

Policy statement

Confirmation of Payee

Response to
consultation CP21/11
Ending dual running

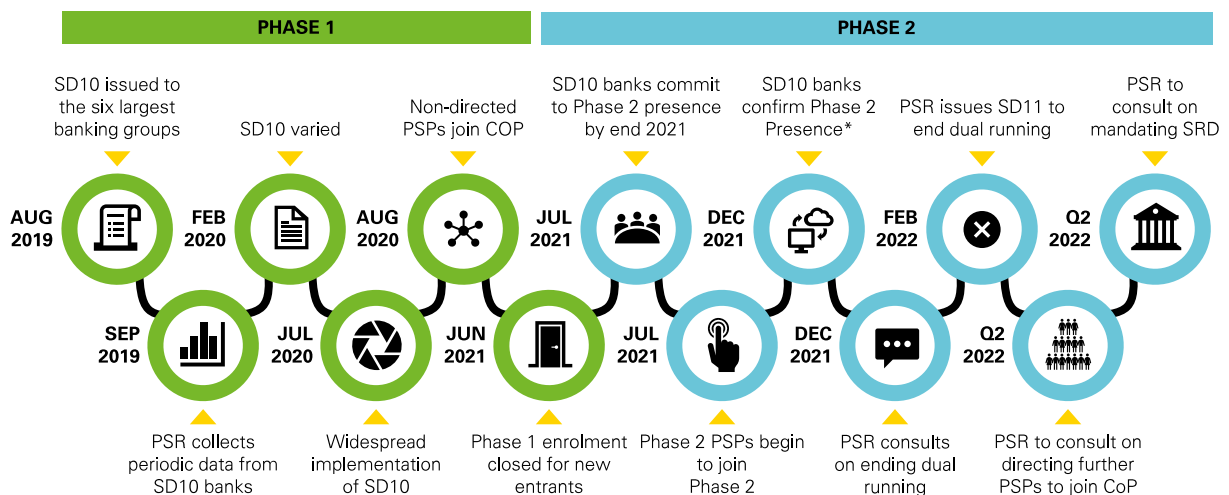
February 2022

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1 Executive summary

- 1.1** Confirmation of Payee (CoP) was designed to help stop fraud and accidentally misdirected payments by checking whether the name of a payee's account matches the name and account details provided by a payer.
- 1.2** We introduced Phase 1¹ of CoP in August 2019 when we gave Specific Direction 10 (SD10) to the six largest banking groups to implement CoP. Since then, several other payment service providers (PSPs) voluntarily joined the service.
- 1.3** Our analysis of Phase 1 has shown that CoP has:
- curtailed the increase in authorised push payment (APP) scams
 - reduced the levels of fraudulent funds received by PSPs that have implemented CoP
 - reduced the number of accidentally misdirected payments.
- 1.4** A wider implementation of CoP is necessary to protect a greater number of payment system users. The next step in CoP is known as Phase 2.²



* To note, five of the six SD10 banks confirmed presence

1 In the direction, Phase 1 is referred to as the 'initial CoP technical environment/rules and standards'.

2 In the direction, Phase 2 is referred to as the 'CoP domain'.

- 1.5** We want to see more PSPs join the CoP service and extend the benefits of CoP to other accounts which do not currently offer the service. Phase 2 also provides the framework for institutions that rely on different reference information as Phase 1 PSPs to be able to implement CoP. This will achieve our ambition of ubiquity of service.
- 1.6** For PSPs to implement CoP, they need access to a technical environment for sending and responding to CoP messages. Pay.UK has worked with the Open Banking Implementation Entity (OBIE), to develop the technical environment and rules and standards in phases. Phase 2 has now been developed.
- 1.7** There are currently two technical environments and two sets of rules and standards which PSPs operate against. A single technical environment and a single set of rules and standards is vital for CoP's future functionality. To achieve this, we have given a direction that sets a date to end participation in the Phase 1 environment and keeps PSPs on track to migrate CoP traffic on or before that date. It will also remove regulatory obligations on PSPs to do CoP checks in line with Phase 1. We have given a direction that:
- a. requires Pay.UK to terminate the terms and conditions for participating in Phase 1, withdraw each PSP's CoP Phase 1 accreditation, and retire the Phase 1 rules and standards on 31 May 2022
 - b. requires Pay.UK to notify the OBIE of this action, so the OBIE can close the Phase 1 technical environment on 31 May 2022
 - c. prevents Phase 1 PSPs from using the Phase 1 technical environment for the CoP service after 31 May 2022
 - d. requires relevant³ PSPs to regularly report to Pay.UK on their progress migrating CoP traffic to the Phase 2 open banking environment by 1 May 2022. Pay.UK must report this information to the PSR
 - e. requires relevant PSPs to undergo enhanced reporting to both Pay.UK and us if we consider they are at significant risk of failing to migrate by 1 May 2022, with an obligation to implement a remediation plan agreed with the PSR
 - f. revokes SD10 on 31 May 2022
- 1.8** This direction will come into effect on 11 February 2022.
- 1.9** We would like to thank all respondents that took the time to respond to our consultation. We look forward to your continued engagement as we take forward this important work.

³ Refers to PSPs who were enrolled and accredited as Phase 1 CoP participants.

