient manner, while recognising the significance of transaction volumes in determining fees allocation.
- d. A smaller weighting given to value (for example, 10%) does not give sufficient significance to the differences of system use among fee payers.

**4.25** We also compared the **allocative outcome** of our proposed fee allocation method (with an 80–20 volume-to-value ratio) with the existing arrangements, using 2016 (calendar year) data. Of all the possible ratios that fit the guiding principles, the 80–20 volume-to-value ratio also creates less of a change from the status quo for fee payers most affected (other than option 1), in the allocated fees, based on the transaction data we received:

- a. It is still weighted primarily by the fee payers' transaction volumes, similar to the current fees allocation method that places a big emphasis on the PSP's transaction volumes in the each payment system.
- b. It still takes into account a factor other than transaction volumes. A weighting based on transaction values that is too small (for example, 0 to 10%) would lead to an allocative outcome that is very close to a volume-only allocation method.

**4.26** Therefore, we propose to apply an 80–20 volume-to-value ratio to the fees allocation method.

## Impact of the proposed allocation method

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- 4.27** We recognise that there will be fee payers that gain or lose under any option or ratio we choose. Where possible, we have sought to minimise the volatility experienced by our fee payers.
- 4.28** Notwithstanding our conclusion in paragraph 4.31, based on our analysis, we have identified that pursuing our proposed option (option 4) is likely to increase the PSR fees contribution for two groups of fee payers while reducing fees for other groups.
- 4.29** It is possible that in the past some of these fee payers may not have paid a fee that was representative of their particular characteristics, and of the benefits they had derived from using regulated payments systems. This is because, compared to the current fees allocation method, this option is more directly correlated to a fee payer's contribution of transaction volumes and values across all regulated payment systems.
- 4.30** The two identified groups of fee payers whose PSR fees contribution is likely to increase are:
- PSPs that have high transaction volumes concentrated in very few payment systems. These PSPs tend to be non-bank card acquirers, and contribute to PSR fees only through their membership to one or two payment systems. Their fees are likely to increase because the current fees allocation method 'scales down' their potential contribution through the equal allocation of AFR among designated payment systems.
  - PSPs that have very high transaction values but relatively low volumes. These PSPs tend to have a low retail presence, and they contribute to PSR fees through their CHAPS membership as direct participants. Their fees are likely to increase because the current fees allocation method does not take into account transaction values as a fee allocation variable.
- 4.31** The chosen ratio (80–20) should reduce the impact on some of the fee payers mentioned above. The introduction of transaction values as a fees allocation variable reduces the impact on the first group, while the lower weight given to transaction values reduces the impact on the second group.
- 4.32** We stress that the analysis we have conducted is based on no change in the AFR or the transaction volumes or values of any of the fee payers from the current fee year. When either of those variables changes, so will the actual amount of fees allocated to each fee payer. Therefore, our analysis can only be used as a guide to support our choice of allocation method, and should not be taken as an accurate predictor of the amount of PSR fees allocated to each fee payer in future years.
- 4.33** In reviewing the potential impact on competition (our fourth guiding principle), we believe there is unlikely to be any material competition impact by the proposed methodology. PSR fees are relatively low, and they are unlikely to account for a significant part of our fee payers' total costs of running their businesses. Furthermore, the fee liability arising for each fee payer is proportional to its volumes and values of transaction. As a result, fee payers who benefit from the payment systems we regulate the most (PSPs with high volumes or values or both) will pay the highest fee. We do not consider that this approach will provide any PSP or operator a competitive advantage.



## Proposed amendments to fees rules

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**4.34** If, following this consultation, we decide to move to the proposed allocation method set out above (for example, option 4), we will need to make changes to the current PSR fees rules. The current PSR fees rules (FEES 9) are available in the FCA Handbook. Our proposed changes can be found in **Annex 4**.

**4.35** The proposed changes include:

- a. When an operator submits data to us to calculate the PSR fees payable, it would need to submit the transaction value data of all of its fee-paying members (or its own total transaction value data, where the operator also acts as a fee payer), in addition to the transaction volume data it already submits (see Annex 4(B), paragraph 9.2.4DR(1)(a)). The proposed definition of 'transaction values' is set out in the glossary (Annex 4(A)).
- b. We would work out the denominators in the transaction volume and transaction value fee blocks, using the data provided to us in February every year. The denominators will be published in the table in Annex 1R, and will be subject to consultation around March or April (Annex 4(B)).
- c. We would remove the distinction between different groups of fee payers based on whether they are required to pay PSR fees under the FSBRA part of the AFR, the IFR part of the AFR, or both. The terminology will be simplified with the use of overarching definitions, such as 'PSR fee payers' (Annex 4(A)).
- d. A revised Annex to the fees rules which sets out the methodology the FCA will use to calculate the PSR fees payable (Annex 4(B), Annex 1R).

## Consultation questions

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**4.36** We invite your views on the following questions:

**Question 3** Do you agree with our proposed allocation method, i.e. the use of a fee payer's total transaction volume and the total value (in GBP) of those transactions as direct variables for fees allocation at an 80–20 volume-to-value ratio? If not, please provide evidence to support your answer.

**Question 4** Do you have views on the draft fees rules proposed in Annex 4?

## 5 Other policy questions relating to fees allocation: Decision and further consultation

In this chapter, we consider other policy questions relevant for fees allocation, but do not directly relate to the allocation approach considered in the previous chapter.

In particular, we will discuss the submissions to the questions set out in CP17/30 and our policy decision on the following matters:

- the use of transitional measures for any potential changes in our fees allocation method (CP17/30, Chapter 5)
- the fee liability of PSPs that are implementing ring-fencing (CP17/30, Chapter 6)
- the implications of PSD2 on our fee allocation methodology (CP17/30, Chapter 6)

We will also ask stakeholders new policy questions relevant for fees allocation that have not been the subject of CP17/30:

- the definition of relevant transactions
- the scope of relevant transactions
- the use of thresholds in fees allocation and collection

### **Transitional measures in case we change our fees allocation method (Decision)**

- 5.1** In CP17/30, we asked stakeholders if we should introduce transitional measures when we implement a new fees allocation method. A large majority of respondents were of the view that we should not introduce any transitional measure even if the preferred option would lead to a material impact on individual fee payers. This is because transitional measures are considered to be very complex to design and implement. Some respondents also thought that they are unnecessary as the PSR's fees are relatively small.
- 5.2** We agree with stakeholders that a transitional measure would likely be complex to design and implement. The complexity may well outweigh the benefits. Also, the PSR would still need to collect enough in fees to cover its entire AFR. This means that some fee paying PSPs would have to pay more than what they would have paid otherwise in the absence of these measures. In light of these factors, we have decided not to introduce any transitional measures regardless of the outcome of our preferred methodology.

## Fee liability of PSPs that are implementing ring-fencing (Decision)

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- 5.3** As a result of the implementation of the ring-fencing policy of the Prudential Regulation Authority and the FCA, some banks will be restructured so that their retail banking activities are separated from other parts of the banking groups. Some PSR fee payers will be affected by this change.
- 5.4** We consulted on this matter in Chapter 6 of CP17/30. A description of our proposals is available in paragraphs 6.1 to 6.12 of that document.
- 5.5** Stakeholders agreed with our proposed approach to use a simple business-as-usual method in allocating PSR regulatory fees. Where a fee-paying PSP 'splits' into a successor (or continuing) entity and one or more newly created entity (entities).
- The successor entity that 'continues' the predecessor's membership to those payment systems is liable for paying the entire PSR fee in respect of all transactions realised by its predecessor.
  - Any newly created entity that becomes a 'new' direct member of the same payment system will not pay any PSR fee for any of the transactions incurred by the predecessor. It is treated as a new participant, and as set out in the following paragraph, it will begin to pay its own PSR fee in the following fee year. The amount of fees payable is based on the transactions the entity realises from the moment it becomes a direct member in the calendar year it joins the system.
- 5.6** We have therefore, decided to adopt this business-as-usual approach. This approach would not require any change to the existing provisions in our fees rules.

