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# CHAPS Co

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**From** CHAPS Co

## **THE PAYMENTS STRATEGY FORUM – BEING RESPONSIVE TO USER NEEDS DRAFT STRATEGY FOR CONSULTATION**

CHAPS Clearing Company Ltd (hereinafter “CHAPS Co” or “the Company”) welcomes the opportunity to respond to the above Payments Strategy Forum (hereinafter “PSF”) Draft Strategy Consultation (hereinafter “the Consultation” or “the draft Strategy” or “the Strategy”).

CHAPS Co is the UK electronic Payment System for high value and systemically important transactions which settle across the Bank of England’s Real Time Gross Settlement (RTGS) system, thereby achieving irrevocable finality at the point of settlement.<sup>1</sup> Daily average settlement values exceed £280 billion with a direct participant base of twenty-one major financial institutions whom, in turn, service over 5,000 other financial institutions on an indirect basis (primarily via international Correspondent Banking relationships).

The CHAPS System is a central bank money settlement system and wholesale payments system. As such it processes 92% of the value of all Sterling payments, but only 0.5% of the volume of all Sterling payments. Whilst the major volumes of Sterling payments are predominantly processed by the retail payment and bulk payment clearing systems, CHAPS Co is, and always, has been used for retail transactions. Additionally, because it removes settlement risk from payments, it is the preferred mechanism within the house conveyancing market.

CHAPS Co is a Recognised System under the 2009 Banking Act<sup>2</sup> and is thereby supervised by the Bank of England in its statutory supervision capacity.

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<sup>1</sup> Finality of settlement is underpinned by CHAPS’ designation as a “system” by the Bank of England, as the relevant designating authority under the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 (the “SFRs”), which implement the EU Settlement Finality Directive 98/26/EC in the United Kingdom.

<sup>2</sup> Recognition Order issued by HM Treasury on 5th January 2010.

Since 1 April 2015, CHAPS Co is also supervised by the Payment Systems Regulator (PSR) by virtue of HMT's Designation Order of 19 March 2015.

At a governance level, CHAPS Co operates as a standalone company which is limited by shares. These are issued on an equal basis to each of the financial institutions which directly participate in the CHAPS system. CHAPS Co's Board is currently comprised of an Independent Chairman, Independent Directors and Participant Directors.

## **Part A. CHAPS Co Response to the PSF Consultation – General Comments**

### **1. Introduction**

CHAPS Co is the payment system that processes 92% of the UK total sterling payment values - £68.4 trillion out of £74 trillion processed by all the UK payment systems in 2015.<sup>3</sup> Although we were not directly represented in the Forum, our team of experts have been actively following the work of the Forum's Working Groups and, where possible, have contributed to the work of the Working Groups under their own professional expertise.

CHAPS Co welcomes the opportunity to provide input to the PSF Consultation. Having followed the work of the Forum throughout the past year, we strongly believe that the Forum has been a powerful tool and an opportunity for the industry to conduct a thorough assessment of its current state, articulate concerns and debate on its future.

The payments industry has been growing steadily and it is expected to continue to grow healthily over the next years. Most importantly, payment systems are an essential set of infrastructures that have effectively supported the stability and growth of the UK economy and could have a substantial impact on its future. Thus we believe that the effectiveness of a market strategy is paramount not only for the sector itself but for the stability and promotion of competition, investment and consumer welfare in general. Putting in place an effective strategy relies both on identifying the appropriate initiatives that have the market's consensus but also on ensuring that the proposed initiatives will not introduce risks that could have an adverse effect on the UK financial ecosystem.

The overall CHAPS Co response covers both generic comments in relation to the draft Strategy and where applicable the potential impact on CHAPS. In this Part of our response paper we are setting our general views on the PSF's draft strategy and in Part B we are providing our responses to the PSF's Consultation Questions.

In summary, the main views covered in our response paper are:

- Support for the initiative and recognition that the Strategy seeks to identify and address end user and competition detriments and potentially lays the foundation for simpler/more efficient access; more market innovation; enhanced security protocols and greater cooperation among the market participants.
- Acknowledgement that the "*new architecture for retail interbank payment systems*" has significant merit but requires considerable work before it moves from a strategic proposal to a grounded fully justified business case proposal with alternative options fully considered.
- General questioning in relation to the robustness of business cases in support of initiatives, alternatives considered, practicality and timing of delivery, programme/change management processes, resource contention, scheduling of change, key person risks, change fatigue, cost vs benefit analyses.

