Payment Systems Regulator

Working paper

Market review of cross-border interchange fees

A discussion of the impact of the UK-EEA cross-border interchange fee increases

December 2022

MR22/2.4

We welcome your views on this working paper. If you would like to provide comments, please send these to us by **5pm on Thursday 19 January 2023**.

You can email your comments to cardfees@psr.org.uk or write to us at:

Cross-border interchange fees market review team
Payment Systems Regulator
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We will consider your comments when preparing our response to this working paper.

We will make all non-confidential responses to this paper available for public inspection.

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1 Introduction

1.1 Following the UK withdrawal from the European Union (EU) some fees paid on consumer card transactions have increased significantly. These are fees that acquirers pay to issuers every time consumers use a Mastercard or Visa debit or credit card for online transactions between the UK and the European Economic Area (EEA). This paper explains how we consider such increases may be affecting UK service users (such as merchants accepting card payments and their customers).

Objectives of this working paper

1.2 We are conducting a market review of UK-EEA consumer cross-border interchange fees (IFs). We published the final terms of reference (ToR) on 27 October 2022.[1]

1.3 As part of our market review, and in light of the recent increases in rates of certain IFs, we are considering what information, data and analysis might indicate whether or not the market (or aspects of the market) works well for service users. We're also examining the impact of the fee increases on UK service users.

1.4 With this working paper we invite stakeholder feedback on our thinking and understanding so far.

1.5 Feedback to this paper will represent one piece of evidence we will consider when taking a view on whether the recent increases indicate that the market (or aspects of the market) works well for service users.

1.6 This working paper includes an overview of:

- the functioning of a four-party card payment system and of the changes to the rates of multilateral interchange fees (MIFs) in scope[2]
- our current thinking on the effects of these higher MIF rates on UK service users

1.7 We set out our initial thinking on how the increases might harm UK service users (depending, for example, on any price differentiation and pass-throughs). We also discuss how merchants or acquirers could mitigate the impact on their own business (for example, through relocation).

1.8 We will use feedback on this paper to develop our thinking on whether and how UK service users are being harmed by the increases, and our views on whether the market(s) are working well. We do not make any judgement at this stage on the outcome of that thinking.

1 MR22/1.2, *Market review of cross-border interchange fees: Final terms of reference* (October 2022).

2 The multilateral interchange fee (MIF) is the default IF set by a four-party card payment system operator that applies in the absence of any other rate agreed between an issuer and an acquirer (see also paragraph 2.1). In practice such alternative agreements rarely, if ever, occur.

Sharing our thinking and further development of our views

1.9 As we develop our understanding on these issues, we will decide whether to provide further external updates. Either way, we will set out how our analysis has evolved in the interim report of our market review, including how we have taken into account feedback and comments to this working paper.

1.10 We will use the feedback and engagement that this paper generates to refine and build our understanding of the market(s) and the effects of the UK-EEA cross-border MIF rate increases.

1.11 The remainder of this document is set out as follows:

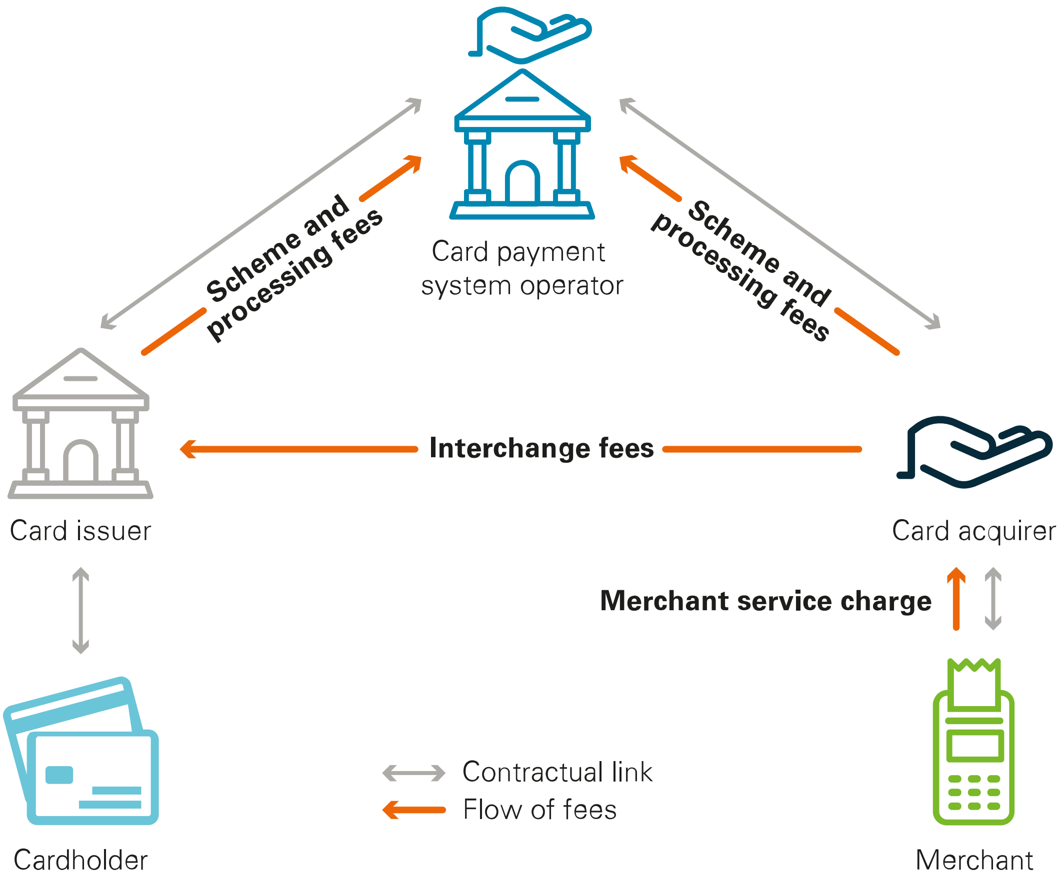
- In **Chapter 2** we set out a background overview.
- In **Chapter 3** we set out the impacts seen to date and the effects on different groups.
- In **Chapter 4** we set out next steps.
- In **Annex 1** we provide a glossary.