## How we treat PSD2 in the context of PSR regulatory fees (Decision)

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- 5.7** From January 2018, we will become the competent authority in the UK for a number of provisions in the second EU Payment Services Directive (PSD2). The Treasury has transposed PSD2 into UK legislation in the Payment Services Regulations 2017 (PSRs 2017), which will replace the Payment Services Regulations 2009. In September 2017, we confirmed our approach to monitoring and enforcement of the regulations for which we have been appointed the competent authority.<sup>4</sup> The relevant PSR Regulations are:
- Regulation 61: Information on ATM withdrawal charges
  - Regulation 103: Prohibition on restrictive rules on access to payment systems
  - Regulation 104: Indirect access to designated payment systems
  - Regulation 105: Access to bank accounts (the PSR and the Financial Conduct Authority (FCA) are both competent authorities for this Regulation)
- 5.8** Under the PSRs 2017, we will acquire new powers to charge certain PSD2 regulated persons in relation to our PSD2 functions and activities.<sup>5</sup> The persons we can charge include:
- direct participants in Bacs, FPS and CHAPS who provide indirect access to payment systems to other PSPs
  - independent ATM deployers
  - three-party payment card systems (with licencees)
  - four-party payment card systems (and their participants)
  - credit institutions

<sup>4</sup> *The PSR's approach to monitoring and enforcing the revised Payment Services Directive (PSD2)* (September 2017): <https://www.psr.org.uk/sites/default/files/media/PDF/PSR-PSD2-Approach-and-PPG-September-2017.pdf>

<sup>5</sup> Regulation 136(3)(a) and (d) of the PSRs 2017.

- 5.9** We recognise that the groups of constituents with obligations under PSD2 and those with obligations under FSBRA and IFR are mostly overlapping. Therefore, we proposed in CP17/30 to keep the group of eligible PSR fee payers unchanged for the time being, but to reassess this in the future if circumstances change. Stakeholders agreed with our proposed approach. We have therefore decided to implement it.
- 5.10** We also discussed in CP17/30 how we can incorporate PSD2 into our allocation methodology if we decide to keep our current allocation arrangement (option 1 in Chapter 4 of CP17/30). As we intend to proceed with option 4, we do not need to consider this issue further.

### Scope of relevant transactions

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- 5.11** Currently, some fee payers pay PSR fees under the FSBRA and IFR pots for their access to the same card payment scheme. The scope of the relevant transactions for the same scheme is different in the two pots under our existing rules (FEES 9, Annex 1, Tables A and C, column 5):
- a. Within the FSBRA pot, the scope of transactions takes into account all transactions where there is a UK element ('FSBRA scope')
  - b. Within the IFR pot, the scope of transactions takes into account only intra-EEA transactions where there is a UK element ('IFR scope') – this is a subset of the FSBRA scope
- 5.12** In our proposed fees allocation method, we would no longer recover our AFR using two separate pots of PSR fees. Instead, all fee payers contribute to only one pool of PSR AFR, which means that there can only be one scope of relevant transactions for each payment system.
- 5.13** We propose to use the following approach to decide which scope to use with respect to each payment system:
- a. If a payment system is designated under FSBRA, the FSBRA scope is used. This includes any designated system that is also regulated by us under other legislations. For example, for a system that is regulated by us because of its exposure to both FSBRA and IFR, we would include all relevant transactions under the FSBRA scope in that system.
  - b. If the payment system is not designated under FSBRA, the scope of relevant transactions would be dependent on the legislation that brings the system under the PSR's regulation. For example, for a card scheme that is regulated by us only because of its exposure to IFR, we would only include the relevant transactions under the IFR scope in that scheme.
- 5.14** This approach is incorporated into the draft fees rules (see Annex 4(B), Annex 1R, column 2 of the table). The impact of this proposed approach on our fee payers is expected to be minimal:
- a. There is no change in the position for fee payers who pay PSR fees because they are only members (or operators where relevant) of systems that are either FSBRA-designated or IFR-regulated but not both.
  - b. The proposed approach would slightly change the position for fee payers who are members (or operators where relevant) of systems that are both FSBRA-designated and IFR-regulated. Under this approach we would include all transactions under the FSBRA scope with respect to those systems, instead of using two different scopes for fees that arise from the same system. We do not consider this to have any material impact on fee payers, because most of their current PSR fees in respect of those systems are already allocated under the FSBRA scope – in 2017/18 the FSBRA AFR accounts for 95% of the total AFR.

### Question 5 Do you agree with our proposal regarding the scope of relevant transactions?

## Types of transactions in each system to be included for fees allocation

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- 5.15** Currently, PSR fees are allocated to different payment systems, before they are then allocated to the fee paying members of those systems based on the number of transactions. The types of transaction that are included for the purpose of allocating fees within those systems are specified and known as 'relevant transactions' in our fees rules (FEES 9, Table A, column 5 of the table).
- 5.16** We consider that these existing definitions of relevant transactions remain relevant in most cases, and can be applied in our proposed fees allocation method without any significant issue.
- 5.17** However, we are also aware that there may be limits to the existing definition of relevant transactions for one or more of the payment systems.
- 5.18** For example, in the case of Northern Ireland Cheques and Credit (NICC), the PSR fees allocated to the system are distributed among its members based on their shareholdings of the operator of that system. In our proposed fee allocation method, PSR payers, including those who pay fees because they are members of NICC, are allocated fees based on the number and value of transactions they use across all the relevant systems. This means we would need a definition of relevant transactions (see Annex 4(B), Annex 1R, column 2 of the table). We propose to use the following definition, based on the definition we currently use for the Cheque and Credit Clearing payment system.

*All transactions including 'in clearing' and 'out clearing' transactions for GBP, USD and EUR processed through the NICC regulated payment system.*

- 5.19** We welcome views on the matter, including, for example, if and how adjustments to the definitions need to be made.

### **Question 6 Do you agree with the definition of relevant transactions in each payment system, as set out in column 2 of the draft fees rules (in Annex 4)?**

## Minimum thresholds for fees allocation and collection

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- 5.20** Currently, some potential fee payers do not need to pay any PSR fee if their transaction volumes or allocated fee amounts in the absence of a threshold fall under the relevant thresholds. These thresholds were introduced to reduce the administrative burden on operators of having to issue invoices on PSR fees for very small amounts.
- 5.21** In particular, our current rules (at FEES 9.2.1R) state that an acquiring or card-issuing PSP operating in the UK which is a member of the FSBRA or IFR regulated card payment systems would not be required to pay a PSR fee for a given fee year if:
- a. it realises fewer than 100,000 transactions in the relevant time period, or
  - b. its PSR fee for that year, calculated according to the fees rules, would be less than £50 (in the absence of the minimum threshold)
- 5.22** As we are changing our fees collection method to direct billing by the FCA (see Chapter 3), operators would no longer need to calculate the allocation of PSR fees or issue invoices for PSR fees on our behalf. The existing fees rules that specify how operators should apply the thresholds when calculating the fees allocation for their members will therefore no longer be relevant and will be removed.

**5.23** However, as a result of the change in our fees collection method, the FCA will now incur some costs in collecting fees directly from PSR fee payers. We recognise that there may be situations where the amount of PSR fee allocated to a fee payer is significantly lower than the cost of collecting that fee and it may be disproportionate on both the FCA and the PSR fee payer to collect or pay that fee. Therefore, we propose to introduce a rule where, if a fee payer's PSR fee would be so small that, in the opinion of the FCA and the PSR, the costs of collecting the fee from that firm would be disproportionate to the amount payable, no PSR fee will be due (see Annex 4(B), paragraph 9.2.1AR).

**5.24** In reaching this proposal we have considered, in particular:

- a. The current thresholds only apply to members of card schemes and do not apply to the members of the inter-bank payment systems. As we simplify our fees allocation rules and make them fairer, it is sensible for us to consider alternative arrangements that can be applied more consistently rather than applying only to members of card schemes.
- b. The current thresholds refer to the fee payers' transaction volume and allocated fee amount in respect of each system. As our proposed fees allocation method also uses transaction values as a variable and does not separate the calculation of PSR fees by each system, we would need to change our approach to thresholds such that they can be applied to our entire fees allocation method rather than only to part of it.
- c. As we move to direct billing by the FCA, PSR fees will be collected together with other regulatory fees the FCA currently collects. As a result it may be efficient for the FCA to collect PSR fees even if the PSR fees allocated to those fee payers are very low and are below the thresholds that were previously in place (for example, below £50 or 100,000 transactions). The justification for applying a threshold that references a specific amount of PSR fee (or specific number of transactions) is no longer applicable and would need to be considered taking into account other fees collected by the FCA and whether, in the opinion of the FCA and the PSR, the collection of the fee would be disproportionate in light of the collection costs involved.
- d. PSR fee payers that are not already paying the FCA any regulatory fees will also incur costs in paying PSR fees. In some cases, the fees allocated to them are very small because they have very low transaction volumes (and values), and the cost they incur in paying PSR fees to the FCA may be significantly higher than the amount allocated to them.
- e. The FCA already applies a similar rule when it collects fees for the Financial Services Compensation Scheme (see FEES 6.3.23R).