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<sup>3</sup> <http://www.chapsco.co.uk/about-chaps/chaps-statistics>.

- Recognition that current market activity is already significant and managing more strategic change requires careful consideration to ensure that change and operational risks are managed appropriately across the payments market. It also needs to be recognised that the effective and secure operation of Business As Usual payment operations must not be compromised in a period of anticipated significant change.

## 2. General Comments

CHAPS Co fully supports PSF's approach that weaknesses in the payments market should be identified and addressed in order for competition and innovation to flourish. However, we believe that there are certain aspects in the process of the work of the Forum, the design of the strategy and the identification of the appropriate solutions that need to be addressed in order for the market to be able to fully quantify the benefits and risks of the solutions proposed. More specifically:

- Defining the draft Strategy's target. In the beginning of the Consultation it is stated that the vision of the Forum is for a new architecture for retail interbank payment systems. Currently, there is no official term of what constitutes a "retail payment", all designated payment system operators in the UK serve both retail and wholesale customers and systemically the payments cannot be distinguished as retail or wholesale (in the absence of such an agreed objective definition of each category).
- General comments regarding the design of the strategy
  - From the information provided in the Consultation it is difficult to identify the process that has been followed to identify the market detriments and how these detriments have been quantified. For this reason, it may be difficult for the market to fully appreciate the benefits that the proposals would deliver and, therefore, the need to support them.
  - We believe that the Strategy should focus more on the concerns regarding the indirect access to payment systems, since this is the only detriment related to the payments market that both the Competition and Market Authority's (CMA) retail banking market investigation and the PSR's indirect access market review have highlighted as a concern.
  - There is limited information in the Consultation regarding the alternative solutions that have been examined as remedies to the detriments identified and, most importantly, how these solutions have been rated, i.e. the link between the solutions and their effect on detriments vs the overall implementation costs.

In particular it is not clear from the analysis presented that a variety of potential solutions have been considered and the ones that the cost benefit analysis has indicated as the most efficient are the ones put forward as the Consultation's main proposals. We believe a full cost benefit analysis should be completed for all the applicable solutions considered and which should naturally lead to the most efficient ones being identified. It is a general principle that a cost benefit analysis should

accompany any proposal set to public consultation, most importantly if the purpose of the consultation is to convince the market to invest in particular implementation proposals. Without a quantifiable demonstration that a number of solutions have been examined and that the ones put forward are the most suitable and proportional to address market detriments, it may be difficult for the Strategy to achieve a market consensus.

- The effect of anticipated regulatory developments. Currently, a number of significant and critical regulatory measures with long term market effects are expected to be implemented. Such measures include the implementation of PSD2, the implementation of ring fencing regulation, the BoE RTGS review and consultation, the CMA remedies on the Retail Banking Market Investigation, the implementation of the new General Data Protection Regulation (GDPR), Brexit etc. We are of the view that these initiatives should be factored in the next stage Impact Assessment analysis and in the implementation timeline as they are expected to have a substantial effect (operational/financial/commercial/resources) on the stakeholders in the payments industry.

We also believe that the regulators involved in the introduction of the aforementioned regulatory measures should strongly consider cooperating closely, with this being reiterated by the Forum, so not to underestimate the potential economic impact of legal uncertainties that can arise from an uncoordinated approach.

- The cost benefit methodology. One of our main concerns in relation to the draft Strategy, as set out with the Consultation, is that the proposed solutions appear to be supported with high level directional business cases and require the development of more robust impact assessment (IA)/cost benefit analysis.

In that respect, we believe that the Forum is right in considering that it is imperative for a cost benefit analysis to take place at the next stage. We would further like to add that for the process to be transparent and complete a number of suitable solutions need to be examined from a cost benefit/impact assessment point of view and that the Forum should consider reconsulting on critical outcomes of these analyses.

Also, we are of the view that greater emphasis should be placed on the significance of the principle of proportionality and on explaining why the actions proposed are necessary and appropriate vs alternative options. We would, therefore, suggest that the cost benefit model proposed with the Consultation should be enhanced and further include:

- An assessment of a number of potential solutions.
- An assessment of the impact (direct and indirect) that these solutions are likely to have on market players.
- A cost and benefit allocation methodology.
- An assessment of additional factors that are expected to impact the market and the remedies that the Strategy is proposing in order to mitigate the accumulated implementation impact on participants.

