

Decision paper and further consultation

PSR regulatory fees

Decisions on the approach to the allocation and collection of PSR regulatory fees from 2018/19, and further consultation on related matters

March 2018

In this document we set out our decisions on a number of matters relating to our approach to the allocation and collection of regulatory fees for the Payment Systems Regulator (PSR). We also set out a number of proposals on related matters.

The fees are used to fund the PSR's functions under:

- the Financial Services (Banking Reform) Act 2013
- the Payment Card Interchange Fee Regulations 2015
- the Payment Services Regulations 2017

Some of the proposals in this document will affect the 2018/19 PSR fees and others will affect PSR fees in future years.

Please consider our proposals and send us your comments on the questions in this consultation paper by **5pm on 10 May 2018**.

You can email us at PSRfees@psr.org.uk or write to us at:

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You can download this consultation from our website:
www.psr.org.uk/psr-publications/consultations/CP-18-8-PSR-fees

We may publish all non-confidential responses to our consultation paper along with our final policy statement. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. Stakeholders who wish to claim commercial confidentiality in their response should identify those specific items that they claim to be commercially confidential by highlighting them in yellow.

We may, however, be required to disclose all responses, including information marked as confidential, to meet legal obligations. In particular, we may be required to disclose a confidential response under the Freedom of Information Act 2000. We will do our best to consult you in handling such a request. Any decision we make not to disclose a response is reviewable by the Information Commissioner and the Information Rights Tribunal.

Contents

1	Overview	4
2	The PSR regulatory fees consultation process and timeline	8
3	The PSR regulatory fees allocation method (Decision)	12
4	Other issues relating to the allocation of PSR regulatory fees (Decisions)	21
5	Other issues relating to the collection method of PSR regulatory fees (Decisions)	26
6	Further consultation issues about fees and refund	31
	Annex 1	
	Fees instrument making amendments to the existing PSR fees rules	40
	Annex 2	
	Draft fees instrument on the proposed amendments to the PSR fees rules for consultation	55
	Annex 3	
	List of consultation questions	64
	Annex 4	
	Compatibility statement	65
	Annex 5	
	Glossary	69
	Annex 6	
	List of respondents to CP17/44	76

1 Overview

Introduction

- 1.1** This document forms part of our review of our approach to allocating and collecting regulatory fees for the Payment Systems Regulator (PSR). In it, we set out our decisions on some of the questions we asked in our December 2017 consultation (CP17/44), and pose further questions for consultation.
- 1.2** When this document refers to 'we' or 'us', this means the Financial Conduct Authority (FCA) and the PSR jointly, although the fees rules in the FCA Handbook are made by the FCA.
- 1.3** We began this review because:
- a. Since the first year of PSR's operations in 2015, we have been using the same fees allocation and collection methodology, adapting it to accommodate new functions.
 - b. Following a number of submissions in response to the PSR regulatory fees consultations in previous years, we indicated in 2017 that we would review our current methodology for allocating and collecting PSR fees.
 - c. A number of significant changes in the payment systems landscape are on the horizon or have recently taken place. We therefore believe that now is the right time to consider whether our approach is still fit for purpose. These changes include, for example, the PSR's new functions under Payment Services Regulations (2017); changes to the governance of CHAPS; consolidation of three of the existing operators into the New Payment System Operator (NPSO); retail banking ring-fencing; and the proposed creation of the New Payments Architecture.
- 1.4** Therefore, in summer 2017, we began a review of our regulatory fees regime to identify a method of collecting and allocating fees that is simple, sustainable and proportionate. We published:
- a. our first consultation paper (CP17/30) in August 2017
 - b. our second consultation paper (CP17/44) in December 2017
- You can read more details of these documents in Chapter 2, Table 1.
- 1.5** In this document, we publish our decisions on:
- a. **our fees allocation method**, which we have consulted on in CP17/30 and CP17/44
 - b. further details of **our fees collection method** – in particular the provision of transaction data by operators, the verification of transaction data, the provision of contact details and the payment dates

Both of these will take effect from 2018/19.

- 1.6** We are also consulting on:
- a. **our approach to publishing the annual figures for PSR fees in the future**, including proposed amendments to the fees rules
 - b. **other policy issues we propose for 2019/20 fees** – these include an updated definition of relevant transactions for Cheque & Credit (C&C) to take into account the Image Clearing System (ICS), and alignment with the FCA on the collection of fees on-account
 - c. **proposed changes to the way we refund any future underspend** to align with the FCA, as a result of the change of collection method to direct billing, which will affect our treatment of the 2017/18 underspend
- 1.7** This consultation closes at 5pm on 10 May 2018.
- 1.8** Following this year-long review of PSR fees, which started in August 2017 and will end in summer 2018, we aim to have a fees allocation and collection method that will be sustainable and more predictable for fee payers.
- 1.9** Our intention is that we would not consult again in the future unless we propose any material change to our fees collection and allocation methodology.¹

Background to the PSR's powers and funding

- 1.10** Every year, the PSR receives regulatory fees (PSR fees) from fee payers. We levy these fees to fund the PSR's operations to perform its functions under relevant legislation. These include functions under and as a result of:
- the Financial Services (Banking Reform) Act 2013 (FSBRA)
 - the Payment Card Interchange Fee Regulations 2015 (PCIFRs)
 - the Payment Services Regulations 2017 (PSRs 2017)
- 1.11** In CP17/30, we set out our powers under FSBRA, the PCIFRs and PSRs 2017. We also set out the FCA's fee-raising powers in relation to PSR fees. More details of this can be found in Chapter 1 of CP17/30 (paragraphs 1.12 to 1.29).
- 1.12** We consulted on our approach to fees in relation to the PSR's PSRs 2017 functions. More details of the decision can be found in Chapter 5 of CP17/44 (paragraphs 5.7 to 5.10).

¹ This is consistent with our approach in the past, which is set out in paragraphs 1.4, 1.12 and 1.25 in CP16/35 and paragraph 3.24. in CP17/9.

The structure of this publication

1.13 This document is structured as follows:

- **Chapter 1** is this overview.
- **Chapter 2** describes our fees consultation plan and the future annual timetable for data and fees collection.
- **Chapter 3** sets out our confirmed approach to fees allocation.
- Chapter 4 sets out our confirmed approach to issues relating to fees allocation, which we consulted on in CP17/44.
- **Chapter 5** sets out our confirmed approach to issues relating to fees collection, which we consulted on in CP17/44.
- **Chapter 6** describes a number of consultation questions relating to our approach publishing annual figures for PSR fees, fees collection and underspend.

Who should be interested in this consultation?

1.14 This consultation will be of interest to:

- participants in regulated payment systems under FSBRA
- regulated persons under the PCIFRs
- regulated persons under the PSRs 2017

1.15 This consultation contains no material directly relevant to retail financial services consumers or consumer groups (although financial services consumers may pay for fees indirectly).

What do you need to do next?

1.16 If you are a fee payer:

- a. You will be required to pay PSR fees that are determined by the allocation method set out in this document, and in the FCA Handbook rules in FEES 9, typically around spring/summer every year.
- b. Where relevant, you may want to verify your firm's contact information and transaction date with the operators of your payment systems before they submit the data to us by 1 March, as we have set out in Chapter 5, paragraphs 5.1 to 5.6.
- c. You may also be required to pay part of your PSR fees earlier in the year (that is, on-account) if you meet the requirement set out in FEES 9. The way that is calculated is specified in those rules.

1.17 If you are a payment system operator, you will be required to provide the PSR and FCA with the relevant transaction data and the contact details of the relevant payment services providers by 1 March every year. This is set out in the FCA Handbook rule in FEES 9.2.4DR.

- 1.18** If you would like to respond to the consultation, please consider our proposals and send us your comments on the questions in this paper by **5pm on 10 May 2018**. You can email us at PSRfees@psr.org.uk or write to us at the postal address on the reverse side of the front cover.
- 1.19** We may publish all non-confidential responses to our consultation paper along with our final policy statement. More information on how we treat the responses can be found on page 2.

2 The PSR regulatory fees consultation process and timeline

The fees consultation process

- 2.1** To enable us to consider fully the options and proposed rule changes in our review of our regulatory fees regime, we published:
- a. our first fees consultation in August 2017 (CP17/30)
 - b. our second fees consultation in December 2017 (CP17/44)
 - c. our third fees consultation in March 2018 (this document)
- 2.2** We expect to issue a policy statement in summer 2018.
- 2.3** Table 1 provides an overview of the fees consultation timeline. The timeline is only indicative and will depend on the outcome of this consultation and other factors. We will publish further details if the timeline changes.

Table 1: Timeline for consultation and decision of this PSR fees review

August 2017	<p>First consultation paper published (CP17/30). This included consultation on:</p> <ul style="list-style-type: none"> • proposed changes to the PSR’s approach to fees collection and the relevant draft amendments to the PSR fees rules in the FCA Handbook, FEES 9 • the guiding principles and high-level policy options on the PSR’s approach to fees allocation and calculation • related issues
September 2017	<i>First consultation closed</i>
December 2017	<p>Second consultation paper and policy statement published (CP17/44). This included:</p> <ul style="list-style-type: none"> • our response to stakeholders’ submissions to the August consultation • a decision on the consulted changes to PSR fees collection and the relevant draft amendments to the PSR fees rules in the FCA Handbook, FEES 9 • consultation on further draft amendments to FEES 9 to enable the change in the collection method • consultation on our proposed PSR fees allocation method and the corresponding draft amendments to FEES 9 • a decision on other related policy issues that we consulted on in August, including our approach to PSRs 2017 (as a result of PSD2) and ring-fenced payment service providers (PSPs) • further consultation on related issues, such as minimum transaction thresholds and the scope and definitions of relevant transactions, as well as the corresponding draft amendments to FEES 9
January 2018	<i>Second consultation closed</i>

March 2018**Third consultation paper and policy statement published**

(this document):

1. Decision on our fees allocation and collection method (Chapters 3-5), including:

- our response to stakeholders' submissions to the December 2017 consultation
- our decision on the proposed changes to PSR fees allocation method and related policy issues, as well as the draft amendments to the PSR fees rules in FEES 9
- our decision on the further draft amendments to FEES 9 to implement the new fees collection method, following the decision to implement direct billing in December 2017

2. Annual fees information (Chapter 6), including:

- consultation on our proposed approach to publishing the annual figures for PSR fees in the future
- publication of the PSR fee information for 2018/19 that are relevant for the new fees allocation method

3. Further consultation on fees-related matters (Chapter 6), including:

- our approach to on-account fees collection for 2019/20, and the corresponding draft amendments to FEES 9
- a definition of relevant transactions from 2019/20 onwards, and the corresponding draft amendments to FEES 9
- our approach to refund in the event of an underspend in future, including our approach to the refund of the 2017/18 underspend

May 2018

Third consultation closes

Summer 2018**Policy statement:**

- A decision on **matters we consulted** on in the March consultation.
-

The annual timeline for data provision and fees collection

- 2.4** Following this consultation round, which will close with a policy statement published in summer 2018, we intend to enter into a business-as-usual state for fees collection. This means stakeholders will not need to consider significant changes to our fees methodology every year – as they have done in the past.
- 2.5** Table 2 sets out our expected annual fees collection timeline. This includes the timings for when:
- payment system operators** should submit the relevant transaction data and contact details to the PSR and FCA
 - the PSR** will publish the annual figures for PSR fees for that fee year
 - fee payers** can expect to pay the PSR fees, after receiving an invoice from the FCA

The shaded rows show what different firms are required to do each fee year.