**5.25** Under this proposal, the FCA would use the data provided by the operators to determine what the fees for all potential fee payers should be in the absence of any threshold. It would then identify any potential fee payers whose amount payable would be so low that it is disproportionate to the costs of collecting the amounts, and remove them from the list of 'actual' fee payers. The new, smaller group of 'actual' fee payers would then be allocated PSR fees based only on their transaction data – for example, transaction volumes and values relative to one another. This means that the amount that we would not have collected will be redistributed to other fee payers. This reflects the existing approach and fees rules under the existing thresholds set out in paragraph 5.21 of this chapter.

- 5.26** We do not consider that the redistribution will materially change the total fee liability amongst the group of 'actual' PSR fee payers. This is because the amount to be redistributed is likely to be very small. Based on 2016 transaction figures, we estimate that if we apply our proposal to 2017/18 fees, less than 0.005% of our AFR would be redistributed.<sup>6</sup>
- 5.27** The precise wording of our suggested rule can be found in Annex 4.

**Question 7 Do you agree with our proposed changes to the minimum transaction thresholds, as detailed in paragraph 9.2.1AR of the draft fees rules (Annex 4)?**

### **Any other questions**

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- 5.28** We want to ensure that we are making the right changes in our fees allocation method. We would like to invite views on any other factors we should consider as we design our fees allocation method.
- Question 8 Is there any other factor that we should consider in finalising our preferred allocation method? Please elaborate and provide supporting evidence where possible.**

<sup>6</sup> This estimation is based on direct billing by the FCA and using our proposed allocation method (option 4 in CP17/30).

# Annex 1

## Consultation questions

- Question 1** Do you agree with our proposed amendments to the fees rules? If not, please explain. (Chapter 3)
- Question 2** Do operators or their members have any concerns that operators will be unable to provide accurate data to enable the FCA to calculate and collect the PSR fees owed by each potential fee payer? (Chapter 3)
- Question 3** Do you agree with our proposed allocation method, i.e. the use of a fee payer's total transaction volume and the total value (in GBP) of those transactions as direct variables for fees allocation at an 80–20 volume-to-value ratio? If not, please provide evidence to support your answer. (Chapter 4)
- Question 4** Do you have views on the draft fees rules proposed in Annex 4? (Chapter 4)
- Question 5** Do you agree with the definition of relevant transactions in each payment system, as set out in column 2 of the draft fees rules (in Annex 4)? (Chapter 5)
- Question 6** Do you agree with our proposal regarding the scope of relevant transactions? (Chapter 5)
- Question 7** Do you agree with our proposed changes to the minimum transaction thresholds, as detailed in paragraph 9.2.1A of the draft fees rules (Annex 4)? (Chapter 5)
- Question 8** Is there any other factor that we should consider in finalising our preferred allocation method? Please elaborate and provide supporting evidence where possible. (Chapter 5)



## Annex 2

# Allocation options consulted on in CP 17/30

- 2.1** The allocation options that we presented in CP17/30 are described below. An assessment of the options can be found in Chapter 5 of that document.<sup>7</sup>
- 2.2 Option 1:** We would continue with our current allocation method, but make certain adjustments to accommodate upcoming changes in the industry. This means splitting our annual funding requirement<sup>8</sup> ('the total AFR') into a FSBRA pot ('FSBRA AFR') and an IFR pot ('IFR AFR'). The ratio is currently at 95% and 5% respectively.
- a. Designated payment systems that are captured by the FSBRA legislation would contribute an equal share of the FSBRA AFR ('equal allocation'). Under the current arrangement, the FSBRA AFR is split into seven portions, with Cheques and Credit Clearing (C&CC) and the Northern Irish Cheques and Credit (NICC) systems sharing one portion, and the rest of the designated payment systems each accounting for one portion.
  - b. In respect to the amount allocated to each system (other than C&CC or NICC), each direct member needs to pay a fee that is determined by its relevant transaction volumes in that system in a given year as a percentage of all relevant transactions in that system in that year. For example, if a PSP accounts for 35% of the transactions in Faster Payment and 55% of those in Bacs, its contribution to PSR fees would be 35% of the FSBRA AFR allocated Faster Payment and 55% of that allocated to Bacs.
  - c. C&CC is allocated around 95% of its shared portion with NICC, and NICC is allocated the rest. The amount each member of C&CC pays is determined by its relevant transaction volumes in C&CC in a given year as a percentage of all relevant transactions in that system in that year. The amount each of the four members of NICC pays is 25% of the amount allocated to NICC.
  - d. The IFR AFR (5% of the total AFR) will be allocated according to the bands each card payment system fits in. The bands are based on transaction volumes through those systems. The result is currently similar to an equal allocation method. Three card payment systems contribute an equal share of approximately 95% of the IFR AFR, with the rest of the IFR AFR (5%) being paid by one card payment system.
  - e. For some card schemes, the fees allocated to them are then shared by their members, with each member paying an amount determined by its transaction volumes in that system as a percentage of all transactions in that system.
  - f. For other schemes, the operators currently pay the fees allocated to them and do not distribute the fees any further.

<sup>7</sup> [www.psr.org.uk/sites/default/files/media/PDF/CP17-30-PSR-fees-18-19.pdf](http://www.psr.org.uk/sites/default/files/media/PDF/CP17-30-PSR-fees-18-19.pdf)

<sup>8</sup> This annual funding requirement (AFR) is the total amount the PSR needs to fund its activities in that particular financial year.

- 2.3 Option 2:** We would calculate the fee liability of individual fee payers based only on their transaction volumes through all PSR-regulated payment systems in the relevant year (Option 2(a)). This includes the systems designated under FSBRA and the systems that fall under the IFR.

$$\begin{aligned}
 & \textbf{Option 2(a)} \\
 & \textbf{Fees allocated to a fee payer} \\
 & = \\
 & \% \text{ AFR allocated to a fee payer} \times \text{Annual Funding Requirement (AFR)} \\
 & \\
 & \% \text{ AFR allocated to a fee payer} \\
 & = \\
 & \frac{\text{All of a fee payer's transaction volume in all regulated systems}}{\text{Sum of all fee payers' transaction volumes across all regulated systems}}
 \end{aligned}$$

Option 2(b) is similar to option 2a but we would apply different weightings to the transactions in different payment systems when we work out the percentage (%) AFR allocated to each fee payer. This would allow us to take into account the characteristics of the transactions being considered.

- 2.4 Option 3:** We would introduce a banding system based on the fee payers' overall transaction volumes through all PSR-regulated payment systems. Each fee payer will be put within a fee band, and all fee payers within the same band will pay the same fee, which will be determined by us every year after the PSR's AFR for that year has been confirmed.
- 2.5 Option 4:** We would assign the PSR overall AFR to two blocks: the transaction volume block (which works like option 2(a)) and the transaction value block. Each fee payer's fees liability is determined by the formula below:

$$\begin{aligned}
 & \textbf{Option 4} \\
 & \textbf{Fees allocated to a fee payer} \\
 & = \\
 & \text{its fees under the volume block ('Vo')} + \\
 & \text{its fees under the value block ('Va')} \\
 & \\
 & V_o = (\text{AFR} \times 80\% *) \times \text{the fee payer's \% in the volume block} \\
 & V_a = (\text{AFR} \times 20\% *) \times \text{the fee payer's \% in the value block} \\
 & \\
 & \text{A fee payer's \% in the volume block} = \frac{\text{The fee payer's transaction volumes (count) in all systems}}{\text{The sum of all fee payer's transaction volumes across all systems}} \\
 & \text{A fee payer's \% in the value block} = \frac{\text{The sum of the values (£) of the fee payer's transactions in all systems}}{\text{The sum of all fee payer's total transaction values across all systems}}
 \end{aligned}$$

\* The exact ratio will be determined through this consultation.

- 2.6** Under this option, operators that also act as PSPs would be treated as fee payers and their fees under each block would be determined by their total transaction volume or value in a given year as a percentage of all transaction volumes or values across all PSR-regulated payment systems.

- 2.7** The four PSPs that currently each contribute 25% of the fees allocated to NICC will also pay a fee based on the transaction volumes or values as a percentage of the total transaction volumes or values across all PSR-regulated payment systems.

# **Annex 3**

## **Fees instrument making amendments to the existing PSR fees rules**

**FEES (PAYMENT SYSTEMS REGULATOR) INSTRUMENT (No 5) 2017**

**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”);
  - (2) the powers in and under Regulation 15 of The Payment Card Interchange Fee Regulations 2015 (SI 2015/1911); and
  - (3) 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 (Fees) in Part 3 (Penalties and Fees) of Schedule 1ZA (The Financial Conduct Authority).
- 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 15 December 2017.