2 Background

2.1 Our market review focuses on Mastercard and Visa's UK-EEA cross-border IFs for consumer debit and credit cards. Mastercard and Visa operate what are known as four-party card payment systems, or four-party schemes. Figure 1 sets out the main parties that make up the four-party model. These include the following groups:

- **Merchants:** Organisations that accept card payments.
- **Card payment system operators (such as Mastercard and Visa):** Organisations that manage the 'scheme rules' that govern how card payments work and set the basis on which issuers, acquirers, merchants, cardholders and other parties participate in the card payment system.
- **Acquirers:** Banks or other organisations licensed by card payment system operators to recruit merchants to accept card payments.
- **Issuers:** Banks or other organisations licensed by card payment system operators to provide cards to cardholders. The issuer pays the acquirer the money the merchant is owed for the transaction (less IFs) and debits the cardholder's account.

Figure 1: Simplified structure of a four-party card payment system



2.2 The four-party scheme model is an example of a 'two-sided market'. On one side of the market, issuers (typically a bank) provide card payment services to their customers (card holders). On the other side of the market, acquirers compete to provide acquiring services to merchants to accept card payments from card-holder consumers. The two sides are impacted by each other's participation.

2.3 Figure 1 also shows the main flow of fees between parties in a four-party scheme model, including:

- **interchange fees (IFs)**, which acquirers pay to issuers each time a card is used to buy goods or services: this is a per-transaction fee and is usually levied as a percentage of the transaction value.
- **scheme and processing fees**, which are set by Mastercard and Visa.[3]
- **merchant service charge (MSC)**, which is the total amount merchants pay to acquirers for card-acquiring services; this comprises IFs, scheme and processing fees, and acquirer net revenue.[4]
- **card-holder fees**, which card holders may pay to the issuers.

Interchange fees and incentives

2.4 IFs are paid by acquirers to issuers. In practice, when settling a card payment transaction, the issuer transfers the value of the payment to the acquirer but deducts an amount which is the IF. This has a direct price effect as the IF is a cost to the acquirer, who may pass some or all of it to the merchant, while it is a source of revenue for the issuer.

2.5 As a consequence, depending on the merchant's ability to turn consumers to an alternative payment method, it could reduce merchants' willingness to accept the relevant card payments. This, in turn, would affect the likelihood of a consumer to use the relevant card services.

2.6 Where merchants accept card payments they may incorporate the IF into their price setting decisions as with all other costs, meaning that IFs can be reflected in final prices for goods and services, affecting all consumers regardless of their chosen payment method.

2.7 The IF represents an income to issuers that could, at least in part, be passed on to cardholders in the form of benefits.

2.8 While Mastercard and Visa do not receive any IF revenue, their scheme rules provide a default level of IFs in the absence of any bilateral agreement between acquirers and issuers – MIFs.

3 The terms 'scheme fees' and 'processing fees' include all fees acquirers and issuers pay to card payment systems operators. We note this is a change of terminology from our card-acquiring market review, where we used the term 'scheme fees' to cover both scheme fees and processing fees. For further details on scheme fees and processing fees, please see MR22/1.2, *Market review of card scheme and processing fees: Final terms of reference* (October 2022).

4 Acquirer net revenue is calculated as the revenue the acquirer receives from the merchant (the MSC) minus the IFs and scheme and processing fees it pays to other scheme participants (to issuers and the scheme operator, respectively).

EU Interchange Fee Regulation

2.9 The EU Interchange Fee Regulation 2015 (EU IFR) came into force in 2015.[5] It introduced price caps on IFs on certain card transactions within the EEA, including UK-EEA transactions, and set business rules for card payments. The price caps came into effect on 9 December 2015, and the majority of provisions relating to business rules were effective from 9 June 2016.

2.10 The EU IFR sought to address the problem of 'high and divergent' IFs in the EU and to facilitate cross-border card payment services.[6] One concern was that high IFs were leading to higher final prices for goods and services at the expense of consumers.

2.11 Caps on the level of IFs were set, which fixed the maximum level of IF payable by merchants (see paragraph 2.13) when accepting certain card payments. This included cross-border UK-EEA card-not-present consumer debit and credit card payments.

2.12 The caps are based on the so-called 'merchant indifference test' (MIT) developed by Professors Rochet and Tirole.[7] The MIT estimates a level of MIF that would mean the cost to a merchant of taking a payment by card is the same as the cost of taking a payment by an alternative payment method. This resulted in an upper limit on the MIFs, ensuring that merchants do not pay for card payments more than what it would cost them to accept alternative payment methods.

2.13 The EU IFR caps were set at 0.2% of the value of consumer debit card transactions and 0.3% of the value of consumer credit card transactions. These applied (and still apply) equally to both domestic transactions and cross-border transactions across different countries within the EEA (intra-regional including, at the time, the UK).