Table 2: Timeline for PSR fees collection and data provision for each fee year (from 1 April to 31 March of the following calendar year)

January to March	<p>The FCA sends eligible fee payers invoices for on-account PSR fees for the next fee year starting on 1 April. These on-account fees are based on the fee payers' fees for the fee year ending on 31 March.</p> <p>These fee payers pay on-account fees by 1 April.</p>
By 1 March	<p>Operators submit transaction data of the previous calendar year and relevant contact details to the PSR and the FCA by 1 March.</p>
By the end of March	<p>The PSR publishes the annual PSR fees information for the fee year starting on 1 April, using:</p> <ul style="list-style-type: none"> PSR's annual funding requirement for the relevant fee year transaction data submitted to the PSR/FCA by operators (see above)
Summer	<p>Subject to the result of this consultation, the FCA amends FEES 9 rules in the FCA Handbook to reflect the annual PSR fees figures published in March (see Chapter 6).</p>
May to August	<p>The FCA prepares and sends all fee payers invoices for the remainder of PSR fees for that financial year.</p> <p>All fee payers pay the balance of PSR fees for that fee year by 1 September. This is their PSR fees less any on-account payments made (see above).</p> <p>Where relevant, some fee payers may receive a rebate for fees paid for the previous fee year (subject to the result of this consultation – see Chapter 6).</p>

3 The PSR regulatory fees allocation method (Decision)

In CP17/30 and CP17/44, we consulted on our guiding principles and proposed allocation method. We believe that the proposed allocation method is more proportionate, simple and sustainable compared with the existing fees allocation method.

In this chapter, we set out:

- a. the precise allocation method that we consulted on in CP17/44
 - b. a summary of stakeholders' responses we received, and our response to them
 - c. our decision on the fees allocation method, which will take effect from 2018/19
-

What we asked in CP17/44

- 3.1** Under the existing method², the PSR allocates its overall annual funding requirement (AFR) to two pots (FSBRA and IFR), based on a decision we make every year about what the appropriate ratio should be. Within each pot, the allocated amount is broadly equally split across the relevant payment systems, although there are exceptions. The amount allocated to each system is then further split to the relevant PSPs in that system according to their transaction volumes, so each PSP gets allocated an amount of PSR fees for that particular system. PSPs that directly participate in more than one system would need to add up their allocated amounts for each system to get their total PSR fee for that year. Stakeholders have said this is unnecessarily complex, and can lead to disproportionate outcomes in light of industry changes.
- 3.2** In the December consultation (CP17/44), we built on responses to our August consultation (CP17/30). We proposed a method that allocates PSR fees by the total volumes and values of a fee payer's relevant transactions across the regulated payment systems relative to other fee payers.

² To see a description of that fees allocation method, see CP17/44 Annex 2

- 3.3** In particular, we would assign the PSR overall AFR, the PSR's projected spend for a particular year, to two blocks – the transaction volume block and the transaction value block – **at an 80:20 volume-to-value ratio**.³

We would work out each fee payer's fees liability using the formula below:

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

- 3.4** We would provide every year the updated figures for the following variables:

- a. the PSR's AFR
- b. the sum of all fee payers' transaction volumes across all systems
- c. the sum of all fee payers' transaction values across all systems

These annual figures would provide transparency to the fees process and allow a fee payer, should they wish, to independently check its PSR fee that year, using its own transaction volumes and values data (highlighted in the box above).

- 3.5** Under our proposal, there would be two broad groups of PSR fee payers:

- a. PSPs that are direct participants in any of the PSR-regulated payment systems ('direct PSPs'). Each would pay an amount of PSR fees based on their transactions processed through those systems relative to all fee payers' transactions in those systems combined.
- b. Operators that also act as PSPs, which we would continue to treat as PSR fee payers. Each would pay an amount of PSR fees based on the transactions in its system relative to all fee payers' transactions in all PSR-regulated payment systems combined.

³ To see a more detailed discussion of why we proposed this ratio in the December consultation, see CP17/44 Chapter 4, paragraphs 4.24-4.26.

- 3.6** PSR fees would continue to be out of scope for VAT for the above groups. This is possible because we would continue to allocate fees to direct PSPs only (or operators acting as such), instead of allocating fees to the operators of the relevant payment systems who would then pass on the regulatory costs to PSPs.
- 3.7** We would continue to allocate PSR fees to direct PSPs and not to PSPs that access those payment systems through other PSPs ('indirect PSPs'). The indirect PSPs' transactions would be counted as belonging to the direct PSPs that provided the access.
- 3.8** A more detailed discussion of the allocation method can be found in Chapter 5 of CP17/30 and Chapter 4 of CP17/44.
- 3.9** We said we would use our guiding principles set out in CP17/30 and CP17/44 to determine our fees allocation methodology. The principles are:
- a. **Proportionality in relation to the allocation outcomes:** The fee allocation options we propose should take into account (i) the fee payers' frequency in using the regulated payment systems; (ii) the economic benefit they derive from using the systems; and (iii) the size of the fee payers.
 - b. **Simplicity and efficiency of the allocation process:** The process of fees allocation should be easy to administer and the allocated amounts easy to understand.
 - c. **Sustainability and long-term stability of the allocation method:** Our fees process should be sustainable and predictable, and not subject to frequent incremental changes. The method and rules should be flexible enough to run on a business-as-usual basis without the need for annual adjustment. It should be able to sustain any change we may see in the industry.
 - d. **Impact on competition of the allocation result, if any:** The chosen allocation method should have a minimal impact on competition, including the competition between payment systems as well as the competition further downstream (that is, between PSPs).

Summary of stakeholder responses

- 3.10** CP17/44 closed on 26 January 2018. We received 15 responses.
- 3.11** Most respondents supported the specific allocation method we proposed:
- Seven respondents agreed with our proposed method at a ratio of 80% transaction volume to 20% transaction value.
 - Two agreed with the use of transaction value for allocation, but thought it should be given a higher weighting than 20%.
 - Three disagreed with the use of transaction value as a variable.
 - Two opposed any option that increases the PSR fees for LINK members, especially independent ATM deployers.⁴
 - One respondent had no comment to make on the allocation method.

⁴ Our expectation is that their fee liability would decrease based on our calculations.

3.12 Those who agreed with the proposed allocation method gave the following reasons:

- a. The existing allocation method has an unnecessary level of intermediate focus at the payment system level, and there is no good reason for allocating equal amounts to each system.
- b. Transaction volume alone is insufficient as a variable for determining the fees for each fee payer. This is because some PSPs' businesses rely on high-value transactions at low volumes. These PSPs benefit just as much from PSR regulation and reliable functioning of payment systems as PSPs whose businesses rely on high volumes of low-value transactions.
- c. It is appropriate for transaction value to have less weighting relative to transaction volume, given the latter is a more significant proxy for the use of a payment system.
- d. There is a degree of arbitrariness in the exact volume-to-value ratio. However, respondents noted that the PSR has done the modelling using transaction figures, and appreciated that the proposal has been carefully calibrated to balance proportionality with simplicity. They noted the 80:20 ratio as being a reasonable compromise.
- e. Some respondents who supported the method acknowledged that neither volume nor value necessarily equate with benefit, but they also noted the simplicity and proportionality of the proposed method.

3.13 Those who disagreed with the proposed allocation method gave the reasons below. We were already aware of most of them from the August consultation, and have provided our response in the December consultation paper.

3.14 Transaction value is not given the right level of weight.

- a. Some stakeholders said that the weighting given to transaction value is too low, as some firms benefit significantly from processing high-value transactions.
- b. Others expressed an opposing view and said that transaction value should not be given any weighting at all, as transaction volume adequately reflects the frequency of a PSP's usage of the system and the overall benefit gained. Also, the differences in transaction values can be very large.

Our response

- a. Transaction volume alone is too crude a measure to capture the benefit that a PSP gets from PSR regulation. It does not take into account the different characteristics of each PSP and each system or the transactions they process. PSPs whose businesses rely on processing low-volume, high-value transactions can benefit just as much from the reliable functioning of payment systems as can other PSPs.
- b. However, transaction volume should be given a heavier weighting than transaction value. Transaction volume is a stronger indicator of the fee payers' use of the systems. This has been supported by a number of respondents to our August consultation.
- c. We would only apply a relatively small weighting for transaction value (20%). This is, in part, because we acknowledge that differences in transaction values can be large.
- d. Any adjustment to the value-to-volume ratio will inevitably create 'winners' and 'losers'. A volume-only formula will place a bigger burden on participants with high transaction volumes. A formula that places higher emphasis on transaction value, on the other hand, will place a bigger burden on participants with high transaction values.
- e. We note that respondents that support higher weighting to transaction value tend to process relatively lower-value transactions. Respondents that support lower weighting to transaction value tend to process relatively higher-value transactions.

3.15 The current method is well understood, clear and simple. Any change would create more complexity for participants.

Our response

- a. As we have explained in past consultations, our proposed approach is simpler and more direct than the current method. It removes the arbitrary equal split at system level, before the fees are distributed in each of the payment systems we regulate on the basis of the transaction volumes of the relevant PSPs.
- b. It is also more sustainable in light of the ongoing and anticipated changes in the payments industry. It is proportionate because it takes into account more accurately the market share of, and benefits received by, participants.

3.16 Fees should take into account the amount of regulatory oversight, rather than a notion of fee payers' 'benefit'. Consumers and merchants benefit from PSR's regulation but they pay no PSR fee. Also, fluctuations in fees as a result of shifts in oversight should not be seen as a risk and are not a reason to oversimplify fees allocation.

Our response

- a. As we have explained in CP17/30 and CP17/44, as well as previous fees publications, our work, including regulation focused on a particular issue, benefits the entire industry. Any form of fee allocation methodology based on specific regulatory costs would not reflect that.
- b. We maintain that firms that process more payment transactions and benefit from payment systems more should pay higher PSR fees compared with firms that process fewer transactions or transactions of lower value.
- c. While the respondent may not see significant fluctuations in PSR fees as a risk, other fee payers may not agree. They may value some predictability and a transparent basis for working out their regulatory fees.