Finally the Consultation document notes that CHAPS Co is excluded from the policy proposals presented, yet it is included in the implementation solutions in a number of referenced documents. CHAPS Co requests further clarification in this respect.

## **Part B. CHAPS Co Response to the PSF Consultation Questions**

*General Note: CHAPS Co responses to the Consultation Questions should be considered together with our comments in Part A of this paper.*

**Question 1:** Do you agree we have properly captured and articulated the needs of End Users? If not, what needs are missing?

**CHAPS Co Response:** CHAPS Co welcomes the fact that the main focus of the Forum is the end users and how payment systems and services can deliver maximum benefits for them. It is one of our main strategic priorities and we are working closely with our Service User Group to address any concerns that parties who are not already Direct Participants in the CHAPS Scheme may have.<sup>4</sup>

However, it is not evident from this Consultation that end user related detriments have been appropriately identified and quantified (see above our general comment on detriment identification) and, therefore, we are not in a position to fully agree with/appropriately evaluate the needs captured. We believe that there may be a need for greater analysis around the end users' expectations from the payments market, how much users value those needs and what they are prepared to pay for them to be satisfied. It must be accepted that whatever solutions are adopted, eventually the implementation costs are going to be passed on to end users/customers. If we fail to identify what those needs actually are and how much customers value them, we are risking adopting a solution that will not deliver what the market is actually requesting and what is willing to pay for. Equally, without a clear business case highlighting (a) the market needs and (b) the most suitable Return On Investment (ROI) solution, we are risking the consensus of the market participants.

We would further like to draw the Forum's attention to the end user benefits delivered by the existing schemes as well as the ones that are currently in the schemes' pipeline for delivery. It is essential that maximum benefit is derived from these initiatives in the near to medium future.

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**Question 2a:** Do stakeholders agree with the financial capability principles?

**CHAPS Co Response:** We fully support these principles and we are of the view that they should be part of the elements of a next solution rating exercise.

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**Question 2b:** How should these principles be implemented?

**CHAPS Co Response:** Please see our response to Q2a above.

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**Question 2c:** How their implementation should be overseen and how should the industry be held to account?

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<sup>4</sup> <http://www.chapsco.co.uk/governance/chaps-co-service-user-group>.

**CHAPS Co Response:** Please see our response to Q2a above. We are of the view that this discussion should form part of a subsequent consultation process.

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**Question 3a:** What benefits would you expect to accrue from these facilities (not necessarily just financial)?

**CHAPS Co Response:** In general, we believe that an enhanced richness of data could potentially allow for data mining, increase MI opportunities, etc. However, as per our comments below, the lack of a detailed cost benefit analysis undermines our ability to evaluate the benefits and costs of the proposal.

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**Question 3b:** Do you agree with the risks we outline? How should we address these risks? Are there further risks we should consider?

**CHAPS Co Response:** Please see our response under Q3a above. A high level description of the proposals as well as lack of cost benefit analysis restricts our ability to fully evaluate the risks arising.

In terms of general technical constraints, the proposed solutions clearly amplify the need for enhanced security, data privacy and data protection mechanisms. A further increase in the volume of data could slow down processing e.g. due to increased validation requirements. There may also be risks associated with linking or embedding additional information to payments. For example, the potential for data integrity/corruption issues to be introduced through malware.

We are of the view that these risks should form part of a next phase impact assessment exercise.

Furthermore, we believe that the Strategy should further consider the constraints deriving from the new General Data Protection Regulation (GDPR) that is expected to be implemented by the UK soon. The new GDPR is expected to have a substantial impact (financial, operational, implementation, etc.) on the financial services market as a whole as it introduces new obligations for data processing/storage and increases considerably the fines for failing to comply with it. It is a parameter that we believe should be factored in the proposal evaluation process.

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**Question 3c:** Is there a business case for investing in solutions to address these needs and if not, how such an investment can be justified?

**CHAPS Co Response:** As per our response under 3b, general business direction appears to be appropriate but the lack of business case/IA analysis presented for the market to evaluate prevents detailed assessment and an unreserved support for the solutions proposed.

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**Question 3d:** Are there any other alternative solutions to meet the identified needs?