The 2019 EC commitments

2.14 In addition, Mastercard and Visa offered commitments to the EU in the context of the European Commission's investigation into inter-regional IFs (the 2019 EC Commitments). These capped IFs on transactions involving non-EEA-issued cards and EEA merchants.[8]

2.15 The Commitments became binding in 2019 and differentiate between card-present (CP) and card-not-present (CNP) transactions. In a card-present transaction, the cardholder pays the merchant in person with their card or smart device (for example, at the till in a shop). In a card-not-present transaction, the cardholder is in a different physical location to the merchant and uses their card details to pay over the phone, online or by mail (for example, internet shopping or booking tickets). As a result of the 2019 EC Commitments, the CP transactions in question (see paragraph 2.14) are subject

5 Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions (Text with EEA relevance). Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32015R0751

6 Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions (Text with EEA relevance), para 13. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32015R0751

7 Rochet and Tirole, *Must-Take Cards: Merchant Discounts and Avoided Costs*, (2011) Journal of the European Economic Association 9(3): 462 at 463.

8 CASE AT.39398 – Visa MIF, VISA 2019 Commitments decision; CASE AT.40049 – Mastercard II, Mastercard 2019 Commitments decision.

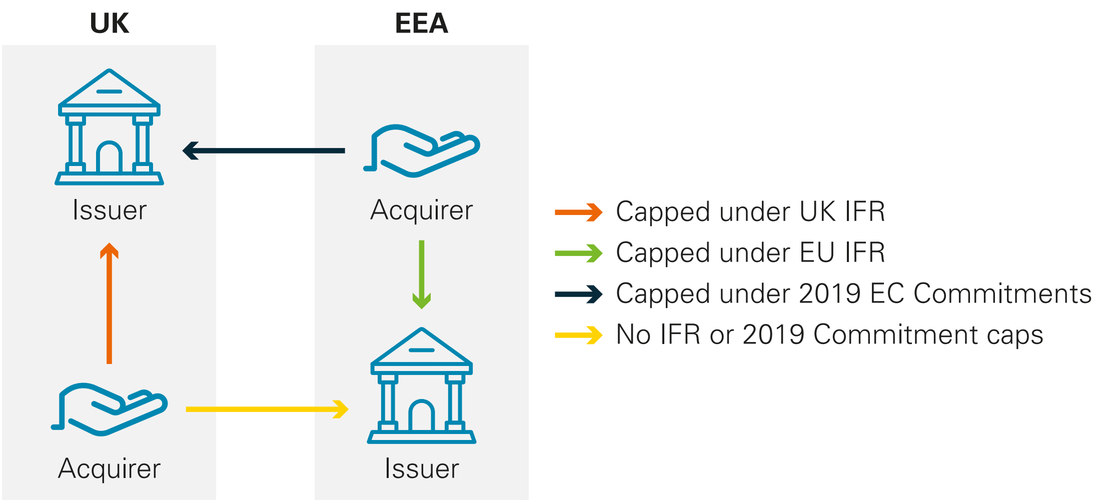
to caps of 0.2% and 0.3% for debit and credit cards; CNP transactions are subject to higher caps of 1.15% and 1.5% for debit and credit cards respectively. These commitments are due to expire in 2024.

Increases to Mastercard and Visa's MIFs

2.16 Following the transition period after the UK's withdrawal from the EU which ended on 31 December 2020, the EU IFR ceased to apply to the UK. The IFR provisions were onshored and amended to become the UK Interchange Fee Regulation (UK IFR). These applied caps for IFs on UK domestic card transactions at the same levels as in the EU IFR.

2.17 Neither the UK IFR nor the EU IFR included caps on IFs for UK-EEA cross-border transactions, which were previously intra-EEA transactions and subject to caps under the EU IFR. A subset of UK-EEA transactions now falls within the scope of the 2019 EC Commitments discussed above in paragraphs 2.14 and 2.15, specifically those involving a UK-issued card and a merchant located in the EEA. IFs for these transactions (inbound IFs) are therefore capped by the 2019 EC Commitments. However, outbound IFs (where an EEA-based issuer receives a fee from a UK-based merchant) are not capped under the 2019 EC Commitments. The applicable caps are illustrated in Figure 2.

Figure 2: Regulation of IF levels in transactions involving the UK and EEA

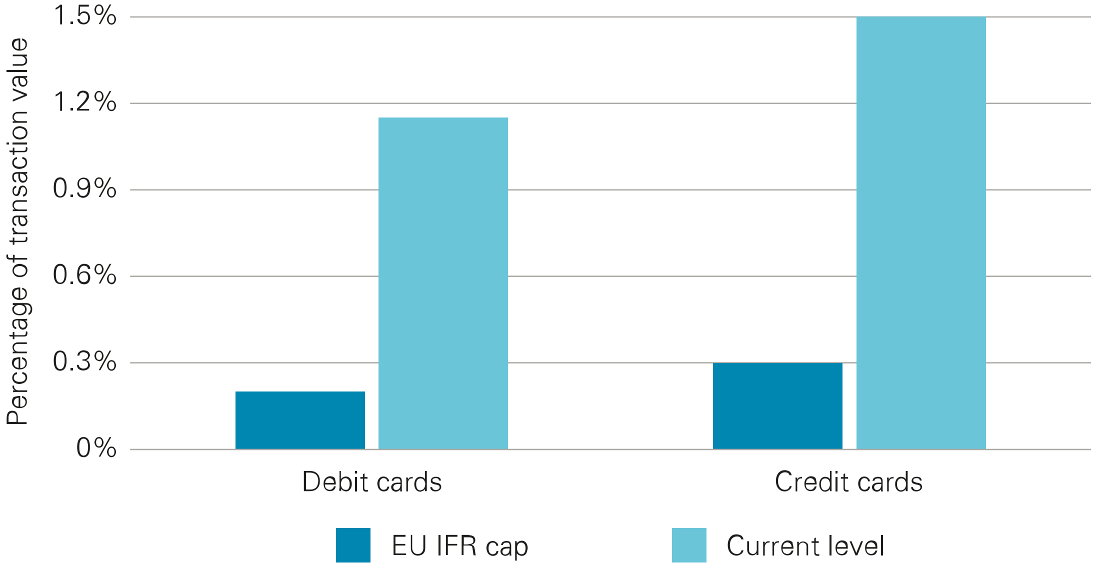


2.18 While outbound IFs are not capped, Mastercard and Visa have decided to apply the cap levels set out in the 2019 EC Commitments to both inbound and outbound MIFs:

