

Victoria Cleland

Executive Director for Payments
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15 January 2025

Dear Victoria,

Coordination and cooperation between the PSR and the Bank of England in respect of CHAPS

In May 2017, the Bank of England concluded that financial stability would be enhanced if CHAPS was 'directly delivered' by the Bank, i.e. that the Bank would become the operator of the CHAPS system.

In an exchange of letters dated November 2017, the Payment Systems Regulator ("the PSR") and the Bank of England ("the Bank") agreed to take certain steps in light of the Bank becoming the Payment System Operator of the CHAPS system ("CHAPS PSO").

This included an agreement to cooperate and coordinate on an ongoing basis, in accordance with jointly identified and agreed principles, to ensure effective working in respect of CHAPS, where the PSR would continue to have regulatory powers in respect of the CHAPS system and its participants but not in respect of the Bank as CHAPS PSO (including powers to direct system rule changes).

In June 2023, the Bank confirmed its decision as CHAPS PSO to adopt measures for the reimbursement of victims of Authorised Push Payment ("APP") fraud comparable to those proposed by the PSR for Faster Payments. In December 2023, the PSR published a policy statement setting out the reimbursement requirement applying to Faster Payments, which confirmed that it was working closely with the Bank for implementation of a comparable reimbursement model for CHAPS.

In May 2024, the PSR consulted on a proposed specific direction under section 54 of the Financial Services (Banking Reform) Act 2013 ("FSBRA") to introduce the CHAPS reimbursement requirement and to direct payment service providers ("PSPs") participating in CHAPS to reimburse APP scam victims in accordance with the CHAPS reimbursement rules as annexed to the CHAPS Reference Manual ("CRM"; "Specific Direction 21").

The Bank does not fall within the definition of a payment system 'participant' within scope of the PSR's regulatory remit pursuant to section 42 of FSBRA. Consequently, the PSR cannot use its regulatory powers under sections 54 or 55 of FSBRA to require the Bank to embed the CHAPS reimbursement requirement by a change to the CRM (or direct the Bank to take any specific actions, such as notify the PSR of any proposed changes to the CRM). Nonetheless, the Bank has sought to align the CHAPS reimbursement rules as closely as possible with the Faster Payments reimbursement rules that the PSR



has, through specific requirement 1, required the Faster Payments System Operator (Pay.UK) to implement.

The PSR and the Bank, as CHAPS PSO, have different roles and powers in respect of CHAPS, including the CHAPS reimbursement requirement.

The purpose of this letter is to set out how the PSR and the Bank, as CHAPS PSO, will share information and notify each other of proposed or potential changes to documents issued by the respective parties in relation to the CHAPS reimbursement requirement, by adding to the existing arrangements. The Bank in its capacity as the CHAPS PSO has issued the CRM which sets out the obligations applicable to Direct Participants' participation in the CHAPS System. The CRM forms a core part of the legal basis for the Bank's operation of the CHAPS System and aims to provide a clear and comprehensive description of the rules, requirements and key procedures relevant to the Bank's operation of the CHAPS System.

The Bank contracts with Direct Participants under a CHAPS Participation Agreement, pursuant to which Direct Participants agree to comply with all specifications of the Bank for the time being applicable (providing a mechanism by which the Bank can enforce the CHAPS reimbursement rules, where applicable).

The legal framework relevant to the operation of the CHAPS System includes provisions under Part 5 of FSBRA. The PSR is the independent regulator for UK payment systems designated by HM Treasury in accordance with sections 43-45 FSBRA and the participants in those designated systems.

Both parties acknowledge that, in relation to this matter of mutual interest, the actions of one party may impact the other's advancement of their respective statutory functions and objectives.

To ensure that the PSR and the Bank, as CHAPS PSO, can each effectively advance their own objectives, it is important that when exercising their respective functions, they cooperate in a timely and effective manner. This includes their dealings in relation to:

1. Information sharing, including the compliance data that the Bank receives from CHAPS participants in respect of CHAPS APP scam claims (pursuant to the data reporting requirements on directed PSPs under Specific Direction 21).
2. The Bank's notification to the PSR of proposed or potential changes to the CHAPS reimbursement rules containing the CHAPS APP scams reimbursement policy.
3. The PSR's notification to the Bank of any proposed or potential changes to Specific Direction 21 or any other potential regulatory change (such as those for the reimbursement arrangements for Faster Payments) that may impact the operation of the CHAPS reimbursement rules or the CHAPS reimbursement policy and its objectives.

To that end, we have agreed further areas where the PSR and the Bank will cooperate in respect of the CHAPS system given the introduction of the CHAPS reimbursement requirement. The set of principles agreed in November 2017 has therefore been updated in Annex 1 attached to this letter. The PSR and the Bank will cooperate and coordinate in respect of any update or amendment which either party may



consider necessary or appropriate to support the effective operation of the CHAPS reimbursement requirement.

As agreed, this letter will be published by the PSR on its website.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Geale', written in a cursive style.

David Geale

PSR Managing Director

Annex 1 – Areas for ongoing cooperation and coordination with respect to the operation of the CHAPS system.