3.17 The use of transaction values in fees allocation could affect interbank movement of sterling between wholesale banks. PSPs with high values already incur costs of ensuring adequate liquidity provisions.

Our response

- a. Under the proposed change, our fees on a per-transaction basis would continue to be low relative to the transaction value of each high-value payment between wholesale banks.
- b. We note that regulatory fees may affect the behaviour of participants, no matter how low they are. However, on the basis that PSR fees are relatively small, we think they are unlikely to affect behaviours to an extent that would pose material threat to any of the regulatory principles and considerations we consider relevant. We set these out in our guiding principles and the compatibility statement in Annex 4.
- c. Also, based on our understanding, PSR fees are relatively low compared with both the fees of other regulators and the operating cost of the wholesale banks that process high-value transactions.

Decision on the fees allocation method

- 3.18** We have considered the responses to CP17/44, most of which reflected similar arguments made in response to our August consultation.
- 3.19** Taking these responses and our guiding principles into account, we have decided to implement our proposed allocation method. We remain satisfied, and our internal analysis has confirmed, that this allocation method best fits our guiding principles.
- a. The previous method is no longer fit for purpose because of the number of regulatory and industry developments. If left unchanged, the arrangement would cause disproportionate outcomes for fee payers.
 - b. An allocation method that determines a fee payer's PSR fees based on its transaction volumes and values meets our principle of proportionality. It recognises the differences among the fee payers and their use of the systems in a simple and efficient manner. It broadly follows the principle that fee payers should pay more if they use payment systems more frequently or if they benefit to a higher degree from using them.
 - c. The proposed method is simple to use, as it determines the fees allocation for all fee payers by directly comparing their transaction volumes and values. The previous method was much harder to understand and administer, as each fee payer had to calculate its PSR fees in multiple separate components, each with reference to that fee payer's activities in a different payment system.⁵
 - d. The proposed methodology is also more sustainable compared with the previous method. We will not need to amend the method if the number of payment systems changes or if our remit alters. Instead, those falling in or out of scope of our regulation can be automatically reflected in our fees allocation without a need to change the methodology. This represents a significant benefit compared to the previous method, which required us to make changes to our allocation method and rules every year since the PSR's first year of operation. This also means that stakeholders would no longer have to respond to proposals for, and learn, new rules every year.
 - e. There is a certain degree of judgement with any possible method of fee allocation, including the determination of the volume-to-value ratio. An 80:20 ratio recognises that transaction volumes are used more frequently in allocating costs involved in running payment systems. It also acknowledges that differences in transaction values among fee payers may not always proportionately reflect the relative benefits experienced by the same fee payers. If any material change in the industry means that the 80:20 ratio is no longer appropriate, we will consult the industry again on changing the ratio to reflect an appropriate balance.

⁵ For example, to calculate its total annual PSR fee, a PSP that directly accesses seven FSBRA-designated systems (that is, Bacs, CHAPS, C&C/NICC, FPS, and Link, Mastercard and Visa) needed to calculate 7 components of PSR fees under the FSBRA pot (each with reference to one designated system), and 2 components of PSR fees under the IFR pot (one with reference to Mastercard and one with reference to Visa), before the component fees were then added together to form the total.

- f. We are satisfied that continuing to allocate PSR fees to direct PSPs remains the right approach. Allocating PSR fees to indirect PSPs can be extremely complex. This is because while there is only one direct PSP on each side of a transaction (for example, the sending and receiving sides), there could be multiple indirect PSPs on each side of a transaction. This is because each indirect PSP could be processing a transaction on behalf of another indirect PSP. In most cases, it is difficult to identify which PSPs are at the ends of each transaction (that is, the PSP that 'originated' that transaction and the 'final' PSP that received it). Furthermore, while operators can identify the direct PSP that processed each transaction, they cannot easily identify the indirect PSPs involved. Direct PSPs are much easier to identify and those that provide indirect access can decide if they will pass on the regulatory cost and, if so, how.

3.20 The details of how we will calculate the fee for each PSR fee payer is in FEES 9 Annex 1R, which is included in Annex 1.

3.21 This change will take effect in 2018/19. The FCA will send invoices based on the new allocation method from summer 2018. More details of the fees collection timetable can be found in Chapter 2, Table 2.

3.22 There are a number of decisions and further consultation questions relevant for fees allocation, such as the scope and definitions of relevant transactions. More details of these discussions can be found in Chapters 4 and 6.

4 Other issues relating to the allocation of PSR regulatory fees (Decisions)

In this chapter, we consider a number of proposed changes relevant for the PSR fees allocation method. We asked stakeholders about these in Chapter 5 of CP17/44 (paragraphs 5.11 to 5.28).

In particular, we discuss submissions from respondents and our decisions on the:

- scope of relevant transactions
 - definitions of relevant transactions
 - minimum thresholds for fees allocation and collection
-

Scope of relevant transactions for fees allocation

4.1 Under our previous fees allocation method, some fee payers would pay PSR fees under the FSBRA and IFR pots. The 'scope' of the relevant transactions for the same scheme was different in the two pots:

- a. Within the FSBRA pot, the scope of relevant transactions took into account all transactions where there was a UK element ('FSBRA scope').
- b. Within the IFR pot, the scope of relevant transactions took into account only intra-EEA transactions where there was a UK element ('IFR scope') – this is a subset of the FSBRA scope.

4.2 In CP17/44, we asked stakeholders if they agreed with our proposal about the scope of relevant transactions (paragraphs 5.11 to 5.14), in the event that we proceeded with the proposed fees allocation method, which does not split PSR fees into separate pots. In particular, we proposed to use the following approach to decide what the scope of relevant transactions should be for each regulated payment system:

- a. If a payment system is designated under FSBRA, the FSBRA scope is used. This covers any designated system that we also regulate under other legislation. For example, if we regulate a system because of its exposure to both FSBRA and PCIFRs, we would include all relevant transactions under the FSBRA scope for that system.
- b. If the payment system is not designated under FSBRA, the scope of relevant transactions would be dependent on the legislation that brings the system under our regulation. For example, if we regulate a card scheme only because of its exposure to PCIFRs, we would only include the relevant transactions under the 'IFR scope' for that scheme.

This proposal is now relevant as we have confirmed that we will proceed with the proposed allocation method (see Chapter 3 of this document).

4.3 Most respondents agreed with our proposed approach to the scope of relevant transactions. Disagreements focused on the fees allocation method, rather than our proposed treatment of the scope of relevant transactions. You can find more detail about the responses in Chapter 3.

4.4 Therefore, we will use the proposed scope of relevant transactions as set out in paragraph 4.2 in our new fees allocation method.

Definition of relevant transactions for fees allocation

4.5 In CP17/44, we asked stakeholders if we need to change the definitions of relevant transactions for each regulated payment system for the purpose of allocating fees, in line with our proposed changes to the allocation method.

4.6 Most respondents agree with the existing definitions. However, the following points were raised:

4.7 The relevant transactions for the Northern Ireland Cheque Clearing (NICC) system should not include USD and EUR-denominated transactions. This is because the operator is planning to close down the EUR transaction system and currently has no USD clearing.

Our response

- a. In CP17/44, we indicated that we would need to consider the definition of relevant transactions for the NICC. This is because we would require the 2017 transactions through NICC to calculate the relevant 2018/19 PSR fees using the new fees allocation method. The reason we needed to change the NICC definition of transactions is because so far we have used shareholding in the scheme to allocate fees. Now fees will be allocated on the actual number and value of transactions processed through the system.
- b. The NICC and Cheque & Credit (C&C) systems currently enable very similar transactions. They should therefore be treated consistently, including their definitions of relevant transactions. We currently include USD and EUR-denominated transactions for the C&C system. If there is no USD or EUR transaction in the NICC system in any given year the operator could show them as nil returns.
- c. Therefore, we will keep the USD and EUR-denominated transactions in scope for the NICC system as we introduce the definition of relevant transactions for that system, which is necessary for the new allocation method. This is despite the fact that definition for the NICC system is likely to be relevant only in the short term, given the plans to close that system.
- d. The transactions that are currently processed by NICC will in the future be processed by the C&C system. We are proposing to amend the definition of relevant transactions for the C&C system in our rules (see below).

4.8 PSR fees need to include transactions in the Image Clearing System (ICS).

Our response

- a. The ICS forms part of the C&C designated payment system.⁶ We have considered whether it may be necessary to amend the definition of relevant transactions for the C&C system in our fees rules to ensure that transactions processed through the ICS do not inadvertently fall out of scope of PSR fees.
- b. We are of the view that the existing definition of C&C already covers all transactions that will be processed through the ICS. However, the wording in our rules can be refined to provide clarity to fee payers. We are therefore consulting on a proposed amendment to the definition of relevant transactions for the C&C system. You can read more about this in Chapter 6, paragraphs 6.12-6.19.

⁶ The designation order for the C&C system was amended on 19 December 2017 to show that the designation covers the processing of images of cheques and those of other paper instruments. See www.gov.uk/government/uploads/system/uploads/attachment_data/file/669581/CC_Order.pdf

4.9 Government transactions should be excluded because they massively distort the transaction volumes for a particular PSP. They are out of scope for debit caps set by operators for using payment systems. The Bank of England used to undertake the processing of such transactions, and therefore they should not be included for PSR fees.

Our response

- a. We do not agree that those transactions should be excluded. There is no justification to exclude them only on the basis that they are government transactions. In taking up a contract in relation to government transactions, the PSP has taken on the cost of processing those transactions, including the regulatory costs that such an undertaking may incur.
- b. If we exclude these transactions, the PSPs that took on the contract to process government transactions would benefit from not having to pay regulatory fees for those transactions. Other PSPs would have to pay additional amounts associated with the exemption.

Minimum thresholds for fees allocation and collection

4.10 In CP17/44, we also proposed to implement rules that allow the FCA to decide, in conjunction with the PSR, if it is efficient and proportionate to collect a small fee from a PSR fee payer.

4.11 The reason for this proposal is to:

- a. ensure consistent treatment of PSPs across all regulated payment systems (as the current threshold applies only to members of card systems)
- b. rationalise the process following the change to direct billing, as operators are no longer required to collect PSR fees on our behalf
- c. take into account the fact that some PSR fee payers will already be paying other fees on their FCA invoice (and therefore the 'efficiency' argument for not collecting PSR fees from them because the PSR fees fall under a 'fixed' threshold may not apply)

4.12 In making the proposal we noted that:

- a. the redistribution as a result of this rule is unlikely to be more than 0.005% of the annual funding requirement or overall fees
- b. the FCA already applies a similar rule when it collects the levy for the Financial Services Compensation Scheme

4.13 Most respondents agreed that the cost of collection must not be more than the fees owed. They said fees must not be collected where it is inefficient to do so.