**CHAPS Co Response:** The identification and evaluation of alternative solutions should have formed part of the analysis for this Consultation and the market should have been given the option to review the outcomes of it. Moving forward, we believe that a detailed collection and analysis of the available data needs to take place and that should point to the solutions to be considered and further consulted upon.

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**Question 3e:** Is there anything else that the Forum should address that has not been considered?

**CHAPS Co Response:** As per our answer to Q3b above, the impact of GDPR needs to be fully evaluated and factored in the solution consideration exercise, as there are clearly restriction deriving from it that would hinder the implementation of solutions proposed, i.e. detailed costs to implement, data sharing and analysis restrictions, unless conducted by an authorised/designated authority/body.

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**Question 4a:** Is there a business case for investing in transitional solutions while the new payments architecture is being delivered and if not, can such an investment be justified?

**CHAPS Co Response:** As per our responses herein above, there is no business case/impact assessment (IA) analysis presented for the market to evaluate, therefore, we are unable to address the question. However, as an existing PSO we have an existing strategy which we are and will continue to implement into the future.

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**Question 4b:** Are there any viable technical solutions to deliver some of the consumer benefits early without compromising the longer term solutions recommended by the Forum?

**CHAPS Co Response:** Please see our response to Q3d herein.

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**Question 5a:** Do you agree with our proposal regarding customer awareness and education? If not, please provide evidence to support your response.

**CHAPS Co Response:** CHAPS Co strongly supports this proposal. Improving customer awareness and education is fundamental for ensuring that secure practices are adopted and that harmful or suspicious activities are identified quickly and potentially alleviated or avoided. CHAPS Co considers that this proposal should be adopted irrespectively of whether the rest of the strategic initiatives are endorsed by the market.

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**Question 5b:** Do you agree the delivery of these activities should be through an industry trade body? If so, which one would be most appropriate to take the lead role?

**CHAPS Co Response:** Once the market has consented to a final strategy on the matter, we agree that, in order for a coordinated approach to be ensured, a trade body or a designated Authority needs to overview the implementation of the proposals adopted. For example, Financial Fraud Action UK already provides similar services.

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**Question 6:** Do you agree with the establishment of guidelines for identity verification, authentication and risk assessment? If not, please provide evidence to support your response?

**CHAPS Co Response:** Identity verification is crucial for the support of secure payments. Therefore, CHAPS Co agrees that guidelines for identity verification, authentication and risk assessment should be investigated. However, we also recognise that there are significant obstacles to overcome that have not

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been factored in the work of the Forum. For example, gaining voluntary consensuses among organisations and building a respective business case. Similar attempts to implement this in the past have failed dramatically.

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**Question 7a:** Do you agree with our solution to develop a central data repository for shared data and a data analytics capability? If not, please provide evidence to support your response?

**CHAPS Co Response:** Although the solution could facilitate the development of a data analytics capability which we support, there are crucial parameters that the Consultation is silent in examining the potential of implementing this solution.

There are a number of limitations deriving from the upcoming regulatory regime that do not appear to have been factored in the analysis. Furthermore, a data analytics capability depends on the collaboration of every PSP participating in the system(s) and gaining voluntary agreements among all the Participants may prove to be a challenge. Strong security controls around data confidentiality and integrity would be required together with corresponding transparency, governance and oversight. It is also recognised that there could be difficulties in building individual business cases particularly in relation to cost justification.

Again, as stated above, general business direction appears to be appropriate but the lack of business case/impact assessment (IA) analysis presented for the market to evaluate prevents detailed assessment and an unreserved support for the solution proposed.

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**Question 7b:** Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?

**CHAPS Co Response:** Please see our response in Q7a. In general, we agree with the risks outlined in section 6.17 of the Consultation. A central repository makes a very high value target and, therefore, securing the data should be of paramount importance. For this reason, it may well be more cost efficient and risk sensitive to leverage existing systems/providers (e.g. such as SWIFT or RTGS) to avoid some of the obstacles in building a new repository and gaining consensus from each PSP to share their data with this new body.

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**Question 7c:** If any legislative change is required to deliver this solution, would such change be proportionate to the expected benefits?