**Amendments to the Handbook**

- D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

**Citation**

- E. This instrument may be cited as the Fees (Payment Systems Regulator) Instrument (No 5) 2017.

By order of the Board  
7 December 2017

## Annex

## Amendments to the Fees manual (FEES)

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

## 9 Payment Systems Regulator funding

...

### 9.2 PSR fees

...

#### Time of payment

9.2.2 R If the *PSR fee* paid by a *direct payment service provider* for the previous *fee year* for a particular *regulated payment system* or *IFR card payment system* was at least £20,000, that *direct payment service provider* must pay to the ~~operator of that particular regulated payment system or IFR card payment system~~ FCA:

- (1) an amount equal to 50% of the *PSR fee* payable for the previous *fee year*, by ~~15 March at the end of the previous~~ 1 April in the current *fee year* or, if later, within 30 days of the date of the invoice; and
- (2) the balance of the *PSR fee* due by ~~15~~ 1 September in the current *fee year* or, if later, within 30 days of the date of the invoice.

9.2.2A R ~~The operator of each regulated payment system or IFR card 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) ~~1 April in the current *fee year*;~~
- (2) ~~1 October in the current *fee year*. [deleted]~~

9.2.2B R If an *operator* of an *IFR card payment system* or *card payment system* is liable to pay *PSR fees* itself under *FEES 9.2.1DR* or *FEES 9.2.1ER*, and the *PSR fee* it paid for the previous *fee year* for its *IFR card payment system* or *card payment system* was at least £20,000, that *operator* must pay to the *FCA*:

- (1) an amount equal to 50% of the *PSR fee* payable for the previous *fee year*, by ~~15 March at the end of the previous~~ 1 April in the current *fee year* or, if later, within 30 days of the date of the invoice; and
- (2) the balance of the *PSR fee* due by ~~15~~ 1 September in the current *fee year* or, if later, within 30 days of the date of the invoice.

~~[Note: Transitional provisions apply to FEES 9.2.2R to FEES 9.2.2BR inclusive: see FEES TP 12.4]~~

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

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

9.2.3A R ~~The operator of each regulated payment system and IFR card 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) ~~1~~ 1 October 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.~~ [deleted]

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

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

#### Method of payment and invoicing

9.2.4 G A direct payment service provider or an operator of a regulated payment system or an IFR card payment system should pay its fees to the FCA by direct debit, electronic credit transfer, cheque, Maestro, Visa Debit or by credit card (Visa/MasterCard only) 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 or an operator of a regulated payment system or an IFR card payment system must pay its PSR fees to the FCA operator (acting as collection agent for the FCA) of the regulated payment system or IFR card payment system to which the fee relates.

9.2.4B R ~~The operator of a regulated payment system or an IFR card payment system, acting as collection agent for the FCA, must pay to the FCA the amounts it receives from or on behalf of direct payment service providers under FEES 9.2.4AR.~~ [deleted]

- 9.2.4C R ~~With respect to invoices for PSR fees:~~
- ~~(1) the operator of each regulated payment system or IFR card payment system must 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 or IFR card payment system;~~
  - ~~(2) invoices must 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 must 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; and~~
  - ~~(4) the requirements of FEES 9.2.4CR(1), (2) and (3) also apply where the operator of a card payment system or IFR card payment system is liable to pay PSR fees itself under FEES 9.2.1DR or FEES 9.2.1ER. [deleted]~~
- 9.2.4D R (1) The operator of a regulated payment system or IFR card payment system must provide to the FCA and PSR, for each of its direct payment service providers (and for itself, where it is an operator acting as an acquirer or card issuer), a copy of:
- (a) its calculations (as specified in column 3 of Tables A and C of FEES 9 Annex 1R); and
  - (b) the underlying data (as specified in column 5 of Tables A and C of FEES 9 Annex 1R) required to calculate the fees allocation of each fee payer.
- (2) The operator of a regulated payment system or IFR card payment system must:
- (a) provide the information in (1) to the PSR and FCA as soon as possible practicable, but no later than 1 March each year once FEES 9 Annex 1R is updated for a fee year; and
  - (b) obtain the PSR's agreement to provide such other data to the FCA and PSR on request to enable the individual PSR fees on a sufficiently timely basis to be able to issue invoices to direct payment service providers in accordance with FEES 9.2.4CR to be verified.
- (3) ~~The operator of each regulated payment system and IFR card payment system must provide to the PSR an updated version of the information set out in FEES 9.2.4DR(1) by no later than two working days after the dates set out in FEES 9.2.2R and FEES 9.2.3R,~~



~~indicating which direct payment service providers have not paid, or not paid in full, their PSR fees. [deleted]~~

9.2.4E G ~~An operator of a regulated payment system or an IFR card payment system should pay the amounts due to the FCA under FEES 9.2.2BR, FEES 9.2.3BR and FEES 9.2.4BR by electronic credit transfer and should notify the FCA if it intends to pay in another way. [deleted]~~

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

...

# **Annex 4**

## **Draft fees instrument on the proposed amendments to the PSR fees rules for consultation**

**FEES (PAYMENT SYSTEMS REGULATOR) INSTRUMENT (No [X]) 2018**

**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”);
  - (2) the powers in and under Regulation 15 of The Payment Card Interchange Fee Regulations 2015 (SI 2015/1911);
  - (3) the powers in and under Regulation 136 of the Payment Services Regulations 2017 (SI 2017/752); and
  - (4) 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 (Fees) in Part 3 (Penalties and Fees) of Schedule 1ZA (The Financial Conduct Authority).
- 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 [*date*].

**Amendments to the Handbook**

- D. The Glossary 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.

**Citation**

- F. This instrument may be cited as the Fees (Payment Systems Regulator) Instrument (No [X]) 2018.

By order of the Board  
[*date*]

## 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.

*operator acting as a PSR fee payer* an operator of a *card payment system* or an *IFR card payment system* acting as an *acquirer*, as a *card issuer* or as both an *acquirer* and *card issuer* in that *payment system*.

*PSR fee payer* a *direct payment service provider*, or an *operator acting as a PSR fee payer*, eligible to pay a *PSR fee* in accordance with *FEES 9.2.1R*.

*transaction values* for each *payment system* listed in column 1 of the table in *FEES 9 Annex 1R* the total value of the transfers of funds of the type specified in column 2 of the table undertaken by each *PSR fee payer* in the *relevant time period*.

Amend the following definitions as shown.

*operator* ...  
(3) (in *FEES 1* and *FEES 9*), 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. It does not include the Bank of England.

*PSR fee* the fee payable by a ~~*direct payment service provider*~~ or an ~~*operator of an IFR card payment system*~~ *PSR fee payer* under *FEES 9.2.1R*.

*relevant time period* (a) for each ~~*regulated payment system*~~ listed in column 1 of ~~Table A of the table in~~ *FEES 9 Annex 1R*, the time period or date specified for that ~~*regulated payment system*~~ in column ~~4~~ 3 of ~~Table A~~ the table.  
(b) for each ~~*IFR card payment system*~~ listed in column 1 of ~~Table C of~~ *FEES 9 Annex 1R*, the time period specified for that ~~*IFR card payment system*~~ in column 2 of ~~Table B~~ and column 4 of ~~Table C of~~ *FEES 9 Annex 1R*.

*transaction volumes* (a) for each ~~*regulated payment system*~~ listed in column 1 of ~~Table A of the table in~~ *FEES 9 Annex 1R*, the total number of transfers of funds of the type specified in column ~~5~~ 2 of ~~Table A~~ the table undertaken by a ~~*direct payment service provider*~~ each *PSR fee*

payer in the *relevant time period*.

- (b) ~~for each *IFR card payment system* listed in column 1 of Table C of *FEES 9 Annex 1R*, the number of transfers of funds of the type specified in column 1 of Table B and column 5 of Table C of *FEES 9 Annex 1R* undertaken in the *relevant time period* by:~~
- ~~(i) an *acquirer*; or~~
  - ~~(ii) a *card issuer*; or~~
  - ~~(iii) an *operator* of an *IFR card payment system* acting as such an *acquirer* or *card issuer*.~~

Delete the following definitions. The text is not shown struck through.