4.14 One respondent said that it would have no problem with the proposal as long as the redistribution is in line with the estimate of 0.005% of overall fees. Another suggested the need for visibility of the actual amount that will be redistributed to the remaining fee payers every year.

- 4.15** There was also a suggestion that we should make clear the actual minimum threshold for that year, so firms would know if they needed to pay PSR fees or not. However, under our proposal there would not be a fixed threshold for PSR fees across all fee payers.
- 4.16** Therefore, taking into account the submissions made, we have decided to remove the existing minimum thresholds for PSR fees. The thresholds were set out in FEES 9.2.1A – C R, and were applicable for members of a card scheme that realised fewer than 100,000 transactions or had a PSR fee of less than £50. These thresholds do not apply consistently to all PSR fee payers. They also create inconsistent outcomes for fee payers who already pay other fees to the FCA.
- 4.17** Instead, we will implement the rules we proposed in CP17/44. These will give discretion to the FCA, in consultation with the PSR, to determine whether it is efficient to collect PSR fees from fee payers whose total fees are very low.
- 4.18** The PSR will work with the FCA to establish the total amount of fees redistributed to other fee payers.
- a. This is so we can monitor over time if we need to introduce an exact minimum threshold and keep the process transparent, despite the loss of the benefits of the proposed rules as set out in paragraph 4.11c.
 - b. It may also be possible for the PSR to publish that number depending in part on when the FCA would be able to give it the data.

5 Other issues relating to the collection method of PSR regulatory fees (Decisions)

In CP17/44, we published our decision to implement direct billing, following a consultation on that proposal in CP17/30.

The decision meant that the relevant payment system operators were no longer required to collect PSR fees from PSPs on our behalf. Instead, we would directly invoice all fee payers, including PSPs. All respondents to CP17/30 supported the proposed change.

In this chapter, we consider a number of changes we proposed in CP17/44 that are necessary to enable direct billing. The questions can be found in Chapter 3 of CP17/44 (paragraphs 3.19 to 3.21).

In particular, we discuss submissions from respondents and our decisions on the:

- verification of transaction data
 - date of supply of transaction data
 - supply of PSP contact details
-

Verification of transaction data

5.1 In CP17/44, we asked stakeholders two questions about verifying transaction data.

5.2 First, we asked whether they were aware of any issues with the accuracy of the transaction data that payment system operators supplied to us for calculating PSR fees.

Most were not aware of any existing issues about the accuracy of data, but some PSPs said they have experienced the need to challenge operators on the accuracy of transaction data.

- 5.3** Second, we asked if they agreed with our proposed guidance within the fees rules that PSPs and operators should undertake a verification process before supplying data to us. Respondents were generally supportive of the idea of verifying transaction data:
- a. One operator thought there is no need for any data verification process.
 - b. However, most PSPs recognised the value the process would bring, and supported the transparency this would add.
 - c. Some PSPs said there should not be a requirement for them to verify, but that they should have the option to check the transaction data that operators supply to us, if they wished.
 - d. One respondent wanted us to go further and set up a dispute resolution mechanism to resolve disputes over transaction data between a PSP and operator.
 - e. One respondent wanted us to more precisely set out the process and timing, and the responsibilities of the parties.
- 5.4** As there is support for implementing this process, and recognising the transparency it brings, we have decided to proceed with the rules and guidance we proposed in CP17/44 (Annex 4 of that document). But we have made minor changes to clarify what we expect the parties to do, as a result of the comments we received.
- 5.5** In particular, we have refined the relevant provision so that operators should confirm with the relevant PSR fee payer the accuracy of the data it proposes to submit only if requested by that fee payer (see FEES 9.2.4GG in Annex 1). PSPs will not be required to verify the data where they do not wish to do so.
- 5.6** We do not intend to set up a new dispute resolution mechanism. We will rely instead on existing processes. Operators and PSPs can manage any dispute over transaction data, as the data is used for other purposes such as scheme fees, managing transaction caps and reporting.

Date of the supply of transaction data

- 5.7** In CP17/44, we proposed that operators should provide transaction data to the PSR and the FCA for the previous calendar year by 1 February each year. We use the transaction data to calculate annual fee figures applicable for PSR fees (i.e. the denominators for the volume and value blocks), as well as the PSR fees for individual fee payers.
- 5.8** While some operators said they can submit the transaction data by 1 February, others told us that the change would not give them sufficient time to collect and audit the data. They asked that the due date for the provision of transaction data be 1 March.
- 5.9** We consider that if operators can provide us the data by 1 March, this will not materially affect our ability to use the transaction numbers to calculate the denominators and publish them in time for stakeholders to plan ahead.
- 5.10** Therefore, we will set the due date for operators to submit transaction data at 1 March, instead of 1 February (FEES 9.2.4DR(2)(a) in Annex 1).

Supply of contact details

- 5.11** In CP17/44 we proposed that payment system operators should be required to provide us with contact details for PSPs that are their direct members and are due to pay PSR fees. This includes all PSPs that processed UK-based transactions through the system in the relevant year.
- 5.12** The contact details required would be confined to either that which is 'in the operator's possession' or to which it has 'reasonable access'.
- 5.13** This proposed requirement is necessary for us to implement direct billing, as we would need to reach out to the PSPs to collect fees from them directly. This is particularly important where we do not already have the contact details for the relevant fee payers, or when there is a new PSR fee payer.
- 5.14** Most respondents did not highlight any problems for operators to supply contact details of their member PSPs. This includes most operators that responded to this question.
- 5.15** As we would need a way to contact PSPs to enable direct billing, we will implement the proposal requiring operators to provide contact information of direct PSPs eligible for paying PSR fees. The exact rules that will be implemented are detailed in Annex 1.
- 5.16** We note:
- a. We do not expect operators to obtain the required contact details from the same PSPs every year or re-confirm that all the contact details are up-to-date. This is because the contact details for most PSPs are unlikely to change from year to year, and once the FCA has established contact with them directly, it will have some ability to track any change in their contact information.
 - b. However, we expect operators to provide updated information in their annual submission to us if they become aware of any change to the relevant PSP's contact details.
 - c. We also expect operators to provide the contact information on new direct participants to their system.
 - d. We will get in touch with individual operators where we encounter difficulties in contacting or invoicing any particular PSPs.
- 5.17** We have already reached out to operators to get the contact details to start the process of direct billing for 2018/19.

5.18 One operator said in its response to CP17/44 that, while it supports direct billing, it is unable to provide the requested contact details of the PSPs in its system because it does not hold that information.

Our response

As part of transferring responsibility for invoicing PSPs from payment system operators to us, we need the operators to pass to us some of the contact details of those PSPs. This is so we can identify the correct fee payers and send invoices to the correct addressees.

We acknowledge that operators may not already have possession of all the information on its PSPs listed in FEES 9.2.4DR(1)(b), but we think in most cases they should have reasonable access to the information.

In particular, we believe that operators should have the contact details of their scheme members (that is, the PSPs) or the ability to communicate with their members to obtain those details. This is because operators would need a channel of communication with those members to effect the original onboarding of the members onto the payment system, notify them whenever there is a change in their scheme rules or business relationships, fulfil any contractual or statutory obligations, and contact and invoice their scheme members on our behalf (as in previous years under the indirect billing approach).

Exceptionally, there may be an instance where an operator is not be able to provide all the contact details we have asked for, but the incomplete information may nonetheless be sufficient for us to start contacting PSPs to enable direct billing. In those cases, we will monitor developments, and may ask the relevant operators to provide more information later on if we cannot establish direct contact with their scheme members.

However, where an operator cannot provide the information we have asked for and, as a result, we have insufficient information to enable direct billing, the PSR will consider the appropriateness of issuing a specific direction to that operator and other relevant parties. That direction may require, among other things, the operator to put in place arrangements so it will be able to obtain the relevant contact information from its members, in order to enable the implementation of direct billing.

5.19 In CP17/44, we proposed to require operators to provide 'all relevant information', and provided guidance on what that information could include elsewhere in the draft instrument (Annex 4 of CP17/44). However, that left some degree of ambiguity about what 'relevant information' means. Therefore, to provide clarity, we will list in FEES 9.2.4DR(1)(b) the particular types of information that would help us to identify and invoice the correct fee payer (see Annex 1 of this document). They include:

- a. **PSP's legal entity name (and FCA firm reference number where relevant):** This is so the FCA can match PSR fee payers with the FCA's database of its own fee payers, and ensure that PSR fees are charged to the right firms.
- b. **Its billing address:** This is so we can send an initial correspondence and include the correct billing addresses in invoices.
- c. **The relevant named point of contact:** The firm (PSP) point of contact that the FCA currently uses may not be aware of the existing PSR fees that are levied on their firms. Having the named points of contact at the PSPs who already deal with PSR fees would help us to move the PSR-fee invoicing relationship from the payment system operators to us more quickly.
- d. **Any other information** that in the opinion of the operator will help us to issue invoices to the relevant fee payer.

6 Further consultation issues about fees and refund

In this chapter, we consider and consult on:

- our approach to publishing the annual figures for PSR fees in future
 - the annual figures for 2018/19 PSR fees
 - updating the definition of relevant transactions of the Cheque & Credit (C&C) system to include transactions processed through the Image Clearing System (ICS)
 - our approach to on-account fees collection from 2019/20 onwards
 - refund of underspend, including the 2017/18 underspend
-

Our approach to publishing the annual figures for PSR fees in future

- 6.1** The PSR fees rules in the FCA Handbook contain within the Annex the formula that we will use for fees allocation every year. As currently drafted this includes the PSR's AFR, and the annual total relevant transaction volumes and values. Instead of amending the Annex to FEES 9 every year to update the figures in the formula, we propose to keep the rules unchanged (expressed as the formula methodology) and instead publish those figures on the PSR website every year.
- 6.2** Previously, we have consulted stakeholders whenever we propose any material change to the PSR fees policy, including the allocation and collection method. We have also consulted on proposed amendments to the exact wording of the relevant rules in the FCA Handbook. The PSR fees policy is embedded in the FCA's rules and the FCA has an obligation to consult on any rule making. This includes amendments to the rules that contain figures that vary from year to year.
- 6.3** This means that, if we include in the rules precise figures that are only relevant for one year, we would have to re-consult annually to ensure the rules reflect the updated figures even when our fees allocation method remains exactly the same. Stakeholders questioned in the past the usefulness of such consultation, when the proposed rule amendments were really just updating old numbers with new ones, rather than changing any aspect of the underlying method.
- 6.4** Moving forward, we propose not to include the specific figures within the FEES rules that are only relevant for one fees year. Instead, the rules within the Annex would specify the allocation formula and the variables we would use for the calculations. The PSR would publish the annual figures for those variables on its website every year, before we collect PSR fees in the summer.