**CHAPS Co Response:** According to developed guidelines on the processes that Regulatory Authorities should follow when proposing to introduce/amend regulatory obligations,<sup>5</sup> the proposals need to be

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- HM Government, IA Toolkit: How to do an Impact Assessment, August 2011. <http://www.bis.gov.uk/assets/BISCore/better-regulation/docs/l/11-1112-impact-assessment-toolkit.pdf>.
  - HM Treasury, *The Green Book, Appraisal and Evaluation in Central Government*, Treasury Guidance, London: TSO. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220541/green\\_book\\_complete.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf).
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accompanied by a full IA/Cost benefit analysis/proportionality assessment that would demonstrate that they are the most efficient and fit for purpose for the detriment they intend to alleviate, in particular when their implementation is expected to have financial impact on stakeholders and, subsequently, consumers. In this instance, any such change would need to consider potential public scepticism regarding the storage and use of such "big data" as well as potential reluctance from PSPs to share their proprietary data and finance a solution without the establishment of a strong commercial case to support it.

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**Question 8a:** Do you agree with our solution for financial crime intelligence sharing? If not, please provide evidence to support your response?

**CHAPS Co Response:** We are concerned that there may be legal limitations deriving from the new GDPR with regard to the implementation of this solution and, therefore, the proposal needs to be further examined.

In respect of data sharing, our comments under Q7 similarly apply.

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**Question 8b:** In what way does this solution improve financial inclusion? More generally, how should the intelligence sharing be used for the "public good"

**CHAPS Co Response:** Please see our response to Q7 and Q8 herein. All the concerns raised previously apply herein as well.

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**Question 8c:** Do you agree with the potential risks we outline? How should we address these risks? Are there further risks we should consider?

**CHAPS Co Response:** Please see our response to Q7 and Q8 herein. All the concerns raised previously apply herein as well.

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**Question 8d:** Do the benefits of financial crime intelligence sharing outweigh the new potential risks created?

**CHAPS Co Response:** Please see our response to Q7 and Q8 herein. All the concerns raised previously apply herein as well.

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- BIS, Department for Business Innovation & Skills, *Principles for Economic Regulation*, April 2011. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/31623/11-795-principles-for-economic-regulation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31623/11-795-principles-for-economic-regulation.pdf).
  - HM Treasury, Cabinet Office, National Audit Office, Audit Commission, Office For National Statistics, *Choosing the right FABRIC, A Framework for Regulatory Information*, 2001. <http://www.nao.org.uk/wp-content/uploads/2013/02/fabric.pdf>.
  - Better Regulation Task Force - Principles of Good Regulation. <http://webarchive.nationalarchives.gov.uk/20100407162704/http://archive.cabinetoffice.gov.uk/brc/upload/assets/www.brc.gov.uk/principlesleaflet.pdf>.
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**Question 8e:** Can this operate without changes to legislation? If not, what changes to legislation would be required to make this happen? If any legislative change is required, would such change be proportionate to the expected benefits?

**CHAPS Co Response:** Please see our response to Q7 and Q8 herein. According to developed guidelines that Regulatory Authorities should follow when consulting on regulatory measures, the respective proposals need to be accompanied by a full IA/Cost benefit analysis/proportionality assessment that would demonstrate that they are the most efficient and fit for purpose for the detriment they intend to alleviate, in particular when their implementation is expected to have financial impact on stakeholders and, subsequently, consumers.

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**Question 8f:** What governance structure should be created to ensure secure and proper intelligence sharing?

**CHAPS Co Response:** Please see our response to Q7 and Q8 herein. All the concerns raised previously apply herein as well.

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**Question 9:** Do you agree with the proposal to develop a Central KYC Utility? If not, please provide evidence to support your response?

**CHAPS Co Response:** Please see our response to Q7 and Q8 herein. All the concerns raised previously apply herein as well.

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**Question 10:** Do you agree with our solution for enhancing the quality of sanctions data? If not, please provide evidence to support your response?

**CHAPS Co Response:** CHAPS Co supports the requirement to improve the quality of sanction data and the efficiency with which this is compiled and used.

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**Question 11:** Do you agree with our proposal regarding access to sort codes? If not, please provide evidence to support your response.

**CHAPS Co Response:** Yes, we are aware of changes that Bacs is introducing to support this.

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**Question 12:** Do you agree with our proposal regarding access to settlement account? If not, please provide evidence to support your response.