- payment system allocation*
- (a) for each *regulated payment system* listed in column 1 of Table A of *FEES 9 Annex 1R*, the annual allocation of *PSR fees* specified for that *regulated payment system* in column 2 of Table A of *FEES 9 Annex 1R*.
  - (b) for each *IFR card payment system* listed in column 1 of Table C of *FEES 9 Annex 1R*, the annual allocation of *PSR fees* specified for that *IFR card payment system* in column 2 of Table C of *FEES 9 Annex 1R*.
- payment system denominator*
- (a) for each *regulated payment system* listed in column 1 of Table A of *FEES 9 Annex 1R*, the figure specified for that *regulated payment system* in column 6 of Table A and which is also the total *transaction volumes* for that *regulated payment system* undertaken by all relevant *direct payment service providers* in the *relevant time period*, prior to any adjustment resulting from the application of *FEES 9.2.1AR*.
  - (b) for each *IFR card payment system* listed in column 1 of Table C of *FEES 9 Annex 1R*, the figure specified for that *IFR card payment system* in column 4 of Table B and column 6 of Table C of *FEES 9 Annex 1R*, and which is also the total *transaction volumes* for that *IFR card payment system* undertaken by all relevant *acquirers*, *card issuers* and *operators* acting as such *acquirers* or *card issuers* in the *relevant time period*, prior to any adjustment resulting from the application of *FEES 9.2.1CR*.

## Annex B

### Amendments to the Fees manual (FEES)

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

## 9 Payment Systems Regulator funding

### 9.1 Application and purpose

...

#### Purpose

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

#### Introduction

- 9.1.3 G Section 40(1) of *FSBRA* (The Payment Systems Regulator) requires the *FCA* to establish the *PSR*.

- 9.1.4 G (1) Paragraph 9 of Schedule 4 of *FSBRA* and the *2015 Interchange Regulations* applying *FSBRA* in a modified form and the Payment Services Regulations 2017 applying *FSBRA* in a modified form allow the *FCA* to make *rules* requiring *participants* in *regulated payment systems* and *IFR card payment systems* to pay the *FCA* specified amounts or amounts calculated in a specified way to:

- (a) meet the relevant costs referred to in (2) below; and
- (b) enable the *PSR* to maintain adequate reserves.

- (1A) ~~The specified amount or amounts calculated in a specific way in (1) are *PSR fees* which are levied for the funding of the *PSR's* functions and activities in relation to:~~

- ~~(a) *regulated payment systems* on *participants* in *regulated payment systems*; and~~
- ~~(b) the *IFR* on *regulated persons* [deleted]~~

...

...

#### Annual budget and annual plan

- 9.1.8 G (1) *PSR fees* will vary from year to year, depending on the *PSR*'s annual plan and budget.
- (2) These details are in *FEES 9 Annex 1R*.
- (3) The *FCA* and *PSR* will prepare and consult on new details for each *fee year*.

## 9.2 PSR fees

### Obligation to pay PSR fees

- 9.2.1 R ~~A direct payment service provider, acquirer, card issuer or operator of an IFR card payment system~~ *PSR fee payer* must pay to the *FCA* the *PSR fees* applicable to it as calculated as set out in by the *FCA* in accordance with *FEES 9 Annex 1R*:
- (1) in full and without deduction; and
- (2) in accordance with this chapter, subject to:
- (a) *FEES 9.2.1AR*;
- (b) *FEES 9.2.1CR*; and
- (c) *FEES 9.2.1DR*; ~~and~~
- (d) ~~*FEES 9.2.1FR*~~.
- 9.2.1A R ~~If either of the following tests is met by an acquirer or card issuer in a card payment system in any given fee year, the transaction volumes attributable to that acquirer or card issuer are not to be included in the payment system denominator for that card payment system for that fee year, and that acquirer or card issuer is not required to pay any PSR fee in respect of the payment system allocation to that card payment system for that fee year where:~~
- (1) ~~the PSR fee for that acquirer or card issuer calculated as set out in *FEES 9 Annex 1R* would be less than £50 for the current fee year for that card payment system if *FEES 9.2.1AR* were not applied; or~~ *PSR fee payer* is not required to pay any *PSR fee* in accordance with *FEES 9.2.1R* where, in the opinion of the *FCA* and *PSR*, the costs of collection would be disproportionate to the amount payable.
- (2) ~~a direct payment service provider in that card payment system realises in total less than 100,000 transactions by an acquirer operating in the United Kingdom plus transactions by a card issuer operating in the United Kingdom in the relevant time period. If (1) applies in any given fee year, the transaction volumes and transaction values attributable to that PSR fee payer are not to be included in the sum of all PSR fee payers' relevant transactions set~~

out in columns 4 and 5 of the table in *FEES 9 Annex 1R* for that *fee year*.

(3) [deleted]

...

9.2.1C R (1) ~~If an *acquirer* or *card issuer* meets either of the following tests in an *IFR card payment system* in any given *fee year*, the *transaction volumes* attributable to that *acquirer* or *card issuer* are not to be included in the *payment system denominator* for that *IFR card payment system* for that *fee year*, and that *acquirer* or *card issuer* is not required to pay any *PSR fee* in respect of the *payment system allocation* to that *IFR card payment system* for that *fee year* where: An operator acting as a *PSR fee payer* must pay the entire *PSR fee* for the relevant *card payment system* or *IFR card payment system* for that *fee year*.~~

(a) ~~the *PSR fee* for that *acquirer* or *card issuer* calculated as set out in *FEES 9 Annex 1R* would be less than £50 for the current *fee year* for that *IFR card payment system* if *FEES 9.2.1CR* were not applied; or~~

(b) ~~a *direct payment service provider* in that *IFR card payment system* realises in total less than 100,000 *IFR transactions* by an *acquirer* operating in the United Kingdom plus *IFR transactions* by a *card issuer* operating in the United Kingdom in the relevant time period.~~

(2) ~~If the total number of *IFR transactions* by an *acquirer* operating in the United Kingdom plus *IFR transactions* by a *card issuer* operating in the United Kingdom under a given *IFR card payment system* in the relevant time period amount to less than 100,000, no *payment system allocation* must be made to that *IFR card payment system* for the relevant *fee year*, and the *acquirers*, *card issuers* and *operator* in that *IFR card payment system* are not required to pay any *PSR fee* in respect of that *IFR card payment system* for that *fee year*.~~

9.2.1D R ~~If there is a *payment system allocation* for a given *fee year* to an *IFR card payment system* (as set out in Table C of *FEES 9 Annex 1R*), and none of the *acquirers* and *card issuers* in that *IFR card system* is required to pay any *PSR fee* for that *fee year* as a result of the application of *FEES 9.2.1CR(1)*, then the *operator* of that *IFR card payment system* must pay the entire *payment system allocation* for that *IFR card payment system* as *PSR fees* for that *fee year*. Where *FEES 9.2.1CR* applies, no other *acquirers* or *card issuers* are required to pay any *PSR fee* for that *card payment system* or *IFR card payment system* in accordance with *FEES 9.2.1R*.~~

9.2.1E R If:



- (1) ~~there is a *payment system allocation* for a given *fee year* to a *card payment system* or to an *IFR card payment system* (in either Table A or Table C of *FEES 9 Annex 1R* respectively); and~~
- (2) ~~the *operator* of that *payment system* is acting as an *acquirer*, as a *card issuer* or as both an *acquirer* and *card issuer* in that *card payment system* or *IFR card system*; [deleted]~~

9.2.1F R ~~Where *FEES 9.2.1ER* applies, no other *acquirers* or *card issuers* are required to pay any *PSR fee* for that *card payment system* or *IFR card system* in accordance with *FEES 9.2.1R*. [deleted]~~

9.2.1G G ~~Where *FEES 9.2.1ER* applies, the *payment system denominator* for that *card payment system* or *IFR card payment system* is not included in column 6 of Table A or Table C, as appropriate, of *FEES 9 Annex 1R*. [deleted]~~

#### Time of payment

9.2.2 R If the *PSR fee* paid by a *direct payment service provider* *PSR fee payer* for the previous *fee year* for a particular *regulated payment system* or *IFR card payment system* was at least £20,000, that *direct payment service provider* *PSR fee payer* must pay to the *FCA*:

- (1) an amount equal to 50% of the *PSR fee* payable for the previous *fee year*, by 1 April in the current *fee year* or, if later, within 30 *days* of the date of the invoice; and
- (2) the balance of the *PSR fee* due by 1 September in the current *fee year* or, if later, within 30 *days* of the date of the invoice.

...