6.5 We consider that this proposed arrangement is more appropriate than the one where the rules need to be changed every year, for the following reasons:

- a. None of the figures we would annually update are subject to interpretation or can be affected by consultation.
 - i. **The PSR's AFR:** The AFR represents the total amount that the PSR would need to collect in regulatory fees to finance its relevant operations each year. The PSR sets the AFR for the new financial year and the FCA approves it. The PSR publishes this in its annual plan around the end of March each year.
 - ii. **Total relevant transaction volumes and values across all systems:** Operators give us the required data on the relevant transaction volumes and values each year. The sum of this data forms the denominators used in our new fees allocation method. While the precise transaction figures fluctuate every year, they are factual– and again not subject to interpretation by the PSR in how the fees will be determined.

This is different from the past fees methodology, where we have had to make a judgement annually on how we split the PSR AFR into the FSBRA and IFR pots, which would vary from year to year. In relation to the new methodology, the reasoning behind our decision to use the new allocation method from 2018/19, including the 80:20 ratio, is independent of any factor that is only relevant for one financial year, and we do not plan to change that ratio or the method from year to year.

- b. In the past, we have not received any material comments where we proposed amendments to the rules for the purpose of only updating the factual figures. As mentioned above, stakeholders questioned the usefulness of such consultations.
- c. There was previously a requirement for firms to perform complex calculations every year using the precise figures set out in the rules, but that requirement has been removed with the implementation of direct billing by the FCA and the new fees allocation method.⁷ Having precise figures in the rules under the previous method helped minimise potential calculation errors and disputes over which figures to use.

Under the new collection method, PSPs are no longer required to pay their PSR fees in parts to different operators, and operators are no longer required collect partial PSR fees from PSPs. They are consequently no longer required to do any calculations - this is all carried out by the FCA. In addition, the new fees allocation formula is much easier to use compared to the previous one. Firms can, should they choose to, calculate their own PSR fees simply by substituting the relevant information in the methodology formula every year.

- d. In this review of the PSR fees regime which started in August 2017, we set out to create a fees regime that is simple, sustainable and does not require yearly changes or consultation which stakeholders have indicated has been become a burden in its own right. The proposed arrangement would enable us to achieve that aim.

⁷ The previous method required each PSP to use the precise figures set out in the rules (which were updated every year) to calculate the amounts of regulatory fees it needed to pay different payment system operators, the sum total of which forms that PSP's PSR fee for that year. It also required each operator to calculate the amounts of (partial) PSR fees it needed to collect from all relevant PSPs.

- e. Our fees process would remain transparent to our stakeholders. We would continue the practice of consulting stakeholders when we propose to change our fees allocation method and we will publish the relevant fees information on our website each year.

6.6 Under this proposed arrangement, the fees allocation method in the FCA rules would not refer to specific figures that are relevant only for one year. They would refer instead to the relevant variables for as long as the fees allocation method remains unchanged. This means that:

- a. Where we do not propose to consider making any change to our fees allocation or collection method, we would not need to launch a formal consultation simply to update the fees rules to show the most updated figures. We instead will publish the fee information (that is, the new AFR and the total transaction volumes and values) on the PSR website.
- b. Where we propose to make any material change to our fees methodology, for example to change the 80:20 ratio, we would launch a formal consultation again.

6.7 The relevant draft amendments to FEES are in FEES 9.1.2G, FEES 9.1.8G and FEES 9 Annex 1R (see Annex 2).

Question 1: Do you agree with our proposal to reduce the amount of changes to our FEES rules as well as the proposed draft amendments to FEES 9 (Annex 2) to reflect this change?

The annual figures for 2018/19 PSR fees

6.8 The annual figures for 2018/19 PSR fees are as follows:

- a. The AFR for 2018/19 has already been published in our annual plan⁸, and is £14.9 million.
- b. The denominators for the transaction volume block and the transaction value block are determined by the sum of all fee payers' total transaction volumes and values across all regulated payment systems, for the 2017 calendar year.⁹ They are:
 - i. total transaction volume of all fee payers: 61,764,874,956
 - ii. total transaction value of all fee payers: £174,667,546,370,105

⁸ www.psr.org.uk/psr-publications/annual-plans-and-reports/annual-plan-2018-19

⁹ We have received the transaction volumes and values data for the 2017 calendar year from payment system operators

6.9 Each payer's PSR fees for 2018/19 is determined by the following formula:

$$\begin{aligned}
 & \textbf{Fees allocated to a PSR fee payer} \\
 & = \\
 & \text{its fees under the volume block (Vo) + its fees under the value block (Va)} \\
 \text{a. } & \text{Vo} = (\text{£}14,900,000 \times 80\%) \times \left(\frac{\text{The fee payer's relevant transaction volumes in all systems}}{61,764,874,956} \right) \\
 \text{b. } & \text{Va} = (\text{£}14,900,000 \times 20\%) \times \left(\frac{\text{The sum of the fee payer's relevant transaction values in all systems}}{174,667,546,370,105} \right)
 \end{aligned}$$

6.10 For the transaction value block, we will use the HMRC 2017 yearly average foreign exchange rates to convert non-GBP transactions to GBP, which are published on GOV.UK.¹⁰ The relevant conversion rates are as follows:

$$\text{EUR 1.00} = \text{GBP 0.8725}$$

$$\text{USD 1.00} = \text{GBP 0.7796}$$

Most transactions were provided to us in GBP. Only about 0.0000015% of transactions (by transaction values in Sterling terms) require currency conversion.

6.11 In the event that we decide to update the FEES rules every year instead of proceeding with our proposal (see previous section), we would amend the Annex table so it shows the updated rates by summer 2018, using the numbers from paragraphs 6.8 and 6.9.

Amended definition of relevant transactions for the C&C system

6.12 The Image Clearing System (ICS) was commissioned in late 2017 to digitally process cheques, credit and other payment instruments, and it forms part of the Cheque & Credit (C&C) designated system. In December 2017 the Treasury's designation order for the C&C system was amended to reflect that it included the processing of the images of cheques and other paper instruments.

6.13 We expect the volume and value processed through the ICS to increase significantly. This is because the transactions that are currently processed under the paper-based cheques and credit clearing in the C&C and NICC systems will be switching to the image-based clearing by the ICS, which is part of the C&C system.

¹⁰ "HMRC foreign exchange rates: yearly averages and spot rates", Average for the year to 31 December 2017, www.gov.uk/government/publications/exchange-rates-for-customs-and-vat-yearly

6.14 The current definition of relevant transactions for the C&C system is based on the paper-based processing. Therefore, we propose to amend the definition of relevant transactions for the C&C system in our rules to reflect this:

All transactions for GBP, USD and EUR processed through the C&C regulated payment system. This includes 'in clearing' and 'out clearing' transactions in paper-based clearing, and the initiation and the receipt in the transfer of funds in image-based clearing.

6.15 In proposing the amended definition we have considered the following:

- a. A distinction between paper-based clearing and image-based clearing with the C&C system is needed because of the different terminologies used.
- b. For transactions processed through paper-based clearing, the Cheque and Credit Clearing Company (C&CCC) have in the past provided us the 'in clearing' and 'out clearing' data. We are proposing to keep that part of the definition intact to ensure consistency with our current approach to paper-based clearing.
- c. For transactions processed through image-based clearing (that is, the ICS), we are proposing to change the focus to payer and payee, because:
 - i. Through the ICS, C&CCC will have sight of (1) the PSP initiating each transaction (the one that receives the cheque or credit deposit), (2) the payer PSP (the one that initiates the transfer of funds) and (3) the payee PSP (the one that receives the transfer of funds). In paper-based clearing, C&CCC has limited visibility of (3) – the payee PSP.
 - ii. We consider it fairer to allocate PSR fees to the payer and payee PSPs, as they (and their customers) are directly benefitting from the ability to use the C&C system to transfer funds. That approach would be consistent with our existing definitions of relevant transactions for other systems such as Bacs and the Faster Payments Scheme (FPS).

6.16 We note that 'all transactions' already covers cheques, credits and the image-processing of those payment instruments. Since there is no explicit mention of either 'cheques' or 'credits' in the current definition, we are not proposing to introduce into that definition the terms used for the ICS such as 'requests to pay' and 'instructions to pay'.

6.17 If we do not make this change, this means, for C&C transactions processed through the ICS, we would be allocating PSR fees to:

- direct PSPs that receive the cheques or credits
- direct PSPs that make the payments

PSPs that receive the payments would continue to not be in scope for PSR fees. This would mirror the approach we are currently taking for C&C transactions in paper-based clearing.

6.18 This proposed change in the fees rules, if made, will take effect from 2018/19.

Question 2: Do you agree with the proposed definition of C&C transactions for 2019/20 fees onwards?

2019/20 fees – on account

6.19 We usually collect on-account fees by 1 April. The aim of that collection is so that the PSR would have sufficient cash flow to fund its operations in the first half of the financial year. Fee payers who have paid PSR fees on-account by 1 April only need to pay the balance of their PSR fees when they are due by 1 September (that is, their PSR fees less any on-account payments made).

6.20 We currently have an on-account collection rule that is separate from the FCA's. The rule says that:

'If the PSR fee paid by a fee payer for the previous fee year was at least £20,000, that direct payment service provider must pay to the FCA an amount equal to 50% of the PSR fee payable for the previous fee year, by 1 April in the current fee year.' (FEES 9.2.2R(1)).¹¹

6.21 In light of our decision to implement direct billing (CP17/44), where the FCA directly collects PSR fees, we are proposing to align with the FCA's current approach of collecting other regulatory fees on-account.

6.22 In particular, the proposed rules will say that PSR on-account fees will only be due by firms that are also required to pay FCA on-account fees:

- a. 'If FEES 4.3.6 (1C)–(1E) applies to a PSR fee payer, that PSR fee payer must pay to the FCA an amount equal to 50% of the PSR fee payable for the previous fee year, by 1 April in the current fee year.' (See FEES 9.2.2R in Annex 2).
- b. Otherwise the fee payer would only need to pay in August.' (See FEES 9.2.3R in Annex 2).

¹¹ We currently use fee payers' previous year's PSR fees to determine if they need to pay PSR on-account fees (that is, if they need to pay some of their PSR fees at the beginning of the fee year). This is because the collection of on-account fees starts in January, before we receive the transaction data from operators on 1 March or confirm the annual funding requirement by the end of March.