2 Introduction

Transition from Phase 1 to Phase 2

- 2.1** CoP helps prevent misdirected payments. The service checks the name of the payee's account against the name and account details given by the payer, giving payers more confidence that they are making payments to the correct account.
- 2.2** In August 2019, we gave SD10 to the six largest banking groups to implement CoP for Faster Payments (FPS) and CHAPS. In July 2020, we confirmed widespread implementation of CoP as result of our direction. Since then, several other payment service providers (PSPs) voluntarily joined the service.
- 2.3** For PSPs to implement CoP, they need access to a technical environment for sending and responding to CoP messages, and common rules and standards. Pay.UK has worked with the OBIE, to develop the technical environment and rules and standards in phases.
- 2.4** The Phase 1 environment and rules and standards allowed PSPs that operate accounts with a unique sort code and account number to implement CoP. Phase 2 is aimed at broadening participation in CoP to all account-holding PSPs, not just those that operate accounts with a unique sort code and account number. The broader coverage will help to ensure more consumers can benefit from the protections afforded by CoP.⁴

Dual running

- 2.5** PSPs we directed under SD10 and those that voluntarily implemented the CoP system use Phase 1. New joiners to the CoP service can only operate in the Phase 2 environment. This situation is termed dual-running. This means there are currently two technical environments and two sets of rules and standards. Critically, PSPs can only conduct CoP checks with PSPs operating in the same phase.
- 2.6** A single technical environment and a single set of rules and standards will make sure CoP services across all PSPs can work together. The Phase 2 rules and standards enables more PSPs with unique sort codes to participate in the service, and will also allow PSPs using Secondary reference data (SRD)⁵ to participate. This will encourage further adoption of CoP and result in more widespread coverage of CoP for consumers and businesses.

4 Phase 2 includes enhancements that will allow PSPs to send and receive Secondary Reference Data (SRD).

5 Customer accounts that are not uniquely addressable by a sort code and account number, but instead rely on their PSP to credit their account via SRD – that is, using the reference field in the payment with a further unique identifier. These typically include accounts in PSPs operating a collection account with a sponsor bank and building societies that use roll numbers. They can also include HOCAs for credit cards, mortgages, savings accounts and loans.

- 2.7** Pay.UK and the Phase 1 PSPs have committed to ending the dual running of both phases by retiring Phase 1 and moving to Phase 2 to the industry agreed deadline. There are 33 PSPs that need to migrate to Phase 2. We believe that a direction will make sure dual running ends in a timely and coordinated manner so the CoP services across all PSPs can work together.

Our consultation

- 2.8** On 2 December 2021, we consulted on a draft direction that:
- a. required Pay.UK to terminate the terms and conditions for participating in Phase 1, withdraw each PSP's CoP Phase 1 accreditation, and retire the Phase 1 rules and standards by 30 April 2022
 - b. required Pay.UK to notify the OBIE of this action, so the OBIE can close the Phase 1 technical environment, and prevents Phase 1 PSPs from using that environment after 30 April 2022
 - c. required relevant PSPs to regularly report to Pay.UK on their progress migrating CoP traffic to the Phase 2 open banking environment by 1 April 2022, and required Pay.UK to relay that information and its own assessment of risks to migration to us
 - d. required relevant PSPs to undergo enhanced reporting to both Pay.UK and us if we consider that they are at significant risk of failing to migrate by 1 April 2022, with an obligation to implement a remediation plan agreed with the PSR
 - e. revoked SD10 on 30 April 2022.

We received 17 responses. The respondents were:

Organisation type	Number of responses
Consumer bodies/organisation	1
Industry organisations	2
Payment infrastructure provider	1
PSP – Non-directed Phase 1	2
PSP – Phase 2	1
PSP – SD10	7 ⁶
Third-party solution suppliers	3
Total	17

⁶ We received two responses from the subsidiaries of one banking group.

3 Responses to our consultation and our views

Our proposed direction

3.1 We want to make sure dual running ends in a timely and coordinated manner so that CoP services across all PSPs can work together. This will ensure greater levels of protection for people making payments. This requires the following:

- Participation in CoP Phase 1 needs to end by a set date, including withdrawal of the Phase 1 rules and standards, associated agreements and the Phase 1 technical environment.
- Phase 1 PSPs need to migrate their CoP traffic to the Phase 2 environment on or before that date.
- Any regulatory obligations on PSPs to do CoP checks in line with the Phase 1 rules and standards need to end on or before that date.

3.2 In our consultation, we asked for views on our proposed draft direction, including any comments on the dates proposed. We asked for comments on the Cost-Benefit Analysis (CBA) we conducted and on our assessment of the direction under Public Sector Equalities.

3.3 In this chapter, we summarise the views we received on the draft direction under key themes and provide an assessment of those views.

Theme 1: Is a direction required to end dual running?

Respondents' views

3.4 Sixteen out of seventeen respondents, representing a cross-section of views, supported the proposal to give a direction and argued that regulatory impetus is needed to close the Phase 1 technical environment in a coordinated and timely manner. Responses stated that a PSR direction would support the development of a single technical environment, encourage new users to join CoP Phase 2, and ensure that a greater number of users benefit from the service. Respondents also argued that a direction would support a timely and orderly transition from Phase 1 to Phase 2.