9.2.2B R ~~If an *operator* of an *IFR card payment system* or *card payment system* is liable to pay *PSR fees* itself under *FEES 9.2.1DR* or *FEES 9.2.1ER*, and the *PSR fee* it paid for the previous *fee year* for its *IFR card payment system* or *card payment system* was at least £20,000, that *operator* must pay to the *FCA*:~~

- (1) ~~an amount equal to 50% of the *PSR fee* payable for the previous *fee year*, by 1 April in the current *fee year* or, if later, within 30 *days* of the date of the invoice; and~~
- (2) ~~the balance of the *PSR fee* due by 1 September in the current *fee year* or, if later, within 30 *days* of the date of the invoice. [deleted]~~

9.2.3 R If the *PSR fee* paid by a *direct payment service provider* for a particular *regulated payment system* or *IFR card payment system* *PSR fee payer* for the previous *fee year* was less than £20,000, the *direct payment service provider* *PSR fee payer* must pay its *PSR fee* in full to the *FCA*:

- (1) by 1 ~~September~~ August in the current *fee year*; or

- (2) if later, within 30 *days* of the date of the invoice.

...

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

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

#### Method of payment and invoicing

9.2.4 G A ~~direct payment service provider or an operator of a regulated payment system or an IFR card payment system~~ PSR fee payer should pay its fees to the FCA by direct debit, electronic credit transfer, cheque, Maestro, Visa Debit or by credit card (*Visa/MasterCard* only).

9.2.4A R A ~~direct payment service provider or an operator of a regulated payment system or an IFR card payment system~~ must pay its PSR fees to the FCA. [deleted]

...

#### Provision of information

- 9.2.4D R (1) The operator of a regulated payment system or IFR card payment system must provide to the FCA and PSR, for each of its *direct payment service providers* (and for itself, where it is an operator acting as an *acquirer* or *card issuer*), ~~a copy of the data required to calculate the fees allocation of each fee payer. :~~
- (a) a copy of the data setting out the transaction volumes and transaction values required by the FCA to calculate the PSR fees as set out in FEES 9 Annex 1R; and
- (b) all relevant information (which is either in the operator's possession or to which it has reasonable access to) to enable and/or assist the FCA to issue invoices to PSR fee payers and/or collect PSR fees.
- (2) The operator of a regulated payment system or IFR card payment system must:
- (a) provide the information in (1) to the PSR and FCA as soon as practicable, but no later than 1 ~~March~~ February each year; and
- (b) provide such other data to the FCA and PSR on request to

enable the individual *PSR fees* to be verified.

- 9.2.4G G The information to be provided in accordance with FEES 9.2.4DR(1)(b) includes, without limitation, contact information (including named point of contact), billing address, FCA firm reference number (where applicable) and company information to assist the FCA identify the correct PSR fee payer.
- 9.2.4H G The FCA will use the data provided by the relevant operators in FEES 9.2.4DR to calculate the PSR fees. Before being submitted to the FCA, the operator should confirm with the relevant PSR fee payers the accuracy of the data it proposes to submit. In the event of a dispute raised by a PSR fee payer over the accuracy of the data provided to the FCA, the FCA will continue to use the data as originally provided. Any later dispute should be directed to the relevant operator of the regulated payment system or IFR card payment system responsible for the provision of the data to the FCA.

...

#### Late payments

- 9.2.7 R If a ~~direct payment service provider or an operator of an IFR card payment system~~ *PSR fee payer* 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 it 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.
- (3) In addition, the FCA or PSR may be entitled to take regulatory action in relation to the non-payment of PSR fees. What action (if any) that is taken by the FCA or PSR will be decided upon given the particular circumstances of the case.

...

#### 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 direct payment service provider or operator of an IFR card payment system~~ *PSR fee payer* if the claim is made more than two years after the beginning of the *fee year* to which the fee relates.

...

FEES 9 Annex 1R (PSR fees for the period 1 April 2017 to 31 March 2018) is deleted in its entirety and replaced with a new 9 Annex 1R. The deleted text is not shown and the new text is not shown underlined.

**9 PSR fees for the period 1 April 2018 to 31 March 2019**  
**Annex**  
**1R**

**PSR fees for the period 1 April 2018 to 31 March 2019**

The table below shows the methodology used by the FCA to determine the PSR fee applicable to PSR fee payers

Regulated payment system or IFR card payment system (column 1)	Relevant transactions (column 2)	Relevant time period (column 3)	Volume block ("Vo") (column 4)	Value block ("Va") (column 5)	Calculation methodology for PSR fee payable (column 6)
<i>Bacs</i>	All transactions processed through the <i>BACS regulated payment system</i> . Transactions include both the initiation of the transfer of the funds, and the receipt of transferred funds.	(column 3) 1 January to 31 December 2017	(column 4) $Vo = (PSR's\ AFR\ for\ 2018/2019\ [£\ figure] \times 80\%) \times the\ PSR\ fee\ payer's\ \% \ in\ the\ volume\ block$ $\left( \frac{A\ PSR\ fee\ payer's\ \% \ in\ the\ volume\ block = All\ of\ a\ PSR\ fee\ payer's\ relevant\ transaction\ volume\ in\ all\ systems}{[Sum\ of\ all\ PSR\ fee\ payers' \ relevant\ transactions^3]} \right)$	(column 5) $Va = (PSR's\ AFR\ for\ 2018/2019\ [£\ figure] \times 20\%) \times the\ fee\ payer's\ \% \ in\ the\ value\ block$ $\left( \frac{A\ PSR\ fee\ payer's\ \% \ in\ the\ value\ block = All\ of\ a\ PSR\ fee\ payer's\ relevant\ transaction\ value\ in\ all\ systems}{[Sum\ of\ all\ PSR\ fee\ payers' \ relevant\ transactions^4]} \right)$	Fees allocated to a PSR fee payer = its fees under the volume block (Vo) + its fees under the value block (Va)
<i>C&amp;C</i>	All transactions including 'in clearing' and 'out clearing' transactions for GBP, USD and EUR processed through the <i>C&amp;C regulated payment system</i> .				
<i>CHAPS</i>	All MT103 and MT202 transactions processed through the <i>CHAPS regulated payment system</i> . Transactions include both the initiation of the transfer of the funds, and the receipt of transferred funds.				
<i>FPS</i>	All transactions processed through the <i>FPS regulated payment system</i> . Transactions include both the initiation of the transfer of funds, and the receipt of transferred funds.				
<i>LINK</i>	All transactions issued and acquired under the <i>LINK regulated payment system</i> .				

<sup>1</sup> This figure will be updated annually to reflect the new PSR AFR.

<sup>2</sup> The exact ratio will be determined after this consultation.

<sup>3</sup> This figure will be updated annually to reflect the sum of all eligible PSR fee payer's relevant transaction volumes in the previous calendar year.

<sup>4</sup> This figure will be updated annually to reflect the sum of all eligible PSR fee payer's relevant transaction values in the previous calendar year.

	<p>including GBP cash withdrawals, foreign currency dispenses, balance enquiries, PIN management, charity donations, non-cash transactions and mobile payment transactions but excluding 'on us' transactions. Both issuing and acquiring transactions are taken into account.</p>			
<p><i>Mastercard</i></p>	<p>All transactions by acquirers operating in the United Kingdom and transactions by card issuers operating in the United Kingdom under the Mastercard regulated payment system, including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards, but excluding cash-only withdrawals. All Mastercard branded transactions are included irrespective of the processing entity (Mastercard itself, a third party processing entity or 'on us' transactions). Both issuing and acquiring transactions are taken into account.</p>			
<p><i>NICC</i></p>	<p>All transactions including 'in clearing' and 'out clearing' transactions for GBP, USD and EUR processed through the NICC regulated payment system.</p>			
<p><i>Visa</i></p>	<p>All transactions by acquirers operating in the United Kingdom and transactions by card issuers operating in the United Kingdom under the Visa regulated payment system, including point of sale</p>			

	<p>transactions, merchant sales volumes, and cash purchase transactions on cards, but excluding cash-only withdrawals. All <i>Visa</i> branded transactions are included irrespective of the <i>processing entity</i> (<i>Visa</i> itself, a third party <i>processing entity</i> or '<i>on us</i>' transactions). Both issuing and acquiring transactions are taken into account.</p>			
<i>AmEx</i>	All <i>IFR</i> transactions by	<i>Diners Club</i>	<i>acquirers operating in the United Kingdom and IFR</i>	
<i>JCB</i>	<i>transactions by card issuers operating in the United Kingdom</i> (or by the operator of that <i>IFR card payment system</i> acting as such an <i>acquirer</i> or <i>card issuer</i> ) under that <i>IFR card payment system</i> , including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards, but excluding cash-only withdrawals.	<i>UPI</i>	All transactions under the brand of that <i>IFR card payment system</i> are included irrespective of the <i>processing entity</i> (the <i>operator</i> or the <i>IFR card payment system</i> itself, a third party <i>processing entity</i> or ' <i>on us</i> ' transactions). Both issuing and acquiring transactions are taken into account for each <i>IFR card payment system</i> .	