The PSR and the Bank of England have jointly identified and agreed the following principles to ensure effective working with regard to the operation of the CHAPS system. These principles were updated in 2024 to reflect the introduction of the CHAPS reimbursement requirement.

PART 1- Jointly identified areas of cooperation and coordination in the operation of CHAPS

- 1) In relation to the operation and development of CHAPS, the PSR will have regard to a number of matters, including the important of maintaining the stability of, and confidence in, the UK financial system.
- 2) In operating and developing CHAPS, the Bank will have regard to its monetary and financial stability objectives through promoting the safety, efficiency and effectiveness of the CHAPS system and acting as the end-to-end systemic risk manager. The Bank expects its objectives for its operation and development of the CHAPS system will also support the PSR's objectives to promote competition, innovation, and the interest of service-users, consistent with the Bank's mission.
- 3) The Bank and the PSR identify and jointly consider where their participation in relevant industry initiatives may help promote the PSR's objectives and/or the Bank's mission.
- 4) Cooperation and coordination between the Bank, as CHAPS PSO, and the PSR will also involve sharing relevant information and expertise relating to the operation and development of the CHAPS system, to the extent that it does not impact upon the Bank's or PSR's objectives, impose a disproportionate burden, or unless otherwise prohibited by legislation.
- 5) For the implementation of CHAPS reimbursement arrangements, the PSR and the Bank will each implement the respective legal instruments and/or changes necessary to bring into effect the CHAPS reimbursement requirement (the obligation conferred on in-scope directed PSPs as set out in the PSR's proposed Specific Direction 21). These may be updated or amended from time to time, for example to bring about a change in the policy.
 - a. For the PSR, the key document is Specific Direction 21 (and any future document(s) that the PSR may issue in respect of the CHAPS reimbursement requirement).
 - b. For the Bank, the key document is the CHAPS Reference Manual, which the CHAPS reimbursement rules will be incorporated into and form part of, and any other documents that the Bank may issue in respect of the CHAPS reimbursement requirement.
 - c. It is important that the Bank and the PSR continue to coordinate and engage with each another in the development and ongoing review of these documents to ensure continued alignment and effective policy implementation.
 - d. The Bank and PSR will work together alongside Pay.UK to consider scheme-agnostic approaches, where appropriate, and to support ongoing and early engagement. This includes, for example on rules, systems, guidance, and playbooks.

- 6) Relevant information sharing will be in line with the arrangements set out in the MoU (as updated from time to time). Information that could be expected to be shared includes:
- a. The Bank to share with the PSR the access pipeline for onboarding into the CHAPS system (and RTGS more broadly).
 - b. In respect of CHAPS APP scams, the Bank is to share with the PSR:
 - i. The monthly compliance information that the Bank receives from PSPs under the PSR's CHAPS Compliance Data Reporting Standard ("CCDRS"), in compliance with Specific Direction 21. This information relates to the compliance of PSPs with the CHAPS reimbursement rules. The Bank may also look to share any supporting information (such as records of decisions that the PSP has provided to the Bank). Receipt of this data from the Bank would allow the PSR to consider any potential compliance issues and actions it may take in respect of compliance with Specific Direction 21, in line with the PSR's published Powers and Procedures Guidance (and any other regulatory requirements that the PSR may introduce for CHAPS APP scams).
 - ii. Notification in writing within a reasonable period, following any material action taken by the Bank as CHAPS PSO in respect of a PSP's presumptive breach with the CHAPS reimbursement rules.
 - iii. Any proposed changes to the CHAPS reimbursement rules. Proposed changes are to be set out in writing from the Bank to the PSR and provide a reasonable period for the PSR to consider the impact of the proposal and engage with the Bank in respect of it.
 - c. In respect of APP scams, the PSR to share with the Bank:
 - i. Relevant information relating to PSP compliance with Specific Direction 21 or any other regulatory obligation relevant to the CHAPS reimbursement requirement. This would allow the Bank to consider whether a PSP has potentially breached the CHAPS reimbursement rules and inform any action the Bank may wish to take in response.
 - ii. Any proposed changes to Specific Direction 21, or any other proposed regulatory change that may impact the operation of the CHAPS reimbursement rules. Proposed changes are to be set out in writing and provide a reasonable period for the Bank to consider the impact of the proposal and engage with the PSR in respect of it. For clarity, this includes engagement prior to publication of any consultation on proposed regulatory changes.
 - d. The PSR to share with the Bank, in relation to its regulatory functions or otherwise (but only where it is lawful and would benefit either the PSR or the Bank to do so), any possible regulatory action in respect of CHAPS Direct Participants.



PART 2 – Working arrangements

Regular engagement between the PSR and the Bank will ensure effective collaboration in respect of CHAPS. This will include engagement between a PSR Head of Department and the Head of Payment Strategy at the Bank in the area responsible for the operation of RTGS and CHAPS.

If any issues arise regarding the operation of the CHAPS system, these can be escalated to the Managing Director of the PSR and the Bank's Executive Director for Payments.

PART 3 – Limitations

Nothing in this paper should be interpreted either as restricting or compelling the PSR or the Bank in the discharge of any of its functions, or as the provision of guidance as to how it may discharge those functions.