**CHAPS Co Response:** As stated in Part A of our response, unlike the rest of the Interbank payment systems designated by the Treasury in the UK, it is the BoE that has the full ownership, control and operation of the settlement system – the RTGS – that CHAPS Co utilises for the settlement of its transactions. Therefore, in respect of our approach to settlement account access, we would be working within the boundaries of the

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BoE's policy framework, as this would be formed post the publication of the upcoming RTGS Consultation.

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**Question 13a:** Do you agree with the proposal regarding aggregator access models? If not, please provide evidence to support your response.

**CHAPS Co Response:** The aggregator model appears to offer benefits with respect to widening access and as such CHAPS Co. supports this being explored further with a full cost / benefit review. By their nature aggregators have a different risk profile to existing banking institutions and new entrants. As such it remains important that the differences are fully understood, for example in respect of technology, people, cyber risk, operations, resiliency etc. such that a fully informed business case, requirements and solution design can be made whilst systemic risk is mitigated.

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**Question 13b:** How can the development of more commercial and competitive access solutions like aggregators be encouraged to drive down costs and complexity for PSPs?

**CHAPS Co Response:** As the industry evolves, further collaboration between commercial organisations and public bodies should be encouraged.

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**Question 14:** Do you agree with our proposal regarding Common Payment System Operator participation models and rules? If not, please provide evidence to support your response.

**CHAPS Co Response:** CHAPS Co fully supports the Common Participation Model proposal. As members of the Interbank System Operators' Coordination Committee (ISOCC) we have actively been engaged in the development of the project and in its speedy and efficient implementation. We believe that there are a number of areas across the Interbank System Operators where alignment could be achieved and we are confident that a common model utilising efficiently the existing infrastructures and bypassing current access complications could effectively address a considerable number of the currently identified access remedies and further facilitate competition. There will remain areas of differentiation among the PSOs that the model would not be able to fully eliminate, but we believe that the benefits of achieving maximum utilisation of the existing infrastructure, without generating additional costs and without compromising the resilience of the payments ecosystem would be considerable for the market.

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**Question 15a:** Do you agree this proposal regarding establishing a single entity? If not, please provide evidence to support your response.

**CHAPS Co Response:** CHAPS Co is supportive of the proposals in the PSO Governance Sub Group Report.<sup>6</sup>

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**Question 15b:** If you do not agree, how else could the benefits be achieved without consolidating PSO governance in the way described?

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<sup>6</sup> <https://www.paymentsforum.uk/sites/default/files/documents/PSOG%20Final%20Paper%2008July2016.pdf>.

**CHAPS Co Response:** Please see our response to Q15 a herein.

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**Question 16:** Do you agree with the proposal to move the UK to a modern payments message standard? If not, please provide evidence to support your response

**CHAPS Co Response:** CHAPS Co is generally supportive of this proposal. However, a robust cost benefit analysis needs to take place prior to the adoption of a standard and the final choice should be a globally and not just regionally/UK used and accepted message standard.

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**Question 17a:** Do you agree with the proposal to develop indirect access liability guidance? If not, please provide evidence to support your response.

**CHAPS Co Response:** As per our initial comment in Part A of our response, CHAPS Co is supportive of this proposal. Indirect Access has been identified as a competition concern by the two recent market analyses in the area of payment/financial services, the CMA retail banking market investigation and the PSR indirect access market review.

We believe that any respective guidance developed should take into account both the PSR indirect access market review as well as the voluntary Code of Conduct for Indirect Access Providers that has been developed by Indirect Access Providers (IAPs) in conjunction with the PSR to address concerns around the commercial access arrangements they provide to PSPs requiring Indirect Access to UK Payment Systems.<sup>7</sup>

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**Question 17b:** What, in your view, would prevent this guidance being produced or having the desired impact?

**CHAPS Co Response:** As per our answer to Q17a, since a respective Code of Conduct among the key players has already been developed and the market for indirect access is already under PSR's scrutiny, we believe that no considerable obstacles should exist.

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**Question 17c:** In your view, which entity or entities should lead on this?

**CHAPS Co Response:** As per our answers to Q17 herein, the PSR and the signatories to the voluntary Code of Conduct for Indirect Access Providers.

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**Question 18a:** Do you agree with the proposal for a co-ordinated approach to developing the various types of APIs? If not, please provide evidence to support your response?

**CHAPS Co Response:** CHAPS Co is generally supportive of this proposal. This is an initiative dictated both by the CMA Retail Banking Market Investigation Review and PSD2.