FEES TP 12 (Transitional provisions relating to direct payment service providers and operators of IFR card payment systems) is deleted in its entirety. The deleted text is not shown.

**TP 12** Transitional provisions relating to direct payment service providers and operators of IFR card payment systems [deleted]



## Annex 5

# Compatibility statement

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

### The FCA and PSR's objectives and regulatory principles

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- 5.6** The proposals we set out in this consultation are not intended in themselves to advance the FCA's operational objectives. However, they will help the FCA to ensure that the PSR is capable of discharging its functions, by funding the activities the PSR needs to undertake in 2018/19 to meet its responsibilities under FSBRA, IFR and parts of PSD2. Therefore, these proposals will indirectly advance the FCA's operational objectives of:
- delivering consumer protection – securing an appropriate degree of protection for consumers
  - enhancing market integrity – protecting and enhancing the integrity of the UK financial system
  - building competitive markets – promoting effective competition in the interests of consumers
- 5.7** We consider these proposals to be compatible with the FCA's strategic objective of ensuring that the relevant markets function well, as they will help fund activities designed to meet this strategic objective.
- 5.8** The FCA must also have regard to the regulatory principles set out in section 3B FSMA and the importance of taking action intended to minimise financial crime (s. 1B(5)(b) FSMA).
- 5.9** For the PSR, the proposals in this consultation will enable it to set out its fees allocation and collection method to fund its activities so it can meet its statutory objectives. These are:
- to promote effective competition in the markets for payment systems and the services provided by payment systems, in the interests of service-users
  - to promote development and innovation in payment systems, including in infrastructure used for the purpose of operating payment systems, in the interests of service-users
  - to ensure payment systems are operated and developed in a way that takes account of and promotes the interests of service-users

The funding also enables the PSR to carry out its functions to monitor and enforce the IFR and parts of PSD2.

- 5.10** The most relevant regulatory principles are considered below. These are also broadly consistent with the PSR's regulatory principles under section 53 FSBRA.

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

- 5.11** Our proposed changes are aimed at making the way we collect and allocate PSR fees relatively simple, transparent and predictable (and, as a result, low-cost). They reflect a balance between the need to use our resources in an efficient and economical way and an approach that is not disproportionate or unfair to individual payment systems or participants.
- 5.12** One of the other aims of our proposed changes is to improve the sustainability of the PSR's fees allocation methodology, which would reduce the need for frequent changes to the fees rules. This would, in turn, reduce the burden on our resources associated with making or implementing these changes.

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

- 5.13** We are moving away from the current method of indirectly billing PSR fee payers via payment system operators. In its place we propose that the FCA will calculate, invoice and collect the PSR fees as part of the annual FCA fees process. This should reduce the existing burden on operators and fee payers, as set out in Chapter 3.
- 5.14** We are also proposing to change our fees allocation method. We consider that the expected benefits brought by changing our allocation method now are, in general terms, proportionate to the burden imposed on operators and fee payers as a result of the change. In particular, the proposed option will improve the sustainability of the PSR's fees allocation methodology, which would reduce the need for frequent changes to the fees rules. This would, in turn, reduce the burden on operators and fee payers associated with these changes – for example, in considering and responding to our consultations regarding the changes and in implementing those changes.

**(c) 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**

- 5.15** We acknowledge the need to treat different fee payers and operators differently when they are in significantly different situations. We have already factored this into our assessment of any potential allocation methodology under the guiding principle of proportionality. We set out in CP17/30 the various ways of assessing proportionality and distinguishing fairly between different fee players, namely: the frequency of using payment systems; the economic benefit derived from using payment systems; the size of the fee payer; and the benefit received from PSR activities.
- 5.16** We also take into account the differences of the fee payers and the payment systems through other ways – for example, when considering the scope and types of relevant transactions for fees allocation, which is set out in Chapter 5.

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

- 5.17** We consider that we have clearly described our proposed fees collection method in CP17/30 and this document. We have also set out the guiding principles we use to review the fees allocation options and our fees allocation proposals. We consider that the reasoning for our decision and our proposals for further changes has been clearly spelled out and well evidenced across the two documents.
- 5.18** We also include our proposed fees allocation formula in our draft fees rules for consultation. That would enable fee payers to understand how their PSR fees are calculated every year.

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

- 5.19** The PSR has an objective to promote effective competition in the markets for payment systems and services provided by payment systems. By supporting the PSR in raising its fees to fund its activities, the FCA is acting consistently with its duty to promote effective competition in the interests of consumers.

### **Other considerations**

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#### **(f) Equality and diversity**

- 5.20** 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 conducted an equality impact assessment to ensure that the equality and diversity implications of any new policy proposals are considered.
- 5.21** We believe that none of our proposals raise issues of equality and diversity. We would welcome your comments if you believe any equality and diversity issues might arise from our proposals.
- 5.22** The funding for the PSR through the collection of PSR fees will enable it to progress its programme of work. This may in due course lead us to consider new general directions or generally applicable requirements (or modifications to existing ones). In these circumstances the PSR would consider equality and diversity implications with regard to those specific proposals.

#### **(g) Impact on financial stability**

- 5.23** The PSR has general duties under section 49(3)(a) FSBRA to 'have regard' to the importance of maintaining the stability of, and confidence in, the UK financial system.
- 5.24** We currently believe that none of our proposals in this fees consultation would negatively affect financial stability. This is because the total PSR AFR is relatively small, and the fee allocated to each fee payer is unlikely to be high enough to create any material impact on financial stability.
- 5.25** Furthermore, our proposals should reduce the existing burden on operators of payment systems. This would enable them to free up their resources for ensuring smooth functioning of the payment systems they operate, which would have a positive impact on financial stability.

## Annex 6

# Glossary

This table includes the glossary and abbreviations used for the purposes of this consultation paper.

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

Term or abbreviation	Description
<b><i>acquirer (acquiring PSP)</i></b>	<i>A payment service provider contracting with a payee to enable them to accept payment transactions made by means of any card, telecommunication, digital or IT device or software, and which result in a transfer of funds to the payee</i>
<b>AFR</b>	Annual funding requirement
<b><i>AmEx</i></b>	<i>The American Express IFR card payment system</i>
<b>ATM (automated teller machine)</b>	An electromechanical device that enables authorised users, typically using machine-readable plastic cards, to withdraw cash from their accounts and/or access other services (for example, to make balance enquiries, transfer funds or deposit money).
<b>ATM deployer</b>	A company which owns and operates ATMs
<b><i>Bacs</i></b>	<i>The Bacs regulated payment system designated by HM Treasury under section 43 of FSBRA</i>  (The regulated payment system which processes payments through two principal electronic payment schemes: Direct Debit and Bacs Direct Credit. The payment system is operated by Bacs Payment Schemes Limited (BPSL).)
<b><i>C&amp;C (Cheque &amp; Credit)</i></b>	<i>The Cheque &amp; Credit regulated payment system designated by HM Treasury under section 43 of FSBRA</i>  (The regulated payment system in England, Scotland and Wales that processes cheques and other paper instruments. It is operated by Cheque and Credit Clearing Company Limited (C&CCCL).)
<b><i>card issuer (card-issuing PSP)</i></b>	<i>A payment service provider contracting with a payer to enable the latter to initiate a payment transaction, made by means of any card, telecommunication, digital or IT device or software</i>
<b><i>card payment system</i></b>	<i>A regulated payment system that enables a holder of a payment card to effect a payment</i>

<b>CHAPS (Clearing House Automated Payment System)</b>	<p>The CHAPS regulated payment system designated by HM Treasury under section 43 of FSBRA</p> <p>(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 the Bank of England.)</p>
<b>collection (PSR fee collection)</b>	The method through which PSR fees are collected
<b>Diners Club</b>	The Diners Club International IFR card payment system
<b>direct access</b>	<p>(a) Access to a regulated payment system to enable a payment service provider to provide services for the purposes of enabling the transfer of funds using the regulated payment system, as a result of arrangements made between that payment service provider and the operator (and other participants, as applicable)</p> <p>(b) Access to an IFR card payment system to enable a payment service provider to provide services for the purposes of enabling the transfer of funds under the rules of that IFR card payment system.</p>
<b>direct payment service provider (also referred to as a 'direct member' of a regulated payment system)</b>	<p>(a) Any person with direct access to a regulated payment system who provides services to consumers or businesses who are not participants in a regulated payment system, for the purposes of enabling the transfer of funds using that regulated payment system. For the purposes of FEES 9, direct payment service provider includes an acquirer and a card issuer, and does not include the Bank of England.</p> <p>(b) Any person with direct access to an IFR card payment system who acts as an acquirer or card issuer for the purposes of enabling the transfer of funds under the rules of that IFR card payment system.</p>
<b>FCA</b>	Financial Conduct Authority
<b>FEES 9</b>	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> )
<b>FPS (Faster Payments Scheme)</b>	<p>The Faster Payments Scheme regulated payment system designated by HM Treasury under section 43 of FSBRA</p> <p>(The regulated payment system that provides near real-time payments as well as standing orders. It is operated by Faster Payments Scheme Limited (FPSL).)</p>
<b>FSBRA</b>	Financial Services (Banking Reform) Act 2013
<b>FSMA</b>	Financial Services and Markets Act 2000