- 6.23** FEES 4.3.6R(1C)-(1E) sets out the existing conditions the FCA uses to determine if a particular firm should pay any of its FCA fees (and other fees the FCA collects) on account. The text of the relevant parts of FEES 4.3.6R is set out below.

FEES 4.3.6 R

(1C) If a person meets either of the conditions in (1D) it must pay the FCA the fee in (1E).

(1D) A person meets the conditions referred to in (1C) if:

(a) its periodic fee for the previous fee year was at least £50,000 and it is:

- (i) an FCA-authorized person; or*
- (ii) a designated professional body; or*
- (iii) a recognised investment exchange; or*
- (iv) a regulated covered bond issuer; or*

(b) it is a PRA-authorized person and its combined FCA and PRA periodic fees for the previous fee year were at least £50,000.

(1E) The fee in (1C) is:

(a) an amount equal to 50% of the FCA periodic fee payable for the previous fee year by:

- (i) 1 April; or*
- (ii) if later, within 30 days of the date of the invoice, in the fee year to which the sum due under FEES 4.2.1R relates; and*

(b) the balance of the FCA periodic fee due for the current fee year by:

- (i) 1 September; or*
- (ii) if later, within 30 days of the date of the invoice, in the fee year to which that sum relates.*

- 6.24** In reaching this proposal we have considered that, in particular:
- a. As a result of our decision to implement direct billing from 2018/19, which was detailed in CP17/44, the FCA is now directly managing the invoicing of fee payers and the collection of PSR fees. This means the FCA will collect PSR fees together with other regulatory fees it currently collects.
 - b. The FCA has an existing approach to determining the on-account collection of FCA fees and fees for other entities it collects. It is efficient to align with the FCA's process of on-account collections.

- 6.25** This alignment will help with the FCA collection process. We have done preliminary analysis of the impact of aligning our on-account rules. Our internal analysis suggests the impact on the PSR's cash flow is likely to be minimal. The impact on PSR fee payers is solely one of timing (if they need to pay part of their PSR fees in advance):
- a. PSR fee payers whose PSR fees in the previous year were at least £20,000 but do not need to pay the FCA any fee on account would no longer need to pay PSR on-account fees (they would no longer be required to pay part of their PSR fees by 1 April).
 - b. PSR fee payers whose PSR fees in the previous year was under £20,000 but are required to pay the FCA on-account fees would now need to pay PSR on-account fees. On-account fees are 50% of what the relevant fee payers paid in the previous year. Therefore, the PSR on-account fees for these firms would be below £10,000.

Question 3: Do you agree with the proposed alignment of on-account rules?

Consultation on the refund of underspend for 2017/18 fees and fees for future years

- 6.26** Due to a projected small underspend, the PSR is likely to need to make a 'refund' to fee payers for 2017/18 fees.
- 6.27** In the past, the PSR has provided a refund to the relevant fee payers according to their percentage contribution to that year's fees. For example, for the underspend of PSR fees paid for 2016/17, fee payers that had paid 5% of the PSR's total fees for 2016/17 received a reduction in their 2017/18 payment of an amount 5% of the total refund amount for 2016/17.¹² The process was administered by the payment system operators.
- 6.28** As a result of our decision in CP17/44 in December 2017 to implement direct billing, operators are no longer involved in the handling of any PSR fees.
- 6.29** The FCA is now directly managing the invoicing of fee payers and the collection of PSR fees. It is sensible and efficient to align with what the FCA currently does when it has underspent.
- 6.30** The FCA does not provide a refund to its fee payers in the event of an underspend. It simply reduces the amount of fees it collects for the following year.

¹² For more information about last year's refund, see our policy statement on PSR regulatory fees 2017/18 (PS17/17): www.psr.org.uk/sites/default/files/media/PDF/PS-17-17-PSR-fees-2017-18-July-2017.pdf

- 6.31** The PSR proposes to adopt this method to align with the FCA, as it is simpler to do so. This means, in practice:
- a. fee payers who did not need to pay PSR fees in the previous year would benefit from a refund. Fee payers who had paid in the previous year but do not need to pay in the current year would not receive any refund.
 - b. for a fee payer who has paid 5% of the PSR's total fees for 2017/18 and will pay 10% of the PSR's total fees for 2018/19, it would receive 10% of the total refund amount for 2017/18 instead of 5%. The same principle applies for fee payers whose percentage contributions to PSR fees change in different ways.
- 6.32** The PSR considers that this approach is the most appropriate going forward, and proposes to proceed with this approach in future years.
- a. The refund is projected to be under £1 million this year (i.e. 2017/18), and is expected to be low in future years as we improve our budget forecasting. In the past, we had a significantly higher underspend and amounts to refund to fee payers.
 - b. The proposed approach would also align our treatment of an underspend with our default approach in case we have an overspend in any given year. If we have an overspend, our default position is that we would borrow money that year to fund the cost of our operations. We would then recuperate the borrowed amount from the following year's fee payers, rather than charging back the fee payers of the previous year.
- 6.33** The PSR will consult stakeholders if there is any material change in the circumstances in terms of underspend.
- 6.34** We note however, in addition to changing the refund process, we are also changing the fees allocation method in 2018/19 (see Chapter 3). If we apply the proposed approach to the 2017/18 refund by simply reducing the amount we collect for 2018/19 fees, we would effectively be using the new allocation method to calculate the proportionate refund amount for fees collected under the old allocation method.
- 6.35** Fee payers for 2017/18 fees would receive either more or less of a refund than they may have expected on any amounts calculated using the previous fees allocation method.
- 6.36** However, using the new fees allocation method to calculate the refund of 2017/18 fees would in fact lessen the impact of the change of the fees allocation method, in terms of how much fee payers will need to pay (even if it is only by a small degree). Those who need to pay more under the new method would have a greater refund to offset their fees, and those who will need to pay less would have a smaller refund. To that extent any refund could be seen to provide some 'smoothing' as we transition between fees methodology.

Question 4: Do you agree with the PSR's proposal to align its approach to an underspend with that of the FCA's? If so, do you agree with the proposal to implement it for the 2017/18 refund?

Annex 1

Fees instrument making amendments to the existing PSR fees rules

FEES (PAYMENT SYSTEMS REGULATOR) INSTRUMENT (No 6) 2018

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of:
- (1) the powers in paragraph 9 (Funding) of Schedule 4 (The Payment Systems Regulator) of the Financial Services (Banking Reform) Act 2013 (“FSBRA”);
 - (2) the powers in and under Regulation 15 of The Payment Card Interchange Fee Regulations 2015 (SI 2015/1911);
 - (3) the powers in and under Regulation 136 of the Payment Services Regulations 2017 (SI 2017/752); and
 - (4) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 137T (General supplementary powers);
 - (b) section 139A (Power of the FCA to give guidance); and
 - (c) paragraph 23 (Fees) in Part 3 (Penalties and Fees) of Schedule 1ZA (The Financial Conduct Authority).
- B. The rule-making powers listed above are specified for the purpose of paragraph 9 of schedule 4 to FSBRA and section 138G (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 April 2018.

Amendments to the Handbook

- D. The Glossary is amended in accordance with Annex A to this instrument.
- E. The Fees manual (FEES) is amended in accordance with Annex B to this instrument.

Citation

- F. This instrument may be cited as the Fees (Payment Systems Regulator) Instrument (No 6) 2018.

By order of the Board
22 March 2018

Annex A

Amendments to the Glossary of definitions

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

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

<i>operator acting as a PSR fee payer</i>	an operator of a <i>card payment system</i> or an <i>IFR card payment system</i> acting as an <i>acquirer</i> , as a <i>card issuer</i> or as both an <i>acquirer</i> and <i>card issuer</i> in that <i>payment system</i> .
<i>PSR fee payer</i>	a <i>direct payment service provider</i> , or an <i>operator acting as a PSR fee payer</i> , eligible to pay a <i>PSR fee</i> in accordance with <i>FEES 9.2.1R</i> .
<i>transaction values</i>	for each <i>payment system</i> listed in column 1 of the table in <i>FEES 9 Annex 1R</i> the total value of the transfers of funds of the type specified in column 2 of the table undertaken by each <i>PSR fee payer</i> in the <i>relevant time period</i> .

Amend the following definitions as shown.

<i>operator</i>	... (3) (in <i>FEES 1</i> and <i>FEES 9</i>), any <i>person</i> with responsibility under a <i>payment system</i> for managing or operating it; and any reference to the operation of a <i>payment system</i> includes a reference to its management. <u>It does not include the Bank of England.</u>
<i>PSR fee</i>	the fee payable by a <i>direct payment service provider</i> or an <i>operator of an IFR card payment system</i> <u><i>PSR fee payer</i></u> under <i>FEES 9.2.1R</i> .
<i>relevant time period</i>	(a) for each <i>regulated payment system</i> listed in column 1 of Table A of the table in <u><i>FEES 9 Annex 1R</i></u> , the time period or date specified for that <i>regulated payment system</i> in column 4 3 of Table A <u>the table</u> . (b) for each <i>IFR card payment system</i> listed in column 1 of Table C of <u><i>FEES 9 Annex 1R</i></u> , the time period specified for that <i>IFR card payment system</i> in column 2 of Table B and column 4 of Table C of <u><i>FEES 9 Annex 1R</i></u> .
<i>transaction volumes</i>	(a) for each <i>regulated payment system</i> listed in column 1 of Table A of the table in <u><i>FEES 9 Annex 1R</i></u> , the <u>total</u> number of transfers of funds of the type specified in column 5 2 of Table A <u>the table</u> undertaken by a <i>direct payment service provider</i> <u>each <i>PSR fee</i></u>

payer in the *relevant time period*.

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

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

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

Annex B

Amendments to the Fees manual (FEES)

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

9 Payment Systems Regulator funding

9.1 Application and purpose

...

Purpose

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

Introduction

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

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

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

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

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

...

...

Annual budget and annual plan

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

9.2 PSR fees

Obligation to pay PSR fees

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

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

(3) [deleted]

...

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

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

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

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

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

9.2.1E R If:

(1) there is a payment system allocation for a given fee year to a card

~~payment system or to an IFR card payment system (in either Table A or Table C of FEES 9 Annex 1R respectively); and~~

- ~~(2) the operator of that payment system is acting as an acquirer, as a card issuer or as both an acquirer and card issuer in that card payment system or IFR card system;~~

~~that operator must pay the entire payment system allocation for that card payment system or IFR payment system as PSR fees for that fee year. [deleted]~~

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

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

Time of payment

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

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

...

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

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

9.2.3 R If the PSR fee paid by a *direct payment service provider* for a particular regulated payment system or IFR card payment system *PSR fee payer* for the previous fee year was less than £20,000, the *direct payment service provider*

PSR fee payer must pay its *PSR fee* in full to the *FCA*:

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

...