- 3.5** One respondent did not share this view. Pay.UK questioned whether there was a need for the PSR to issue a direction given that the industry had previously agreed a plan to achieve the migration from Phase 1 to Phase 2 by 30 March 2022. In addition, Pay.UK suggested that if the PSR considered it necessary to issue a direction, it would be more appropriate to continue with the approach taken with SD10 and directed at Phase 1 participants given that it was their actions that would achieve the PSR's desired outcome.
- 3.6** It argued that it was not necessary to direct Pay.UK in relation to its CoP agreements, as well as communications with OBIE, to close the Phase 1 environment. Further, it raised a concern that the introduction via a direction of a fixed date for the closure of the Phase 1 environment created a risk of significant interruption of the overall CoP service for end users, should a large PSP be delayed for any reason. They suggested that if the PSR wanted to take this approach, then there should be a mechanism to ensure that a 'cliff edge' was not created in the event of an unforeseen and short notice delay.
- 3.7** Pay.UK considered that Phase 1 PSPs needed to undertake action to achieve the PSR's desired outcome. Pay.UK highlighted that the direction required Phase 1 participants to only send and/or respond to CoP requests in the Phase 2 technical environment after a specified date. It argued that this provides a clear requirement for Phase 1 participants and is sufficient to deliver the outcome we want, without us needing to direct Pay.UK itself.

Our view

- 3.8** We agree with the sixteen respondents that regulatory impetus is needed to close the Phase 1 technical environment in a coordinated and timely manner.
- 3.9** In relation to the arguments made by Pay.UK, we understand that Phase 1 PSPs agreed to a plan for migrating to the Phase 2 environment by 30 March 2022. Some Phase 1 participants had not fully committed to achieving that date, and our consultation has provided evidence that a later date is required to avoid the cliff edge scenario described by Pay.UK.
- 3.10** While the industry plan does provide confidence that migration to the Phase 2 environment would occur, we are concerned that the date this would be achieved would be considerably later than under our proposed direction as some Phase 1 PSPs may not consider it to be a priority. Delays to this date would impact on the overall cost of maintaining two systems and would likely slow down the development of other CoP related enhancements such as SRD.
- 3.11** While Pay.UK have been referring to the migration between systems, our proposed direction also covered explicitly a requirement to close down CoP Phase 1, which is not part of the industry plan. The closure of the Phase 1 environment will prevent PSPs from carrying out transactions in this environment and support the industry with establishing a single CoP system. It was not clear when or how this could be achieved, without our direction. We therefore included the closure of the Phase 1 environment in our proposed direction. Pay.UK, as the owner of the CoP rules and standards and

operator of the service, is the only organisation that can close the Phase 1 technical environment. This is why directing PSPs alone is not sufficient to end dual running.

- 3.12** At the end of 2021, we were encouraged that nearly all the SD10 banks were present in the Phase 2 technical environment and that other non-directed participants had successfully migrated or planned to do so in early 2022.
- 3.13** However, despite an established industry agreed timeline, several Phase 1 PSPs are delayed in their plans to meet this date. As such, we agree with most respondents that a backstop date provided by a PSR direction to end dual running will ensure that Phase 1 PSPs focus on achieving migration in a timely and coordinated manner.
- 3.14** As Pay.UK highlighted, our proposed direction outlined that Phase 1 PSPs should not operate in the Phase 1 technical environment after a specified date. We consider this sets a clear expectation of the timelines and work required by Phase 1 PSPs to ensure their readiness to provide CoP through the Phase 2 environment only. Except for a change in the date that Phase 1 PSPs must work to, this element of the direction will remain. We discuss this further from paragraph 3.21 onwards.
- 3.15** In directing Pay.UK to close the Phase 1 environment on a defined date, we will also achieve our objective of providing a clear end point for the end of dual running, and will give confidence to new participants to make investments and progress their plans to join CoP on the basis that Phase 1 PSPs are reachable to new joiners. It will also allow industry to deliver further elements of Phase 2 – for example, SRD implementation.

Theme 2: The end point for dual running

Respondents' views

- 3.16** Thirteen of the seventeen respondents agreed with our proposed dates to end dual running, including the one-month period between the deadline for migration of CoP traffic and the closure of the Phase 1 environment. This is in order for Pay.UK to undertake the required activities to retire the Phase 1 rules and standards.
- 3.17** All the SD10 banks indicated that they were on track to meet industry agreed timelines, and the majority felt that the timelines should not be extended further. They felt an extension would result in a protracted period of dual running which would result in increased operational costs. One bank claimed their costs could be “in the tens of thousands”; however, another non-directed Phase 1 PSP considered that the operational costs (as outlined in our CBA) associated with dual running were overstated.
- 3.18** The majority of the SD10 banks also highlighted that if timelines were extended further this would impede progress on implementing SRD. One SD10 bank told us that it was utilising the same resources to deliver both Phase 2 migration and SRD implementation, so there would be a direct correlation between the date in our direction and the date that SRD would be delivered. Another SD10 bank told us that its SRD work was scheduled

around an industry agreed timeline of June 2022 and remained on track. It stated that if the remainder of industry are delayed in their SRD implementation, it would either need to slow down or pause work until other participants were ready to test with.

3.19 Three respondents argued that the timelines should be extended to allow for potential technical challenges to be resolved during migration. This included two responses from non-directed Phase 1 PSPs that had started their Phase 2 migration and required additional time. Suggestions of dates to extend the end point included end of Q2 2022 and keeping dual running going for six months.

3.20 Along with these three views, other respondents that supported the dates proposed (including an SD10 bank) queried whether the proposed timelines assumed that PSPs would not face any technical issues or unforeseen circumstances that might make it challenging for them to achieve migration to intended timelines. They cited that PSPs which had migrated from Phase 1 to Phase 2 had experienced testing and technical issues, while others experienced unexpected challenges which led to significant delays with their migration plans. This meant that the proposed dates may not provide a sufficiently big window to work through any issues that may arise.