- for CP transactions using consumer debit and credit cards, IFs have remained at the same levels as when the EU IFR caps applied (0.2% and 0.3% respectively)
- for CNP transactions using consumer debit and credit cards, IFs have increased from 0.2% and 0.3% to 1.15% and 1.5% respectively. These are the levels set out in the 2019 EC Commitments covering inbound IFs.

2.19 Figure 3 illustrates the change in MIF rates for UK-EEA CNP transactions from when they were capped under the EU IFR to the current levels.

Figure 3: Mastercard and Visa's MIF rates for UK-EEA consumer CNP transactions



Timing of the increases

2.20 Mastercard announced at the end of 2020 that it would increase inbound IFs for consumer credit and debit CNP transactions. Visa announced in March 2021 that it would increase both inbound and outbound IFs. Both the Mastercard and Visa increases became effective in October 2021. Mastercard subsequently announced in late 2021 that it would increase outbound IFs, which became effective in April 2022.

3 Overall impacts of increases in interchange fees

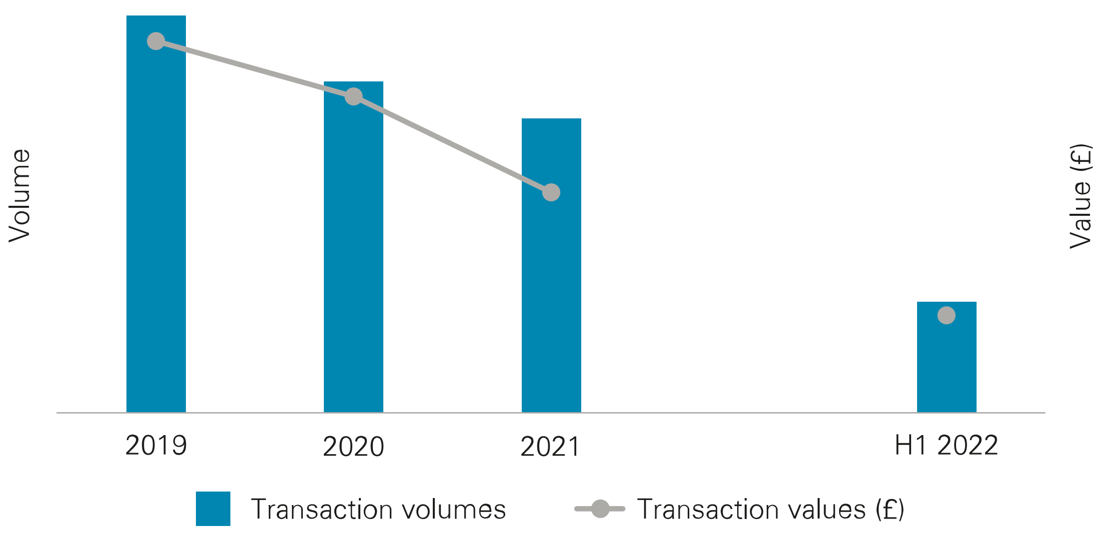
3.1 In this chapter, we explore the potential impacts of Mastercard and Visa's increases to the cross-border UK-EEA CNP IFs on different parties.

3.2 We have gathered data from Mastercard and Visa to assess the impacts of their increases in UK-EEA CNP cross-border IFs. As outlined in Chapter 2, these represented an approximate fivefold increase in rates for the relevant transactions. Paragraph 2.20 sets out how some of the increases were implemented from October 2021, while others occurred in April 2022. The data we have so far gathered covers the period of 2019 to H1 2022.

Outbound interchange fees

3.3 Figure 4 shows CNP transaction volumes and values for 2019 to H1 2022 where the card used is issued in the EEA and the merchant is located in the UK. It shows a relatively stable decline in both volumes and values. Applying a rough multiplier of two to H1 2022 to estimate the levels for full-year 2022 would give lower volumes and values compared to 2021, suggesting a continued decline in transactions since 2019.

Figure 4: EEA cards used at UK merchants, transaction volumes and values 2019 – H1 2022



Source: PSR analysis of data from Mastercard and Visa.