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

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

Method of payment and invoicing

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

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

...

Provision of information

9.2.4D R (1) The operator of a regulated payment system or *IFR card payment system* must provide to the *FCA* and *PSR*, for each of its *direct payment service providers* (and for itself, where it is an operator acting as an *acquirer* or *card issuer*); ~~a copy of the data required to calculate the fees allocation of each fee payer.~~

- (a) a copy of the data setting out the transaction volumes and transaction values required by the FCA to calculate the PSR fees as set out in FEES 9 Annex 1R; and
- (b) the following information (which is either in the operator's possession or to which it has reasonable access) to enable and/or assist the FCA to issue invoices to PSR fee payers and/or collect PSR fees:
 - (i) telephone and/or e-mail contact information (including named point of contact);
 - (ii) billing address;

- (iii) FCA firm reference number (where applicable);
 - (iv) company name, registered address and company number; and
 - (v) any other information which in the opinion of the operator would assist the FCA in issuing invoices to the relevant PSR fee payers within the operator's regulated payment system or IFR card payment system.
- (2) The operator of a regulated payment system or IFR card payment system must:
- (a) provide the information in (1) to the PSR and FCA as soon as practicable, but no later than 1 March each year; and
 - (b) provide such other data to the FCA and PSR on request to enable the individual PSR fees to be verified.

...

9.2.4G G The FCA will use the data provided by the relevant operators in FEES 9.2.4DR to calculate the PSR fees. Before being submitted to the FCA, if requested by a PSR fee payer, the operator should confirm with the relevant PSR fee payer the accuracy of the data it proposes to submit. In the event of a dispute raised by a PSR fee payer over the accuracy of the data provided to the FCA, the FCA will continue to use the data as originally provided. Any later dispute should be directed to the relevant operator of the regulated payment system or IFR card payment system responsible for the provision of the data to the FCA.

...

Late payments

- 9.2.7 R If a ~~direct payment service provider or an operator of an IFR card payment system~~ PSR fee payer does not pay the total amount of its PSR fees before the end of the date on which it is due, it must pay to the FCA:
- (1) an administrative fee of £250; plus
 - (2) interest on any unpaid part of the fee at an annual rate of 5% above the Official Bank Rate from time to time in force, accruing daily from the date on which the amount concerned became due.
- 9.2.7A G (1) The FCA may recover a PSR fee as a debt owed to it under paragraph 23(8) of Schedule 1ZA of the Act.
- (2) The FCA will consider taking action for the recovery (including interest) through the civil courts.

- (3) In addition, the FCA or PSR may be entitled to take regulatory action in relation to the non-payment of PSR fees. What action, if any, that is taken by the FCA or PSR will be decided upon given the particular circumstances of the case.

Reduction, remission and repayment of fees

...

- 9.2.10 G The FCA will not consider a claim to refund a PSR fee due to a mistake of fact or law by the ~~fee paying direct payment service provider or operator of an IFR card payment system~~ PSR fee payer if the claim is made more than two years after the beginning of the *fee year* to which the fee relates.

...

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

9 PSR fees for the period 1 April to 31 March for each fee year
Annex
1R

The table below shows the methodology used by the FCA to determine the PSR fee applicable to PSR fee payers for each fee year.

Regulated payment system or IFR card payment system (column 1)	Relevant transactions (column 2)	Relevant time period (column 3)	Volume block (“Vo”) (column 4)	Value block (“Va”) (column 5)	Calculation methodology for PSR fee payable (column 6)
<i>Bacs</i>	All transactions processed through the <i>BACS regulated payment system</i> . Transactions include both the initiation of the transfer of the funds, and the receipt of transferred funds.	The full calendar year (1 January to 31 December) before the start of the relevant fee year.	$V_o = (PSR's\ AFR^* \times 80\%) \times \text{the } PSR\ \text{fee payer's } \% \text{ in the volume block}$ $= \left(\frac{\text{A } PSR\ \text{fee payer's } \% \text{ in the volume block}}{\left(\frac{\text{The } PSR\ \text{fee payer's relevant transaction volumes in all systems}}{\text{Sum of all } PSR\ \text{fee payers' relevant transaction volumes across all systems}^{**}} \right)} \right)$	$V_a = (PSR's\ AFR^* \times 20\%) \times \text{the fee payer's } \% \text{ in the value block}$ $= \left(\frac{\text{A } PSR\ \text{fee payer's } \% \text{ in the value block}}{\left(\frac{\text{The sum of the } PSR\ \text{fee payer's relevant transaction values in all systems}}{\text{Sum of all } PSR\ \text{fee payers' relevant transaction values across all systems}^{***}} \right)} \right)$	Fees allocated to a PSR fee payer = its fees under the volume block (Vo) + its fees under the value block (Va)
<i>C&C</i>	All transactions including ‘in clearing’ and ‘out clearing’ transactions for GBP, USD and EUR processed through the <i>C&C regulated payment system</i> .				
<i>CHAPS</i>	All MT103 and MT202 transactions processed through the <i>CHAPS regulated payment system</i> . Transactions include both the initiation of the transfer of the funds, and the receipt of transferred funds.				
<i>FPS</i>	All transactions processed through the <i>FPS regulated payment system</i> . Transactions include both the initiation of the transfer of funds, and the receipt of transferred funds.				
<i>LINK</i>	All transactions issued and acquired under the <i>LINK regulated payment system</i> , including GBP cash withdrawals, foreign currency dispenses, balance enquiries, PIN management, charity donations, non-cash transactions and mobile payment				

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

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

Notes:

* This is the PSR's annual funding requirement (AFR). The PSR will publish the PSR AFR for each *fee year* annually.

**The PSR will publish this figure annually. The figure represents the sum of all PSR fee payers' relevant transaction volumes across all systems in the relevant time period.

***The PSR will publish this figure annually. This figure represents the sum of all PSR fee payers' relevant transaction values across all systems in the relevant time period.

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

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

Annex 2

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

FEES (PAYMENT SYSTEMS REGULATOR) INSTRUMENT (No [7]) 2018

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of:
- (1) the powers in paragraph 9 (Funding) of Schedule 4 (The Payment Systems Regulator) of the Financial Services (Banking Reform) Act 2013 (“FSBRA”);
 - (2) the powers in and under Regulation 15 of The Payment Card Interchange Fee Regulations 2015 (SI 2015/1911);
 - (3) the powers in and under Regulation 136 of the Payment Services Regulations 2017 (SI 2017/752); and
 - (4) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 137T (General supplementary powers);
 - (b) section 139A (Power of the FCA to give guidance); and
 - (c) paragraph 23 (Fees) in Part 3 (Penalties and Fees) of Schedule 1ZA (The Financial Conduct Authority).
- B. The rule-making powers listed above are specified for the purpose of paragraph 9 of schedule 4 to FSBRA and section 138G (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on [*date*].

Amendments to the Handbook

- D. The Glossary is amended in accordance with Annex A to this instrument.
- E. The Fees manual (FEES) is amended in accordance with Annex B to this instrument.

Citation

- F. This instrument may be cited as the Fees (Payment Systems Regulator) Instrument (No [7]) 2018.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

Insert the following new definition in the appropriate alphabetical position. The text is not underlined.

PSR's AFR the annual funding requirement of the *PSR* which is published by the *PSR* at the start of each *fee year*.

Annex B

Amendments to the Fees manual (FEES)

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

9 Payment Systems Regulator funding

9.1 Application and purpose

Purpose

- 9.1.2 G This chapter sets out how the fee payable by *PSR fee payers* will be calculated, to establish and fund the *PSR*.

...

~~Annual budget and annual plan~~ Publication of fees information

- 9.1.8 G (1) *PSR fees* will vary from year to year, depending on the *PSR's* ~~annual plan and budget~~ *AFR* and the *transaction volumes* and *transaction values* in the *relevant time period*.
- (2) ~~These details are in FEES 9 Annex 1R.~~ The *PSR* will publish each year the *PSR's AFR* along with the total *transaction volumes* and *transaction values* for the *relevant time period* to enable *PSR fee payers* to apply the methodology in *FEES 9 Annex 1R* if they wish.
- (3) ~~The *FCA* and *PSR* will prepare and consult on new details for each fee year.~~ [deleted]

9.2 PSR fees

...

Time of payment

- 9.2.2 R ~~If the *PSR fee* paid by a *PSR fee payer* for the previous *fee year* was at least £20,000, that *PSR fee payer*~~ *PSR fee payers* falling within the scope of *FEES 4.3.6R(1C) – (1E)* must pay to the *FCA*:
- (1) an amount equal to 50% of the *PSR fee* payable for the previous *fee year*, by 1 April in the current *fee year* or, if later, within 30 *days* of the date of the invoice; and
- (2) the balance of the *PSR fee* due by 1 September in the current *fee year* or, if later, within 30 *days* of the date of the invoice.

...

- 9.2.3 R If the ~~PSR fee~~ paid by a ~~PSR fee payer~~ for the previous ~~fee year~~ was less than £20,000, FEEs 9.2.2R does not apply, the ~~PSR fee payer~~ must pay its ~~PSR fee~~ in full to the ~~FCA~~:
- (1) by 1 August in the current ~~fee year~~; or
 - (2) if later, within 30 ~~days~~ of the date of the invoice.

...

9 PSR fees for the period ~~1 April to 31 March~~ for each fee year methodology
Annex
1R

The table below shows the methodology used by the FCA to determine the PSR fee applicable to PSR fee payers for each fee year.