Our view

3.21 While the majority of respondents agreed with the proposed dates to end dual running, we are aware that some PSPs are delayed with their migration plans. In late 2021, several PSPs experienced technical challenges, demonstrating that technical difficulties and delays are a real issue for at least some PSPs. While other PSPs have indicated that they are unable to meet industry agreed timelines.

3.22 It is therefore our view that a short extension to our proposed migration timelines would allow those PSPs that are challenged by the proposed dates to migrate successfully and provide contingency for unforeseen delays in migration. This will mitigate the impact to consumers of a potential loss of CoP service, which may result from a Phase 1 participant not completing its migration to Phase 2 before Phase 1 is closed.

3.23 We acknowledge respondents' views that extending dual running increases the operational costs to industry as a whole and that it impacts SRD delivery and timelines. Therefore, we do not consider it reasonable for dual running to continue for a significant period (for example, for six months, as one respondent suggested). This short extension will provide contingency to enable Phase 1 participants to migrate CoP traffic and work through potential challenges before the Phase 1 technical environment is closed.

3.24 A short extension will also ensure that costs to industry and the impact to SRD delivery are kept minimal. A precise date for the closure of Phase 1 will provide certainty to new joiners to adopt CoP, and we would not wish this to be delayed further than strictly necessary. We consider the costs of a short extension will be outweighed by the reduced risk of interruptions to CoP protections from delays in migration to Phase 2.

- 3.25** We have directed the following revised timelines:
- a. Phase 1 PSPs must complete planned migration of CoP traffic to the Phase 2 open banking environment by 1 May 2022.
 - b. Pay.UK must ensure the closure of the Phase 1 technical environment on 31 May 2022.

Themes 3 and 4: Reporting requirements and the process for closing the Phase 1 technical environment

Respondents' views

- 3.26** We received fewer views on these issues. Five PSPs supported the requirement to provide regular updates as part of the direction, and one respondent felt the reporting requirements were proportionate and reflected plans already in place. No respondents raised any arguments against the requirement to provide regular updates in the direction.
- 3.27** One respondent suggested that the reporting periods should be more frequent because of the short implementation timeline and the likelihood of missing issues on a monthly basis.
- 3.28** Another respondent, Pay.UK, considered it would be more efficient to direct participants to provide data to Pay.UK and the PSR simultaneously, rather than directing this through Pay.UK. On requiring Pay.UK to include an assessment of any risks that may prevent a Phase 1 PSP from migrating from Phase 1 to Phase 2 in line with its plans, Pay.UK stated this would not be possible as it does not have additional visibility or insight into a participant's plans above the information it receives.
- 3.29** One respondent disagreed that the legal process described in our direction that Pay.UK would have to follow in order to close down the Phase 1 technical environment was the only way to achieve this.

Our view

- 3.30** We agree with the respondents that supported the requirement to provide regular updates as part of the direction. We do not agree that the reporting requirement needs to be more frequent than monthly, however, the proposed direction does allow for a greater level of information to be collected from PSPs that we have concerns about.
- 3.31** We do not agree with Pay.UK that information should be sent to us and Pay.UK simultaneously. As Pay.UK is the owner of the CoP rules and standards and the operator of the service, it needs to be aware of developments and risks to the migration process and needs to be the organisation that collects and assimilates the information in the first

instance. The requirement for Pay.UK to then pass this on to the PSR in a consolidated format will allow us to understand and monitor progress against the dates in the direction.

- 3.32** We agree with the representations made by Pay.UK that they may not have sight of additional information to provide an assessment, we are satisfied with removing this requirement. If additional information should come to light during the process that is relevant to monitoring progress, we would still expect Pay.UK to provide this to us.
- 3.33** As one respondent highlighted that there may be various ways available to Pay.UK to close the Phase 1 environment, we will adjust the direction to ensure we give Pay.UK the flexibility to find the most appropriate way to achieve this outcome.

Theme 5: Revocation of SD10

Respondents' views

- 3.34** We received fewer views on the proposal to revoke SD10. However, we had received significant support for revoking SD10 under our previous call for views.⁷ Five respondents supported our proposal on the revocation of SD10. One of the SD10 banks requested clarity on whether the reporting requirements within SD10 would be required following its revocation. One other respondent queried whether revoking SD10 would result in PSPs losing momentum with carrying out CoP.

Our view

- 3.35** We agree with both the original respondents to our call for views and the respondents from this consultation who supported revoking SD10 as part of the proposed direction.
- 3.36** As SD10 requires directed PSPs to conduct CoP checks in line with the Phase 1 rules and standards, it is our view that SD10 will be redundant once Phase 1 is closed. We therefore revoke SD10.
- 3.37** In response to the clarification requested by one respondent on continuing reporting requirements, while SD10 is revoked we continue to ask PSPs that currently provide data under SD10 to continue to provide this until a specified date. We will not include this provision in this direction but if necessary, will consider whether we need to use formal data-gathering powers available to the PSR to request this information.

⁷ See our call for views, RP21/1, <https://www.psr.org.uk/publications/policy-statements/rp21-1-response-to-cop-phase-2-cp21-6/>

4 Updated cost–benefit analysis

We have analysed the impacts of the proposal against a baseline scenario. Our baseline is that there would be a more staggered phasing out of Phase 1 that stretches beyond April 2022, potentially until the end of 2022 for some PSPs. We consider the benefits of the proposal will outweigh the costs.