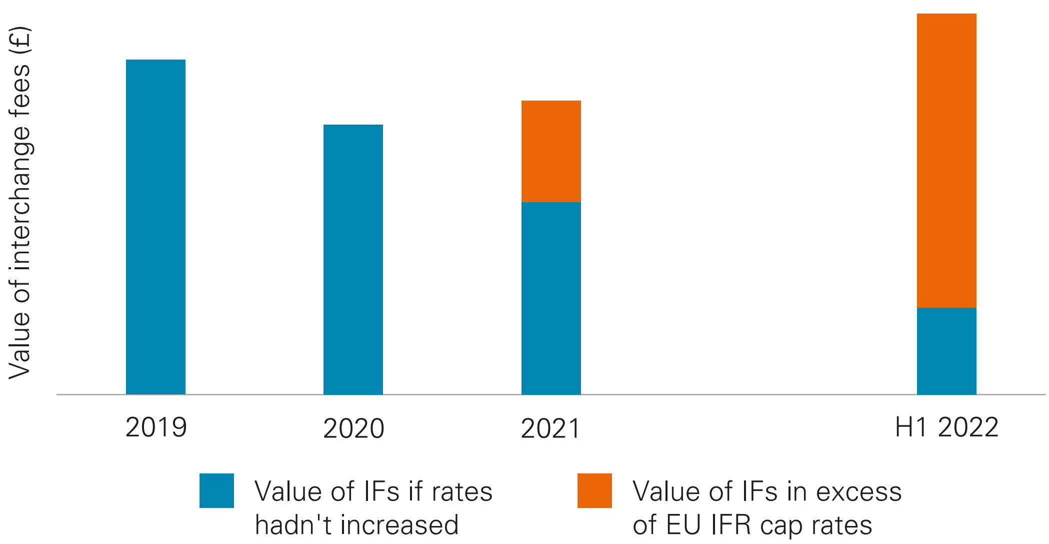
Note: The figures for transaction volumes and values already take account of any relocation that has already happened (see below); we have removed numerical values from the axis to avoid disclosing potentially sensitive information.

3.4 Despite the decline in transaction volumes and values across the period, Figure 5 shows a different pattern for the corresponding IFs. As explained in Chapter 2, Visa increased the level of its outbound IFs in October 2021, and Mastercard later increased the level of its outbound IFs in April 2022. The blue bars in Figure 5 for 2019 and 2020 show the actual values of IFs for transactions in those years. The blue bars for 2021 and H1 2022 show what IFs would have been if the previous 0.2%/0.3% rates for debit/credit still applied (without the increases). The orange bars show the actual value of IFs in excess of what it would have been with the previous rates. Adding together the blue and orange bars therefore shows the actual values for those two periods.

3.5 Figure 5 shows a substantial increase in IFs of approximately £75m to £100m. As Mastercard's increase in the outbound IF rates were only implemented part way through H1 2022, the full combined effect from both scheme's IF rate increases would only show in later periods.

3.6 The estimates for the value of IFs, if rates had not increased, are based on the realised transaction values produced after the schemes increased the UK-EEA rates. Volumes and values may have been higher without these increases, since fewer transactions could have been relocated. However, other factors may also have caused volumes and values to change.

Figure 5: Outbound CNP IFs 2019 – H1 2022



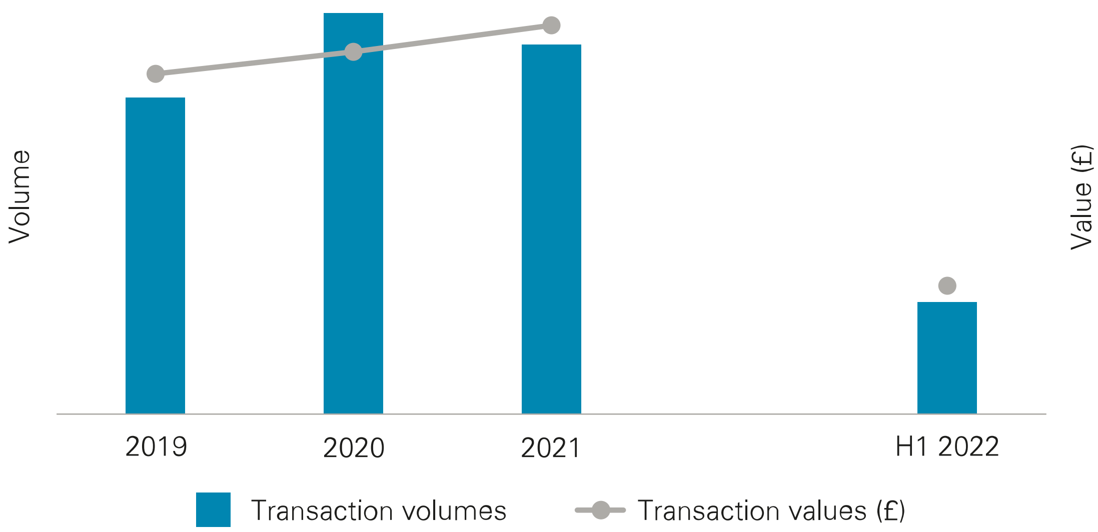
Source: PSR analysis of data from Mastercard and Visa.

Note: The figures for outbound CNP IFs already take account of any relocation that has already happened (see below); we have removed numerical values from the axis to avoid disclosing potentially sensitive information.

Inbound interchange fees

3.7 Figure 6 shows CNP transaction volumes and values for 2019 to H1 2022 where the card used is issued in the UK and the merchant is located in the EEA. Between 2019 and 2021, volumes of transactions fluctuate while values steadily increase. If a rough multiplier of two is applied to H1 2022 figures to estimate the levels for full-year 2022, this would give volumes and values lower than 2021, suggesting a decline in transactions in 2022.

Figure 6: UK cards used at EEA merchants, transaction volumes and values 2019 – H1 2022



Source: PSR Analysis of data from Mastercard and Visa.