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<sup>7</sup><http://www.accesstopaymentsystems.co.uk/sites/default/files/documents/Code%20of%20Conduct%20for%20Indirect%20Access%20Providers%20%28Interim%29.pdf>.

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In the first instance, a robust cost benefit analysis needs to take place with respect to the standards being adopted. Any choice/s needs to be globally standardised to enable maximum uptake and optimal effectiveness.

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**Question 18b:** What are the benefits of taking a co-ordinated approach to developing the various types of APIs? What might be the disadvantages of taking this approach?

**CHAPS Co Response:** A coordinated approach is likely to lead to standardisation across the industry. However, leaving the market players to consider/develop various types of APIs is more likely to enhance competition and innovation in the short term.

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**Question 18c:** How should the implementation approach be structured to optimise the outcomes?

**CHAPS Co Response:** We are of the view that the designated Authority that would undertake the task to implement PSD2 should be better placed to conduct a further IA/cost benefit analysis on this and consult with the market about the solution/s to be adopted.

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**Question 19a:** Do you agree with our proposal to create a Simplified Delivery Mechanism? If not, please provide evidence to support your response?

**CHAPS Co Response:** The Simplified Delivery Mechanism is the most radical of all the solutions proposed with this Consultation. As such, we believe that in order for the Market to be able to fully assess its impact, the solution needs to undergo comprehensive overall business justification via a detailed and robust cost/risk benefit analysis exercise along with all the alternative solutions that would be applicable. Additional parameters that should be factored in the analysis of this proposal are:

- Settlement and resilience provisions.
- If the proposed Mechanism is to be implemented it would constitute a single point of failure. How would that risk be mitigated?
- How is the Mechanism going to be financed?
- What guarantees that the Mechanism would be successful and futureproofed and how the risk of failure is to be mitigated?
- Governance provisions.
- By reducing the number of direct access providers we are eventually reducing access competition. How is that risk going to be mitigated?
- What mechanisms need to be put in place to guarantee the ecosystem's resilience during the implementation period and how expected disruptions are going to be mitigated?
- Understanding of the existing infrastructure investment to maximise the opportunity for re-use, limit cost and deliver most rapidly.

We further believe that it is of paramount importance for the market stability that the results of this analysis together with the cost benefit evaluation of all alternative proposals would undergo additional consultation review in order for the market to have the opportunity to respond having all the necessary facts at hand.

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**Question 19b:** Should the new consolidated entity be responsible for leading the development of the new rules/scheme or should a new body be given this responsibility?

**CHAPS Co Response:** This should form part of the additional analysis that we believe it is necessary to take place. Please see our response to Q19a above.

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**Question 19c:** Could an existing scheme adapt to provide the Simplified Delivery Mechanism or should a new one be developed?

**CHAPS Co Response:** Please see our responses to Q19a and Q19b above.

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**Question 19d:** Would it be better for the processing and clearing functions of the simplified framework to be built on distributed architecture or a centralised infrastructure? Could there be a transition from a centralised structure to a distributed structure over time?

**CHAPS Co Response:** This should form part of the additional analysis that we believe it is necessary to take place. Please see our responses to Q19a and Q19b above.

In general, although distributed architecture comes with a number of advantages, there are also a considerable number of unproven areas requiring further investigation and proof of concept. This would ultimately lead to robust frameworks and standards being defined and agreed across the industry.

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**Question 19e:** Do you think it is feasible to begin work to design a new payments infrastructure given existing demands on resources and funding?

**CHAPS Co Response:** Please see our responses to Q19a-e above. In the absence of a detailed analysis, an informed decision cannot currently be made.

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**Question 20a:** Do you agree that the existing arrangement of the payments system in the UK needs to change to support more competition and agility?

**CHAPS Co Response:** As per our response to Q14 herein there are changes that the existing Payment System Operators are planning in order to further facilitate access and enhance market competition. We would also like to point to the fact that both the CMA Retail Banking Market Investigation and the PSR indirect access review have examined to what extent payment systems may constitute a barrier to entry for market participants and have concluded that this is not significant.

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**Question 20b:** Will the package of proposals we suggest, the Simplified Payments Platform, deliver the benefits we have outlined? What alternatives could there be?

**CHAPS Co Response:** Please see our comments in Part A and our responses to Q14, 19 and 20 above. In the absence of a detailed analysis, a comparison between this proposal and the existing market conditions cannot be evidenced.