How will the proposal improve outcomes?

- 4.1** Ending dual running in a timely and coordinated manner is an important step in CoP service provision. A single technical environment and a single set of rules and standards will make sure CoP services across all PSPs can work together and encourage further adoption of the CoP service. In turn, as Phase 2 is suitable for a wider range of account types this will mean more widespread CoP coverage for customers, which will help reduce the number of misdirected payments.
- 4.2** The absence of a single technical environment and a single set of rules and standards would mean higher costs to PSPs, because they would need to build and operate against multiple environments and rulesets to send CoP messages to one another. Moving to a single environment and set of rules and standards should reduce these costs, and therefore help encourage adoption.
- 4.3** Phase 2 also introduces a CoP-only profile in open banking. PSPs use the open banking directory to find each other to send CoP messages. In Phase 1, a PSP offering CoP needs to be a full member of open banking to access the directory. The CoP-only role profile introduced in Phase 2 allows PSPs to access the open banking directory without full open banking membership.
- 4.4** Phase 2 also includes technical enhancements that will allow PSPs to send and receive SRD. PSPs with accounts identified using SRD can only implement CoP once these technical enhancements are in place. Phase 2, therefore, functions as a key enabler for increased CoP coverage over customer accounts

What is our assessment of the impacts?

- 4.5** We have analysed the impacts of the proposal against a baseline scenario. Our baseline is that there would be a more staggered phasing out of Phase 1 that stretches beyond 1 April 2022 – potentially until the end of 2022.

- 4.6** The table below details our assessment of the likely costs and benefits of the proposal relative to the baseline. We conducted a qualitative assessment as robust data was not available for the range of benefits and costs we have identified. Eleven of the fifteen respondents that expressed a view on the CBA agreed that it captured the right costs and benefits and that, overall, the benefits of our proposed approach outweighed the costs. A small number of respondents considered that some costs and benefits may be understated. We have updated our assessment of some costs and benefits where respondents expressed views or provided evidence on these, as set out below.

Benefits	
Type	Magnitude⁸ (Probability x likely size of benefit)
<ul style="list-style-type: none"> • Direct benefit: Cost saving for PSPs from no longer operating both phases simultaneously. In addition, Phase 2 has lower total running costs than Phase 1 because of the CoP-only profile in open banking. The proposed direction increases the likelihood that these savings materialise sooner. In assessing the costs of delaying the end of dual running past 30 April 2022, a number of PSPs pointed to the cost savings that come with a single CoP environment, as well as pointing to the costs of delaying the end of dual running beyond the planned date – for example, extending IT contracts, and knock-on effects on the timing and costs of other CoP-related work. A delay of approximately one calendar month delays the realisation of this benefit. 	Medium
<ul style="list-style-type: none"> • Indirect benefit: The proposal will help facilitate the earlier adoption of CoP by non-CoP PSPs, because PSPs will have more certainty over CoP requirements, and they will not have to incur the cost of dual running. Making it easier for additional PSPs to provide CoP is likely to create a more level playing field where smaller PSPs will be able to provide CoP on the same basis as larger PSPs without incurring excessive costs. This means more customers being protected: <ul style="list-style-type: none"> ○ Customers of newly joined PSPs will benefit from CoP ○ Customers of PSPs already offering CoP will also benefit, as their payments to accounts at newly joined PSPs will now be covered by the service 	High

⁸ Magnitude, in this context, is our estimate of the combination of the probability of a cost or benefit materialising and the likely size of that cost or benefit. For example, the risk that all PSPs miss the proposed deadline for migration to Phase 2 would represent a high cost, but we would assess that as being very unlikely to occur and so would classify it as a 'low'-magnitude cost overall. This approach is consistent with the cost-benefit analysis methodology set out in the Treasury's [Green Book](#) – for example, at paragraphs A5.13 to A5.15.

Benefits	
Type	Magnitude⁸ (Probability x likely size of benefit)
<p>Most respondents agreed that the timely adoption of a single technical environment would encourage wider adoption of CoP. As set out above, several respondents to our consultation highlighted the importance of the Phase 2 migration happening as planned, to ensure that the planned extension of CoP to SRD accounts also takes place on time. A delay by approximately one calendar month delays the realisation of this benefit.</p>	
<ul style="list-style-type: none"> • Indirect benefit: Expedited wider adoption of CoP will result in fewer misdirected payments. As we set out in our call for views in May 2021, we have seen a 25% fall in the value of misdirected payments as CoP adoption has increased.⁹ A delay by approximately one calendar month delays the realisation of this benefit. 	Medium

⁹ Misdirected payments by the SD10 banks fell by over 25% over the course of 2020, as measured by value per £m of FPS payments. See Figure 2 in our [Call for Views](#), May 2021.