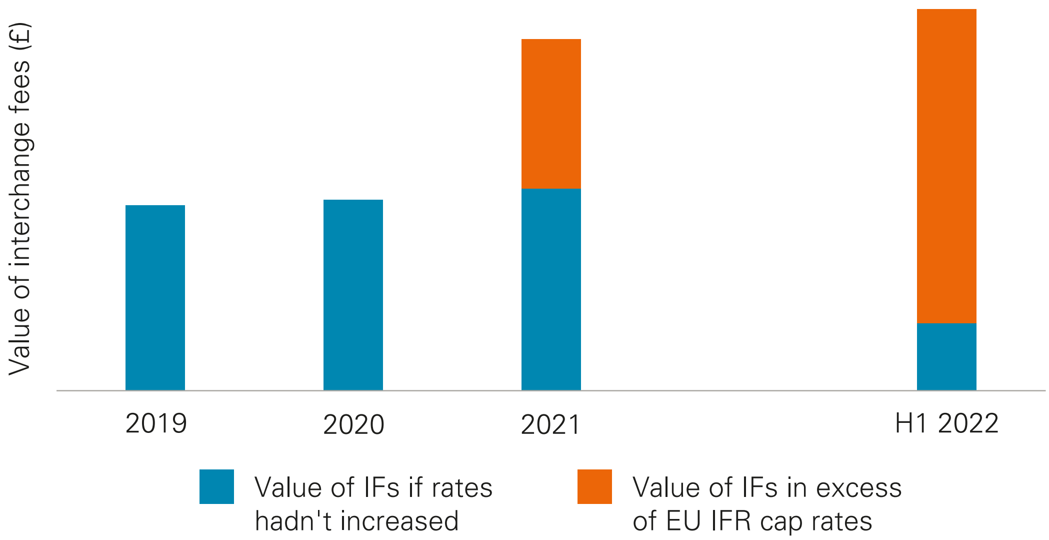
Note: The figures for transaction volumes and values already take account of any relocation that has already happened (see below); we have removed numerical values from the axis to avoid disclosing potentially sensitive information.

3.8 Despite the decline in volumes and values of transactions from 2019 to the estimated full-year 2022, Figure 7 shows a different pattern for the corresponding IFs. As explained in Chapter 2, Visa and Mastercard each increased the rates on inbound IFs in October 2021. The blue bars in Figure 7 for 2019 and 2020 show the actual values of IFs for transactions in those years. The blue bars for 2021 and H1 2022 show what the IFs would have been if the previous 0.2%/0.3% rates for debit/credit still applied (without the increases). The orange bars show the actual value of IFs in excess of what it would have been with the previous rates. Adding together the blue and orange bars therefore shows the actual values for those two periods.

3.9 Figure 7 shows a substantial increase in IFs of approximately £100m to £125m.

3.10 The large declines in values and volumes seen for EEA cards used at UK merchants (see Figure 4) are not mirrored in the values and volumes for UK cards used at EEA merchants (see Figure 6) which followed a different pattern between 2019 and 2021. A possible explanation is merchants relocating more volumes from the UK to the EEA than the other way round (see paragraph 3.14). This could potentially be related to UK merchants having greater motivation to establish a presence in the EEA than vice versa. It could also be due to a range of post-Brexit changes (including new VAT and tax rules and additional bureaucracy on managing imports/exports). We are interested in views on whether these or other factors can help explain the difference.

Figure 7: Inbound CNP IFs 2019 – H1 2022



Source: PSR analysis of data from Mastercard and Visa.

Note: The figures for inbound CNP IFs already take account of any relocation that has already happened (see below); we have removed numerical values from the axis to avoid disclosing potentially sensitive information.

Impact on merchants

3.11 As noted in paragraph 2.3, IFs are typically reflected in the MSC that acquirers charge to their customers – the merchants. For their larger merchants, typically those on IC++ pricing contracts, these increases are automatically passed through in full from the acquirer to the merchant.[9] For smaller merchants, typically on blended pricing contracts, acquirers must decide whether and to what extent to pass through the increases or internalise them.

3.12 Impacts on merchants depend on the pass-through of the higher IF costs from their acquirers. We know from our card-acquiring market review that although less than 5% of merchants are on IC++ contracts, they accounted for 77% of transaction value in 2018.[10,11] Meanwhile, over 95% of merchants are on blended contracts and accounted for most of the remaining 23% by transaction value.[12]

3.13 Some merchants may be able to take mitigating actions to reduce the impact for themselves of the higher IF rates or reduce their application entirely. These can be grouped into two categories:

- Relocation
- Pass-through to consumers

9 See *CAMR Final Report*, paragraph 3.63 for an overview of pricing for card-acquiring services, MR18/1.8, *Market review into the supply of card-acquiring services: Final report*, (2021). Please note that we use the term blended pricing here, whereas it is referred to as standard pricing in CAMR. We treat these terms as equivalent.

10 See *CAMR Final Report*, Annex 1, paragraph 1.221.

11 See *CAMR Final Report*, page 65.

12 See *CAMR Final Report*, page 32.

Relocation

3.14 Relocation refers to the decisions of merchants with operations in multiple jurisdictions, including on both sides of the UK/EEA border, to rebalance their operations. They could do this in response to EU withdrawal related issues, including where they recognise their payments. For example, if a UK-located merchant is selling online to customers in France (an outbound IF transaction), the merchant can leverage or even establish a presence in the EEA. By doing this, what would have been a cross-border transaction is now an EEA domestic transaction, which is subject to lower EU IFR cap levels.

3.15 We are aware that some merchants have taken this mitigating action to some extent, although they may have done so for reasons separate to the IF increases – relating to potentially higher trade friction following the UK's withdrawal from the EU perhaps (such as new VAT and tax rules, and additional bureaucracy on managing imports/exports).

3.16 Our current understanding, based on stakeholder feedback to date, is that the largest, well-resourced merchants are more capable of carrying out relocation in practice. This could mean that the impacts of these higher IFs are disproportionately affecting acquirers who serve predominantly smaller merchants and those same smaller merchants too. We also understand that merchants operating in certain sectors and/or in certain circumstances may not be able to mitigate the impacts of the increases through relocation.