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**Question 21a:** Do you agree with this proposed sequence of solutions and approach outlined to further clarify this?

**CHAPS Co Response:** Before considering the implementation timelines for the proposed solutions, we believe that the first step would be for the market to jointly agree on the strategic priorities to be adopted. In order for the industry to be able to fully assess the potential and risks of each of the solutions examined, we are of the view that the Forum may need to consider additional consultation after taking into account the market's comments to this Consultation.

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**Question 21b:** If not, what approach would you take to sequencing to bring forward the anticipated benefits, in particular for end users?

**CHAPS Co Response:** If there would be no consensus on the Strategy from this Consultation, we believe that the market should focus on developing (a) indirect access liability guidelines and (b) the Common Payment System Operator participation models, since both of these initiatives are already under development and are likely to produce considerable market efficiencies. Further to that, there are a number of regulatory developments that would take place in the near future which are expected to have a positive effect on the detriments identified – see Part A of our response.

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**Question 22a:** What approach should be taken to deliver the implementation of the Forum's Strategy?

**CHAPS Co Response:** Please see our responses to Q21a and Q23 herein along with our comments in Part A of our response.

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**Question 22b:** Who should oversee the implementation of the Forum's Strategy?

**CHAPS Co Response:** Please see our responses to Q21a and Q23 herein along with our comments in Part A of our response.

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**Question 22c:** What economic model(s) would ensure delivery of the Strategy recommendations?

**CHAPS Co Response:** Please see our response to Q23 herein along with our comments in Part A of our response.

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**Question 23a:** Do you agree with the proposed approach for quantifying the potential costs and benefits of the proposed solutions?

**CHAPS Co Response:** As per our comments under Part A herein, one of our main concerns in relation to the draft Strategy, as set out with the Consultation, is that the proposed solutions appear to be supported with high level directional business cases and require the development of more robust IA/cost benefit analysis.

In that respect, we believe that the Forum is right in considering that it is imperative for a cost benefit analysis to take place at the next stage. We would further like to add that for the process to be transparent and complete a number of suitable solutions need to be examined from a cost benefit/impact assessment point of view and that the Forum should consider further consulting on critical outcomes of these analyses.

Also, we are of the view that greater emphasis should be placed on the significance of the principle of proportionality and on explaining why the actions proposed are necessary and appropriate vs alternative options. We would, therefore, suggest that the cost benefit model proposed with the Consultation should be enhanced and further include:

- An assessment of a number of potential solutions.
- An assessment of the impact (direct and indirect) that these solutions are likely to have on market players.
- A cost and benefit allocation methodology.
- An assessment of additional factors that are expected to impact the market and the remedies that the Strategy is proposing in order to mitigate the accumulated implementation impact on participants.

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**Question 23b:** Do you agree with the costs and benefits drivers outlined in this document?

**CHAPS Co Response:** Please see our response to Q23a herein along with our comments in Part A of our response.

In literature and economic practice there are guidelines and best practices about how to conduct a cost benefit analysis and what elements the analysis needs to consider, which could be used as a reference point in the present case.<sup>8</sup> In particular the UK Government has published a number of guidelines, with perhaps most significant HMT's Green Book on Appraisal and Evaluation in Central Government,<sup>9</sup> which

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<sup>8</sup> List of related documents:

- European Commission, Impact Assessment Guidelines, SEC(2009), 15 January 2009.  
[http://ec.europa.eu/governance/impact/commission\\_guidelines/docs/iag\\_2009\\_en.pdf](http://ec.europa.eu/governance/impact/commission_guidelines/docs/iag_2009_en.pdf).
- HM Government, IA Toolkit: How to do an Impact Assessment, August 2011.  
<http://www.bis.gov.uk/assets/BISCore/better-regulation/docs/I/11-1112-impact-assessment-toolkit.pdf>.

<sup>9</sup> HM Treasury, The Green Book, Appraisal and Evaluation in Central Government, Treasury Guidance, London: TSO.  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220541/green\\_book\\_complete.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf).

details an indicative list of steps that a cost benefit exercise needs to include. Key part of the analysis is the cost benefit allocation methodology which needs to be examined together with the attribution of benefits.

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**Question 23c:** We would appreciate any information on the potential costs and benefits you may have to assist our analysis.

**CHAPS Co Response:** N/A