Costs	
Type	Magnitude (Probability x likely size of cost)
<ul style="list-style-type: none"> • Direct cost: There are Phase 2 set-up and running costs for PSPs, but these would be incurred in the baseline by PSPs. The proposal increases the likelihood that these occur sooner, with one non-directed PSP arguing that the costs of participating in Phase 2 are not 'low' as it requires a whole new integration rather than being an extension of the Phase 1 environment. Rather than delivering at pace, a delay may reduce the costs of migration, if it allows some PSPs to meet the deadline more easily. 	Low
<ul style="list-style-type: none"> • Direct cost: There is a cost to PSPs in migrating CoP traffic from Phase 1 to Phase 2. These would be incurred by PSPs in the baseline. The proposal increases the likelihood that these occur sooner. As above, where some PSPs are facing challenges meeting the dates proposed in our draft direction (30 April 2022), a short extension may reduce the cost of migration for some. 	Low
<ul style="list-style-type: none"> • Direct cost: Potential risk that some PSPs fail to migrate to Phase 2 by the end of the buffer period (now 31 May 2022). This would result in a loss of CoP service for their customers. Some PSPs and Pay.UK already have plans to migrate by 30 March 2022, meaning the likelihood of this happening is very low for most PSPs. However, as set out above, three respondents (two PSPs and a third-party solution supplier) argued that the proposed 30 April deadline should be extended to allow for potential technical challenges to be resolved during migration. Two stated that they had started their Phase 2 migration but required additional time to complete their migration. While there are standard reporting and enhanced reporting provisions in the proposed direction to keep PSPs on track, including the possibility of a mandatory remediation plan, we amended the proposed direction to allow PSPs one additional calendar month to migrate to Phase 2. While extending dual running for one month will increase the operating costs for most of the industry, it should mitigate some of the risk that a small number of PSPs (which account for c.2-3% of FPS transactions¹⁰) are (temporarily) unable to provide CoP checks on their transactions. 	Medium

¹⁰ Based on their share of value of sending and receiving transactions in Q3 2021.

Costs	
Type	Magnitude (Probability x likely size of cost)
<ul style="list-style-type: none"> Direct cost: The direction imposes reporting obligations on PSPs and Pay.UK. The proposed direction aligns with existing plans to end dual running and the reporting arrangements from PSPs to Pay.UK. We think the parts of the direction that deal with migration to Phase 2 therefore impose only minimal additional burdens on Phase 1 PSPs. The proposed direction would also place an additional burden on Pay.UK. Pay.UK would have to relay the regular progress updates to us. We consider this burden minimal. 	Low

Our view

4.7 Based on the impact assessment above, we consider the benefits of the proposal are likely to outweigh the costs.¹¹ We also considered whether the benefits of extending the proposed deadline by approximately one calendar month were likely to outweigh the costs of doing so, taking into account:

- a. The fact that the majority of respondents (including PSPs accounting for the vast majority of relevant transactions) support the original deadline of 30 April, have planned on the basis that migration to Phase 2 will be completed by then, and have pointed to the cost savings that timely migration will generate and the risk of knock-on delays on many PSPs' planned work on future expansion of the CoP system; and
- b. Of the three respondents that argued for an extension to the deadline:
 1. Two were PSPs (accounting for c.2-3% of FPS payments¹²), while one was a third-party solution supplier
 2. One PSP argued that the costs of dual running have been overstated, and that it should continue for longer than planned to ensure that all PSPs can migrate without any disruption to CoP services
 3. One PSP submitted that its transition was taking longer than expected and the end of Q1 deadline left no contingency for any delays. Another respondent questioned whether the timeline was too ambitious, rather than presenting evidence that relevant PSPs were likely to miss the deadline.

¹¹ We note that, in principle, costs that are brought forward are (slightly) increased in net present value terms (for example, due to financing costs). However, given: the relatively short time frames; the fact that, for most PSPs, the timing of these costs is not materially affected; and the fact that any early adoption of CoP also brings financial benefits to those same PSPs, in terms of reduced misdirection of payments and the associated costs; we have not sought to account for this timing issue.

¹² Based on their share of value of sending and receiving transactions in Q3 2021.

- 4.8** We have considered how to keep costs associated with complying with our direction minimal and have made changes, including a short extension to the deadline and the removal of the requirement on Pay.UK to provide an assessment of risks.
- 4.9** We are therefore satisfied that our proposed direction to end dual running in a timely and coordinated manner will result in significant net benefits for payers and payees.

5 Equality impact assessment

- 5.1** In line with our public-sector equality duty under the Equality Act 2010, we must assess the likely equality impacts and reasons for giving a direction.
- 5.2** In deciding whether to direct, who to direct and what should be in the direction, we considered the matters set out in section 149 of the Equality Act 2010 (the public sector equality duty), particularly the impact of our proposed direction on people with protected characteristics.¹³
- 5.3** We included an initial impact assessment in our consultation and asked for comments. We received thirteen responses that agreed with our assessment, and no further details were provided by these respondents.
- 5.4** Outside of our consultation, we were contacted by a charity who felt that sufficient consideration had not been given to the potential negative impact of CoP on charities and businesses. They were concerned that when donors received CoP warning messages, this created extra burdens on organisations to assure donors that the account details were correct. In some cases, this resulted in donors reverting to other payment methods, which may attract a fee from the donation amount. While in other cases, because of the payment friction associated with a CoP check, some donors may abandon transactions entirely.

Respondent views

- 5.5** No respondent suggested we should not give a direction because of its impact on issues of equality. We noted the concerns raised by the charity that contacted us outside of our consultation, and we consider that our earlier work on CoP has considered these concerns. In our initial assessment,¹⁴ we said CoP will introduce an appropriate and necessary level of friction for those making payments because they will need to consider the CoP result.

13 The relevant protected characteristics under section 149 are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, and sexual orientation.