3.17 The figures for UK-EEA cross-border transaction volumes, values and related IF levels above take account of any relocation that has already happened.

3.18 Our findings (see paragraphs 3.5 and 3.9) are broadly consistent with some estimates that Visa produced before applying the changes. Through our information gathering, Visa submitted data to us on its analysis it had conducted to test the sensitivities of its IF increases in light of some possible merchant relocation scenarios. This analysis was carried out ahead of its decision to increase the rates. The analysis used transaction data from Oct 18 to Sep 19, and featured the following scenarios for transaction relocation:

- [✂]
- [✂]

3.19 Visa estimated annual increases in outbound IFs and inbound IFs of approximately £[✂]m each for the first scenario and £[✂]m each respectively for the second scenario.[13]

Pass-through to consumers

3.20 If merchants are not able to mitigate the impact of IFs through relocation, they may have to pass-through the cost of the IF to consumers by increasing prices, at least in part. Merchants could incorporate the IF into their overall cost base when making pricing decisions.

13 Visa data provided in US Dollars. Bank of England 2019 annual average exchange rate used to convert to GBP.

Impact on consumers

3.21 Impacts on consumers depend on pass-through from merchants and acquirers. If a merchant cannot avoid the higher IF rates on cross-border transactions through relocation (see paragraph 3.14), they can choose to pass on the higher card acceptance costs to their customers. They can pass on costs to all their customers or to specific customers. The latter depends on their ability to price differentiate.

3.22 Price differentiation refers to a merchant's ability to charge consumers different prices, in this case depending on where (in which country) their card is issued. In theory, a merchant could do this by offering different prices to consumers at the outset. At this stage, we have no evidence indicating whether this is happening or not.

3.23 Differentiation would allow merchants to pass on the impact of the higher IF rates in a targeted manner. This would happen if the merchant is able to identify, at point of sale, where a card is issued and then charge a different price relative to transactions involving cards issued elsewhere (domestically). In practice, this may not be possible as customers tend to only input their card details in the final stages of a transaction, after they've been given the price for the goods or services.

3.24 However, the country where a consumer is located could be a good enough proxy for where the card is issued. Related to this, one way online merchants could differentiate their prices is by using different versions of their website for different languages/countries. They could then present consumers with different prices, depending on the language and/or where the consumer is located (territorial pricing). Online merchants could use territorial pricing to reflect the now-increased cost of cross-border transactions.

3.25 If merchants cannot price differentiate, to the extent that this is possible to them they may try to pass a part of the increases to consumers by raising their prices for all their customers, regardless of where their cards are issued or indeed whether their payment option is card. This could mean a UK merchant raising prices for all its local UK customers as well as its international customers in the EEA (for outbound IF transactions), and vice versa.

3.26 We would particularly welcome stakeholder feedback on the possibility that price differentiation and territorial pricing may be occurring, also considering whether the ability of a merchant to do this may be constrained by, for example, any applicable rules on price surcharging or non-discrimination.

Impact on cardholders

3.27 As noted in paragraph 2.7, IFs represent a source of income to issuers. Increased IFs represent extra income to issuers who may pass some of this to cardholders.

3.28 Pass-through from issuers to cardholders (issuer pass-through), if any, could take the form of better terms on their card products – for example, card spend rewards. As the higher IF rates are on UK-EEA cross-border transactions, the higher revenue for issuers is sourced from merchants, via their acquirers, in the other region – EEA issuers get higher revenue from UK acquirers serving UK merchants and can pass some of this to their cardholders.

3.29 So, while in principle issuer pass-through could partly mitigate the merchant pass-through on consumers, in the UK-EEA cross-border transaction context this could not be the case. This is because the group of consumers that would be affected by the increases may not be the same as the group of cardholders that receives, if any, some rewards or benefits from the increases. More generally, any potential pass-through from issuers could be offset by higher merchant prices, as discussed in paragraph 3.25, when a merchant cannot price differentiate. We would welcome stakeholder views on this.

Impact on UK service users

3.30 Based on the above and focusing on the impact of the increases on UK service users, increased outbound IFs are likely to be affecting UK merchants, especially those who are not able to relocate. We also note that UK merchants (who are not able to relocate) selling to EEA customers may find themselves at a competitive disadvantage compared to EEA competitors selling to the same EEA customers. This is because the former would incur increased IFs while the latter would not.

3.31 UK consumers may also be partially affected by such increases, depending on the UK merchant's ability to differentiate prices. Where merchants cannot do this, increased outbound IFs are likely to result in increased prices for UK consumers too – even if the increases are related to EEA-issued cards.

3.32 Finally, for outbound IFs, we note that issuer pass-through, if any, would not benefit UK cardholders. Outbound IFs represent a source of income to EEA issuers and, as such, any issuer pass-through would not involve UK cardholders.

3.33 Increased inbound IFs are also likely to affect UK consumers. The impact of this depends on the EEA merchants' ability to price differentiate. However, the ultimate overall impact on UK service users is more ambiguous, as UK cardholders may receive some benefits on the issuing side.