<b>IFR (EU Interchange Fee Regulation)</b>	<i>Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions, published in the Official Journal of the EU on 19 May 2015</i>
<b>IFR card payment system</b>	<i>A payment card scheme as defined in the IFR, being a single set of rules, practices, standards and/or implementation guidelines for the execution of card-based payment transactions and which is separated from any infrastructure or payment system that supports its operation, and includes any specific decision-making body, organisation or entity accountable for the functioning of the scheme</i>
<b>IFR transactions by acquirers operating in the United Kingdom</b>	<i>All transactions subject to the IFR acquired by:</i> <i>(a) UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located in the United Kingdom, where the card issuer is located in the EEA;</i> <i>(b) UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located outside the United Kingdom, where the card issuer is located in the EEA; and</i> <i>(c) non-UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located in the United Kingdom, where the card issuer is located in the EEA</i>
<b>IFR transactions by card issuers operating in the United Kingdom</b>	<i>All transactions subject to the IFR on cards issued by UK-based card issuers (or an operator acting as card issuer), where the acquirer is located in the EEA</i>
<b>independent ATM deployer (IAD)</b>	<i>An ATM deployer which does not issue payment cards</i>
<b>indirect access</b>	<i>Access to a regulated payment system through a contractual arrangement with a direct PSP to enable it to provide services (for the purposes of enabling the transfer of funds using that regulated payment system) to persons who are not participants in the system</i>
<b>'indirect billing' approach</b>	<i>The approach to raising PSR fees whereby PSR fees are levied on direct members of Bacs, CHAPS, C&amp;C, FPS, LINK or NICC, and on acquiring and issuing PSPs that are members of MasterCard or Visa, and which is proposed to be used for acquiring and issuing PSPs (and in some cases on operators) in IFR card payment systems. PSR fees are collected on behalf of the FCA and PSR by operators acting as collection agents (fee collection methodology). The operators also issue invoices for the PSR fees determined for individual direct members using the fee calculation methodology.</i>
<b>JCB</b>	<i>The JCB International IFR card payment system</i>

<b>LINK</b>	<p><i>The LINK regulated payment system designated by HM Treasury under section 43 of FSBRA</i></p> <p>(The regulated payment system which enables end users to take cash out of their accounts (amongst other activities) using the network of ATMs in the UK. It is operated by LINK Scheme.)</p>
<b>Mastercard</b>	<p><i>The Mastercard regulated payment system designated by HM Treasury under section 43 of FSBRA and the Mastercard IFR card payment system</i></p>
<b>NICC (Northern Ireland Cheque Clearing)</b>	<p><i>The Northern Ireland Cheque Clearing regulated payment system designated by HM Treasury under section 43 of FSBRA</i></p> <p>(The regulated payment system in Northern Ireland that processes cheques and other paper instruments. It is operated by Belfast Bankers' Clearing Company Ltd).</p>
<b>operator (proposed new definition)</b>	<p><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. It does not include the Bank of England.</i></p>
<b>operator acting as a PSR fee payer (proposed new definition)</b>	<p><i>An operator of a card payment system or an IFR card payment system acting as an acquirer, as a card issuer or as both an acquirer and card issuer in that payment system</i></p>
<b>PAD (EU Payment Accounts Directive)</b>	<p>Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, published in the Official Journal of the EU on 28 August 2014</p>
<b>participants</b>	<p>(a) In relation to a regulated payment system, any operator, payment service provider and infrastructure provider to a regulated payment system. See also s.42(2) FSBRA.</p> <p>(b) In relation to IFR card payment systems, any operator and payment system provider in to that IFR payment card scheme</p>
<b>payee</b>	<p><i>A person who is the intended recipient of transferred funds</i></p>
<b>payer</b>	<p><i>A person who holds a payment account and allows instructions to be given to transfer funds from that payment account, or who gives instructions to transfer funds</i></p>



<b>payment service provider (PSP)</b>	<p>(a) Any person with access to a regulated payment system who provides services to consumers or businesses who are not participants in the system, for the purposes of enabling the transfer of funds using that regulated payment system. For the purposes of FEES 9, the Bank of England is not considered a payment service provider</p> <p>(b) Any person with access to an IFR card payment system who acts as an acquirer or card issuer for the purposes of enabling the transfer of funds under the rules of that IFR card payment system</p>
<b>payment system</b>	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>payment transaction</b>	An action of transferring funds, initiated by the payer or on its behalf or by the payee, irrespective of any underlying obligations between the payer and the payee
<b>PCIFR</b>	The Payment Card Interchange Fees Regulations 2015 (SI 2015/1911)
<b>person</b>	(In accordance with the Interpretation Act 1978) any person, including a body of persons corporate or unincorporate (that is, a natural person, a legal person and, for example, a partnership)
<b>processing entity</b>	Any person providing payment transaction processing services, in terms of the actions required for the handling of a payment instruction between the acquirer and the card issuer in a card payment system or in an IFR card payment system
<b>PSD2</b>	Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, published in the Official Journal of the EU on 23 December 2015
<b>PSR</b>	The Payment Systems Regulator Limited, the body corporate established by the FCA under section 40(1) of FSBRA
<b>PSR fee (proposed new definition) (also referred to as PSR regulatory fee)</b>	The fee payable by a PSR fee payer under FEES 9.2.1R
<b>PSR fee payer (proposed new definition)</b>	A direct payment service provider, or an operator acting as a PSR fee payer, eligible to pay a PSR fee in accordance with FEES 9.2.1R
<b>PSRs 2017</b>	Payment Services Regulations 2017



<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 includes Bacs, C&amp;C, CHAPS, FPS, LINK, NICC, MasterCard and Visa</i>
<b>regulated person</b>	<i>A person on whom an obligation, prohibition or restriction is imposed by any provision of the IFR, including participants in IFR card payment systems</i>
<b>relevant time period (proposed new definition)</b>	<i>For each payment system listed in column 1 of the table in FEES 9 Annex 1R, the time period or date specified for that payment system in column 3 of Table A</i>
<b>service-user</b>	<i>Those who use, or are likely to use, services provided by payment systems</i>
<b>transaction values (proposed new definition)</b>	<i>For each payment system listed in column 1 of the table in FEES 9 Annex 1R, the total value of the transfers of funds of the type specified in column 2 of the table undertaken by each PSR fee payer in the relevant time period</i>
<b>transaction volumes (proposed new definition)</b>	<i>For each payment system listed in column 1 of the table in FEES 9 Annex 1R, the total number of transfers of funds of the type specified in column 2 of the table undertaken by each PSR fee payer in the relevant time period</i>
<b>transactions by acquirers operating in the UK</b>	<i>All transactions acquired by:</i> <i>(a) UK-based acquirers (or an operator acting as such an acquirer) resulting in payments to merchants located in the United Kingdom</i> <i>(b) UK-based acquirers (or an operator acting as such an acquirer) resulting in payments to merchants located outside the UK and</i> <i>(c) non-UK-based acquirers (or an operator acting as such acquirer) resulting in payments to merchants located in the UK</i>
<b>transactions by card issuers operating in the UK</b>	<i>All transactions on cards issued by UK-based card issuers (or an operator acting as such a card issuer)</i>
<b>(the) Treasury</b>	<i>Her Majesty's Treasury</i>
<b>Visa (Visa Europe)</b>	<i>The Visa Europe regulated payment system designated by HM Treasury under section 43 of FSBRA and the Visa Europe IFR card payment system</i>  <i>(The regulated payment system supporting payments made by cards and operated by Visa Europe and Visa UK Limited)</i>
<b>working days</b>	<i>Any day other than a Saturday, a Sunday, Christmas Day, Good Friday or a day which is a bank holiday under the Banking and Financial Dealings Act 1971 in any part of the United Kingdom</i>

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