14 See our consultation paper CP19/4: <https://www.psr.org.uk/publications/consultations/cp19-4-confirmation-of-payee-response-to-the-first-consultation-and-draft-specific-direction-for-further-consultation/>, and response paper PS19/4: <https://www.psr.org.uk/media/gp2axtod/responses-and-decision-on-consultation-for-cop.pdf>

Our view

- 5.6** We do not consider that this additional information changes our initial assessment. We are therefore satisfied that our proposed direction requiring CoP will bring significant benefits to payers and payees, including those with protected characteristics. The benefits will substantially outweigh the negative impacts, including any that disproportionately affect people with certain protected characteristics.

6 Our decision

- 6.1** Given the preceding chapters, we have decided to give the amended direction, Specific Direction 11 that:
- a. requires Pay.UK to terminate the terms and conditions for participating in Phase 1, withdraw each PSP's CoP Phase 1 accreditation, and retire the Phase 1 rules and standards on 31 May 2022
 - b. requires Pay.UK to notify the OBIE of this action, so the OBIE can close the Phase 1 technical environment on 31 May 2022
 - c. prevents Phase 1 PSPs from using the Phase 1 technical environment for the CoP service after 31 May 2022
 - d. requires relevant PSPs to regularly report to Pay.UK on their progress migrating CoP traffic to the Phase 2 open banking environment by 1 May 2022. Pay.UK must report this information to the PSR
 - e. requires relevant PSPs to undergo enhanced reporting to both Pay.UK and us if we consider they are at significant risk of failing to migrate by 1 May 2022, with an obligation to implement a remediation plan agreed with the PSR
 - f. revokes SD10 on 31 May 2022.
- 6.2** This direction will come into effect on 11 February 2022.
- 6.3** The direction is included in the annex to this document.

Annex

Specific Direction 11: closure of the initial technical environment for Confirmation of Payee

Specific Direction 11 (closure of initial technical environment for Confirmation of Payee)

February 2022

Specific Direction 11: closure of initial technical environment for Confirmation of Payee

1 Recitals

Whereas:

- 1.1** Confirmation of Payee (CoP) is a valuable tool in reducing certain types of authorised push payment (APP) scams and accidentally misdirected payments. It checks the name of the payee's account against the other details given by the payer, to help reduce the number of APP scams.
- 1.2** The first phase of CoP currently uses a part of the open banking directory that supports multiple activities of Payment Service Providers (PSPs), in addition to the provision of CoP (the initial CoP technical environment).
- 1.3** Pay.UK maintains the rules and standards for the initial CoP technical environment. The PSR has given Specific Direction 10, requiring certain PSPs (the SD10 PSPs) to carry out CoP checks in accordance with those rules and standards for payments over Faster Payments and CHAPS.
- 1.4** Pay.UK has agreed with the SD10 PSPs and other PSPs that currently participate in CoP (together, the 'initial CoP participants') that by 30 March 2022 they will move to the second phase of CoP. This requires migration to a new part of the open banking directory that is dedicated only to enabling CoP (the CoP domain). Pay.UK has also published a new rule book specifically for the CoP domain.
- 1.5** The CoP domain is designed to make the CoP service available to a wider range of PSPs, enabling them to offer the CoP service to their customers. The PSR therefore considers it desirable to ensure that initial CoP participants complete the planned migration to the CoP domain by 1 May 2022, and that the initial CoP technical environment should subsequently be closed on 31 May 2022.
- 1.6** Closure of the initial CoP technical environment is triggered by Pay.UK withdrawing the initial CoP accreditation from the initial CoP participants and removing those participants from the initial CoP participant list. The Open Banking Implementation Entity (OBIE) is then able to close the initial CoP technical environment.
- 1.7** Closure of the initial CoP technical environment means that SD10 is no longer appropriate.

- 1.8** The PSR has therefore decided:
- a. to require Pay.UK to ensure the closure of the initial CoP technical environment on 31 May 2022 and provide an end point for the first phase of CoP
 - b. to require the initial CoP participants to provide regular reports to Pay.UK, which Pay.UK must transmit to the PSR, on work towards completing migration by 1 May 2022, in order to monitor their progress
 - c. that if, during the period preceding 1 May 2022, the PSR considers there is a significant risk that an initial CoP participant will fail to migrate by 1 May 2022, the initial CoP participant must implement a remediation plan to ensure timely migration
 - d. to revoke SD10 at midnight on 31 May 2022

2 Powers exercised and purpose

- 2.1** Faster Payments and CHAPS are designated by the Treasury under section 43 of the Financial Services (Banking Reform) Act 2013 (the Act) for the purposes of Part 5 of the Act.
- 2.2** The PSR makes this direction in accordance with section 54 (Regulatory and competition functions – directions) of the Act. In accordance with section 54(3)(c), this direction applies to persons of a specified description.
- 2.3** The purpose of this direction is to ensure initial CoP participants migrate to the CoP domain no later than 1 May 2022, and set a backstop date for Pay.UK to close the initial CoP technical environment.

Direction

NOW the Payment Systems Regulator gives the following specific direction to:

- a. Pay.UK;**
- b. Each initial CoP participant within the meaning of section 3.1e of this direction.**

3 Key definitions

3.1 In this direction:

- a. 'CoP' means the service overseen by Pay.UK and known as Confirmation of Payee, which allows the account-holding name of the payee in a payment transaction to be checked against the details given by the payer in that transaction.
- b. 'CoP domain' means the part of the open banking directory dedicated only to enabling CoP.
- c. 'CoP participant list' means the list of accredited CoP participants maintained by Pay.UK.
- d. 'initial CoP accreditation' means an approval given by Pay.UK to participate in CoP in accordance with the initial CoP terms and conditions.
- e. 'initial CoP participant' means a person with an initial CoP accreditation before 31 May 2022.
- f. 'initial CoP rules and standards' means the rules and standards for CoP provided for in the rule book developed by Pay.UK that is applicable to initial CoP participants.
- g. 'initial CoP terms and conditions' means the terms and conditions applicable to CoP participants that initiated an application to join the CoP service before 31 August 2021.
- h. 'switchover' means, in relation to an initial CoP participant, the point at which that participant begins to send and respond to CoP requests using only the CoP domain.
- i. 'switchover date' means 1 May 2022.