4 Next steps

4.1 We welcome feedback on this working paper. We welcome your feedback in particular on areas set out below.

4.2 You can provide your comments in writing until **5pm on Thursday 19 January 2023. We would be interested in receiving your feedback and any supporting documents and information on:**

a. the broad set of issues discussed in this paper, including the way UK service users may be affected by the increases, and whether we have missed anything out

b. our observations on relocation practice as a way to mitigate increases in cross-border fees

c. our observations on price differentiation and whether the ability of a merchant to do this may be constrained by any rules on price surcharging

4.3 You can provide your comments in writing to cardfees@psr.org.uk or write to us at the following address:

Cross-border interchange fees market review team
Payment Systems Regulator
12 Endeavour Square London
E20 1JN

Disclosure of information

4.4 Generally, we will seek to publish views or submissions in full or in part. This reflects our duty to have regard to our regulatory principles, which include those in relation to:

- publication in appropriate cases
- exercising our functions as transparently as possible

4.5 We will not accept blanket claims of confidentiality. If you wish to claim confidentiality over specific items in your submission, you must identify those specific items which you claim to be confidential, and explain the basis on which confidentiality is sought. If you include extensive tracts of confidential information in your submissions, we will ask you to submit non-confidential versions.

4.6 We may nonetheless be required to disclose information marked as confidential in order to meet legal obligations.

4.7 This would be the case, for example, if we are asked to disclose confidential information under the Freedom of Information Act 2000. We will endeavour to consult you if we receive such a request under the Freedom of Information Act 2000. Any decision we make not to disclose information can be reviewed by the Information Commissioner and the Information Rights Tribunal.

4.8 In accordance with the legal framework in the Financial Services (Banking Reform) Act 2013 (FSBRA), we will not disclose confidential information that relates to the business or affairs of any person, that we receive for the purposes of our functions under FSBRA, unless:

- we have the consent of the person who provided the information and, if different, the person to whom it relates, or
- there is a 'gateway' permitting such disclosure. One of the gateways is the 'self-help' gateway, whereby the PSR will be able to disclose confidential information to third parties, to enable or help the PSR to perform its public functions. Where we disclose confidential information to a third party, we may impose restrictions on the further disclosure or use of the information by such parties.

4.9 You should note that information that is already lawfully publicly available or in such a form that it is not possible to ascertain from it information relating to a particular person (for example, if it is summarised, anonymised or aggregated) is not confidential information for the purposes of FSBRA.

4.10 We take our data protection responsibilities seriously and will process any personal data that you provide to us in accordance with the Data Protection Act 2018, the General Data Protection Regulation and our PSR Data Privacy Policy. For more information on how and why we process your personal data, and your rights in respect of the personal data that you provide to us, please see our privacy policy on our website, available here: https://www.psr.org.uk/privacy-notice.

Annex 1
Glossary

Term	Definition for the purpose of this working paper
Acquirer	A licensed payment service provider that contracts with one or more merchants to provide card-acquiring services for your card payment system.
Blended pricing contract	Pricing offered by acquirers to merchants for card-acquiring services, whereby for any given transaction the acquirer does not automatically pass through at cost the interchange fee applicable to the transaction.
Card-acquiring services	Services to accept and process card transactions on behalf of a merchant, resulting in a transfer of funds to the merchant.
Cardholder	A person who is issued a payment card and authorised to use that payment card.
Card-not-present transaction	Any card transaction that is not a card-present transaction. This includes card transactions made online and via mail order and telephone order.
Card payment system	A payment system that enables a holder of a payment card to make a payment.
Card-present transaction	A card transaction in which the cardholder is present at the outlet and presents the payment card.
Card transaction	A transaction carried out under a card payment system that results in the transfer of funds between a cardholder and a merchant. This includes purchase transactions, refunds and transactions related to the chargeback process.
Credit card	A card whose holder has been granted a revolving line of credit. It enables the holder to make purchases and/or withdraw cash up to a prearranged ceiling; the credit granted can be settled in full by the end of a specified period or can be settled in part, with the balance taken as extended credit. Interest may be charged on the transaction amounts from the date of each transaction or on the outstanding balance where it has not been settled in full.

Term	Definition for the purpose of this working paper
Cross-border transactions	Card transactions where the issuer and the acquirer are located in different countries or where the card was issued by an issuer located in a different country from that of the point-of-sale location (the merchant location).
Debit card	A card enabling the holder to have their purchases directly charged to funds in their account.
EEA acquirer	An acquirer who provides services to EEA merchants.
EEA cardholder	A cardholder whose card is provided by an EEA issuer.
EEA merchant	A merchant with at least one EEA outlet.
IC++ pricing contract	Pricing offered by acquirers to merchants for card-acquiring services, whereby for any given transaction the acquirer automatically passes on at cost the interchange fee and scheme fees applicable to the transaction.
Issuer	A licensed payment service provider that contracts with a cardholder to enable the latter to initiate a card transaction under a card payment system.
Merchant	Organisation that accepts card payments.
Payment system	A system which is operated by one or more persons in the course of business for the purpose of enabling persons to make transfers of funds.
Processing fees	All fees paid to a card scheme operator by customers for the processing of card transactions (the authorisation, clearing and settlement of purchase transactions) that arise as a result of them being party to any card transactions involving one or both of: a. Payments to (or from) a UK merchant b. Payments from (or to) a UK cardholder

Term	Definition for the purpose of this working paper
Scheme fees	All fees paid to a card scheme operator that arise as a result of customers being party to any card transactions involving one or both of: a. Payments to (or from) a UK merchant b. Payments from (or to) a UK cardholder For the avoidance of doubt, this definition: • Includes fees that are directly attributable to a card transaction as well as fees that are not directly attributable to a card transaction but are paid as a condition of participation in the payment scheme • Does not include fees directly attributable to card transactions at non-UK outlets, unless a UK cardholder was involved • Does not include processing fees and international fees
Scheme rules	All rules, policies, procedures, regulations and standards that relate to the operation and administration of your card payment system (whether published or not).
UK acquirer	An acquirer who provides services to UK merchants.
UK cardholder	A cardholder whose card is provided by an UK issuer.
UK merchant	A merchant with at least one UK outlet.

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