4 Closure of the initial CoP technical environment

- 4.1** Pay.UK must inform OBIE by 28 February 2022, and each initial CoP participant by 16 May 2022, of the steps that it proposes to ensure the outcomes mentioned in paragraph 4.2.
- 4.2** Pay.UK must ensure the following outcomes occur on 31 May 2022:
- a. the initial CoP terms and conditions are terminated for all initial CoP participants
 - b. initial CoP accreditation is withdrawn from each initial CoP participant, and each such participant is removed from the CoP participant list in respect of its initial CoP accreditation
- 4.3** As soon as reasonably practicable after securing the outcomes in paragraph 4.2, Pay.UK must:
- a. notify OBIE of those outcomes
 - b. publish a statement on its website for at least one month confirming it has:
 1. secured those outcomes
 2. as a result, withdrawn the initial CoP rules and standards
- 4.4** After 31 May 2022, an initial CoP participant must only send or respond to CoP requests using the CoP domain.

5 Reporting obligations relating to initial CoP participants

- 5.1** Each month, on a date specified by the PSR (the 'reporting date'), an initial CoP participant must provide Pay.UK with:
- a. the date it intends to achieve switchover
 - b. a description of its progress towards achieving switchover on that intended date, including:
 1. details of any risks to achieving switchover on that intended date and, if different, the switchover date
 2. an explanation of how it intends to mitigate those risks

- c. any additional information relevant to achieving switchover by that intended date, and if different, the switchover date

5.2 Each month, no later than five working days after the reporting date, Pay.UK must provide the PSR with:

- a. the information set out in paragraph 5.1 for each initial CoP participant
- b. any additional information relevant to each initial CoP participant achieving switchover by the switchover date

5.3 Paragraphs 5.1 and 5.2 cease to apply in relation to an initial CoP participant that has achieved switchover and confirmed to Pay.UK and the PSR that it has done so.

6 Enhanced obligations for specified initial CoP participants

6.1 An initial CoP participant must comply with the obligations in paragraph 6.2, if the PSR notifies it in writing that the PSR considers there is a significant risk of the initial CoP participant failing to achieve switchover by the switchover date.

6.2 The initial CoP participant must:

- a. by a date specified by the PSR in the notice, propose to Pay.UK and the PSR a remediation plan to ensure switchover by the switchover date, or its intended date if earlier.
- b. adjust the remediation plan to reflect any modifications proposed by the PSR from time to time, or proposed by the initial CoP participant and accepted by the PSR
- c. implement the remediation plan, subject to any modifications required or accepted by the PSR
- d. from a date specified by the PSR in the notice, provide to Pay.UK and the PSR a weekly report containing:
 - 1. the information set out in paragraph 5.1
 - 2. the steps the initial CoP participant has taken to implement the remediation plan as modified from time to time
 - 3. the extent to which those steps have reduced the risk of the initial CoP participant failing to achieve switchover by the switchover date, or its intended date if earlier
 - 4. any additional steps the initial CoP participant considers necessary to ensure switchover by the switchover date, or its intended date if earlier.

7 Revocation of Specific Direction 10

7.1 Specific direction 10 is revoked at midnight on 31 May 2022.

8 Commencement and duration

8.1 This specific direction comes into force on 11 February 2022.

8.2 This direction ceases to be in force on 10 February 2023, unless prior to that date it is varied, revoked or extended by the PSR.

8.3 The PSR may review this direction at any point prior to the date it ceases to be in force.

9 Citation

9.1 This specific direction may be cited as Specific Direction 11 (closure of initial technical environment for Confirmation of Payee).

10 Interpretation

10.1 The headings and titles used in this specific direction are for convenience and have no legal effect.

10.2 The Interpretation Act 1978 applies to this specific direction as if it were an Act of Parliament except where words and expressions are expressly defined.

10.3 References to any statute or statutory provisions must be construed as references to that statute or statutory provision as amended, re-enacted or modified, whether by statute or otherwise.

10.4 In this specific direction, the word 'including' shall mean including without limitation or prejudice to the generality of any description, definition, term or phrase preceding that word and the word 'include' and its derivatives shall be construed accordingly.

10.5 Section 3 of this specific direction contains key definitions. In addition, in this specific direction the following terms have the following meanings:

- **Act** means the Financial Services (Banking Reform) Act 2013.
- **CoP request** means a request sent by a PSP to check the name of the intended payee (that is, the person to whom or which the payer anticipates sending funds) against the name of the person who holds the account to which the unique

identifiers given by the payer when providing the necessary information (or amending the unique identifiers in that information) refer.

- **OBIE** means the Open Banking Implementation Entity, registered in England under Company Number: 1044008.
- **Payment Systems Regulator** or **PSR** means the body corporate established under Part 5 of the Act.

Made on 10 February 2022

Chris Hemsley
Managing Director
Payment Systems Regulator

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