Regulated payment system or IFR card payment system (column 1)	Relevant transactions (column 2)	Relevant time period (column 3)	Volume block ("Vo") (column 4)	Value block ("Va") (column 5)	Calculation methodology for PSR fee payable (column 6)
<i>Bacs</i>	All transactions processed through the <i>BACS regulated payment system</i> . Transactions include both the initiation of the transfer of the funds, and the receipt of transferred funds.	The full calendar year (1 January to 31 December) before the start of the relevant fee year.	$V_o = (PSR's\ AFR^{\pm} \times 80\%) \times \text{the PSR fee payer's \% in percentage share of the volume block}$ <p>A PSR fee payer's % in percentage share of the volume block =</p> $\left(\frac{\text{Sum of that PSR fee payer's relevant transaction volumes in all systems}}{\text{Sum of all PSR fee payers' relevant transaction volumes across all systems}^{**}} \right)$	$V_a = (PSR's\ AFR^{\pm} \times 20\%) \times \text{the fee payer's \% in percentage share of the value block}$ <p>A PSR fee payer's % in percentage share of the value block =</p> $\left(\frac{\text{Sum of that PSR fee payer's relevant transaction values in all systems}}{\text{Sum of all PSR fee payers' relevant transaction values across all systems}^{***}} \right)$	Fees allocated to a PSR fee payer
<i>C&C</i>	All transactions including 'in clearing' and 'out clearing' transactions for GBP, USD and EUR processed through the <i>C&C regulated payment system</i> . This includes 'in clearing' and 'out clearing' transactions in paper clearing, and the initiation and the receipt of the transfers of funds in image clearing.	For example this would be 1 January to 31 December 2017 for the 2018/2019 fee year.			= its fees under the volume block (Vo) + its fees under the value block (Va)
<i>CHAPS</i>	All MT103 and MT202 transactions processed through the <i>CHAPS regulated payment system</i> . Transactions include both the initiation of the transfer of the funds, and the receipt of transferred funds.				
<i>FPS</i>	All transactions processed through the <i>FPS regulated payment system</i> . Transactions include both the initiation of the transfer of funds, and the receipt of transferred funds.				
<i>LINK</i>	All transactions issued and acquired under the <i>LINK regulated payment system</i> , including GBP cash				

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

	<p>transactions, merchant sales volumes, and cash purchase transactions on cards, but excluding cash-only withdrawals. All <i>Visa</i> branded transactions are included irrespective of the <i>processing entity</i> (<i>Visa</i> itself, a third party <i>processing entity</i> or '<i>on us</i>' transactions). Both issuing and acquiring transactions are taken into account.</p>				
<p><i>AmEx</i> <i>Diners Club</i> <i>JCB</i> <i>UPI</i></p>	<p>All <i>IFR transactions</i> by acquirers operating in the United Kingdom and <i>IFR transactions</i> by card issuers operating in the United Kingdom (or by the operator of that <i>IFR card payment system</i> acting as such an acquirer or card issuer) under that <i>IFR card payment system</i>, including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards, but excluding cash-only withdrawals.</p> <p>All transactions under the brand of that <i>IFR card payment system</i> are included irrespective of the <i>processing entity</i> (the operator or the <i>IFR card payment system</i> itself, a third party <i>processing entity</i> or '<i>on us</i>' transactions).</p> <p>Both issuing and acquiring transactions are taken into account for each <i>IFR card payment system</i>.</p>				
<p>Notes: * This is the PSR's annual funding requirement (AFR). The PSR will publish the PSR AFR for each fee year annually. ** The PSR will publish this figure annually. The figure represents the sum of all PSR fee payers' relevant transaction volumes across all systems in the relevant time</p>					

period.
**~~*~~ The PSR will publish this figure annually. This figure represents the sum of all PSR fee payers' relevant transaction values across all systems in the relevant time period.

Annex 3

List of consultation questions

- Question 1:** Do you agree with our proposal to reduce the amount of changes to our FEES rules as well as the proposed draft amendments to FEES 9 (Annex 2) to reflect this change?
- Question 2:** Do you agree with the proposed definition of C&C transactions for 2019/20 fees onwards?
- Question 3:** Do you agree with the proposed alignment of on-account rules?
- Question 4:** Do you agree with the PSR's proposal to align its approach to an underspend with that of the FCA's? If so, do you agree with the proposal to implement it for the 2017/18 refund?

Annex 4

Compatibility statement

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

The FCA and PSR's objectives and regulatory principles

- 4.6** The proposals we set out in this consultation are not intended in themselves to advance the FCA's operational objectives. However, they will help the FCA to ensure that the PSR is capable of discharging its functions, by funding the activities the PSR needs to undertake in 2018/19 to meet its responsibilities under FSBRA, IFR and parts of PSD2. Therefore, these proposals will indirectly advance the FCA's operational objectives of:
- delivering consumer protection – securing an appropriate degree of protection for consumers
 - enhancing market integrity – protecting and enhancing the integrity of the UK financial system
 - building competitive markets – promoting effective competition in the interests of consumers

- 4.7** We consider these proposals to be compatible with the FCA's strategic objective of ensuring that the relevant markets function well, as they will help fund activities designed to meet this strategic objective.
- 4.8** The FCA must also have regard to the regulatory principles set out in section 3B FSMA and the importance of taking action intended to minimise financial crime (s. 1B(5)(b) FSMA).
- 4.9** For the PSR, the proposals in this consultation will enable it to set out its fees allocation and collection method to fund its activities so it can meet its statutory objectives. These are:
- to promote effective competition in the markets for payment systems and the services provided by payment systems, in the interests of service-users
 - to promote development and innovation in payment systems, including in infrastructure used for the purpose of operating payment systems, in the interests of service-users
 - to ensure payment systems are operated and developed in a way that takes account of and promotes the interests of service-users

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

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

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

- 4.11** Our proposed changes are aimed at making the way we collect and allocate PSR fees relatively simple, transparent and predictable (and, as a result, low-cost). They reflect a balance between the need to use our resources in an efficient and economical way and an approach that is not disproportionate or unfair to individual payment systems or participants.
- 4.12** One of the other aims of our proposed changes is to improve the sustainability of the PSR's fees allocation methodology, which would reduce the need for frequent changes to the fees rules. This would, in turn, reduce the burden on our resources associated with making or implementing these changes.
- (b) The principle that a burden or restriction should be proportionate to the benefits, considered in general terms, which are expected to result from imposing it**
- 4.13** We are moving away from the current method of indirectly billing PSR fee payers via payment systems operators. In its place we propose that the FCA will calculate, invoice and collect the PSR fees as part of the annual FCA fees process. This should reduce the existing burden on operators and fee payers, as set out in Chapter 3.

4.14 We are also proposing to change our fees allocation method. We consider that the expected benefits brought by changing our allocation method now are, in general terms, proportionate to the burden imposed on operators and fee payers as a result of the change. In particular, the proposed option will improve the sustainability of the PSR's fees allocation methodology, which would reduce the need for frequent changes to the fees rules. This would, in turn, reduce the burden on operators and fee payers associated with these changes, for example, in considering and responding to our consultations regarding the changes and in implementing those changes.

(c) The desirability of exercising our functions in a way that recognises differences in the nature of the businesses carried on by different persons we regulate

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

4.16 We also take into account the differences of the fee payers and the payment systems through other ways, for example, when considering the scope and types of relevant transactions for fees allocation, which is set out in Chapter 5.

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

4.17 We consider that we have clearly described our proposed fees collection method in CP17/30 and this document. We have also set out the guiding principles we use to review the fees allocation options and our fees allocation proposals. We consider that the reasoning for our decision and our proposals for further changes has been clearly spelled out and well evidenced across the two documents.

4.18 We also include our proposed fees allocation formula in our draft fees rules for consultation. That would enable fee payers to understand how their PSR fees are calculated every year.

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

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

Other considerations

(f) Equality and diversity

- 4.20** We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions. As part of this, we conducted an equality impact assessment to ensure that the equality and diversity implications of any new policy proposals are considered.
- 4.21** We believe that none of our proposals raises issues of equality and diversity. We would welcome your comments if you believe any equality and diversity issues might arise from our proposals.
- 4.22** The funding for the PSR through the collection of PSR fees will enable it to progress its programme of work. This may in due course lead us to consider new general directions or generally applicable requirements (or modifications to existing ones). In these circumstances the PSR would consider equality and diversity implications with regard to those specific proposals.

(g) Impact on financial stability

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

Annex 5

Glossary

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

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

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

Term or abbreviation	Description
card issuer (card-issuing PSP)	<i>A payment service provider contracting with a payer to enable the latter to initiate a payment transaction, made by means of any card, telecommunication, digital or IT device or software</i>
card payment system	<i>A regulated payment system that enables a holder of a payment card to effect a payment</i>
CHAPS (Clearing House Automated Payment System)	<i>The CHAPS regulated payment system designated by HM Treasury under section 43 of FSBRA</i> <i>(The UK's real-time, high-value sterling regulated payment system, where payments are settled over the Bank of England's Real Time Gross Settlement (RTGS) system. It is operated by the Bank of England.)</i>
collection (PSR fee collection)	<i>The method through which PSR fees are collected</i>
Diners Club	<i>The Diners Club International IFR card payment system</i>
direct access	<i>(a) Access to a regulated payment system to enable a payment service provider to provide services for the purposes of enabling the transfer of funds using the regulated payment system, as a result of arrangements made between that payment service provider and the operator (and other participants, as applicable)</i> <i>(b) Access to an IFR card payment system to enable a payment service provider to provide services for the purposes of enabling the transfer of funds under the rules of that IFR card payment system</i>
direct payment service provider (also referred to as a 'direct member' of a regulated payment system)	<i>(a) Any person with direct access to a regulated payment system who provides services to consumers or businesses who are not participants in a regulated payment system, for the purposes of enabling the transfer of funds using that regulated payment system. For the purposes of FEES 9, direct payment service provider includes an acquirer and a card issuer, and does not include the Bank of England.</i> <i>(b) Any person with direct access to an IFR card payment system who acts as an acquirer or card issuer for the purposes of enabling the transfer of funds under the rules of that IFR card payment system.</i>
FCA	<i>Financial Conduct Authority</i>

Term or abbreviation	Description
FPS (Faster Payments Scheme)	<p>The Faster Payments Scheme regulated payment system designated by HM Treasury under section 43 of FSBRA</p> <p>(The regulated payment system that provides near real-time payments as well as standing orders. It is operated by Faster Payments Scheme Limited (FPSL).)</p>
FSBRA	Financial Services (Banking Reform) Act 2013
FSMA	Financial Services and Markets Act 2000
IFR (EU Interchange Fee Regulation)	Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions, published in the Official Journal of the EU on 19 May 2015
IFR card payment system	A payment card scheme as defined in the IFR, being a single set of rules, practices, standards and/or implementation guidelines for the execution of card-based payment transactions and which is separated from any infrastructure or payment system that supports its operation, and includes any specific decision-making body, organisation or entity accountable for the functioning of the scheme
IFR transactions by acquirers operating in the United Kingdom	<p>All transactions subject to the IFR acquired by:</p> <p>(a) UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located in the United Kingdom, where the card issuer is located in the EEA;</p> <p>(b) UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located outside the United Kingdom, where the card issuer is located in the EEA; and</p> <p>(c) non-UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located in the United Kingdom, where the card issuer is located in the EEA</p>
IFR transactions by card issuers operating in the United Kingdom	All transactions subject to the IFR on cards issued by UK-based card issuers (or an operator acting as card issuer), where the acquirer is located in the EEA

Term or abbreviation	Description
independent ATM deployer (IAD)	An ATM deployer which does not issue payment cards
indirect access	Access to a regulated payment system through a contractual arrangement with a direct PSP to enable it to provide services (for the purposes of enabling the transfer of funds using that regulated payment system) to persons who are not participants in the system
'indirect billing' approach	The approach to raising PSR fees whereby PSR fees are levied on direct members of Bacs, CHAPS, C&C, FPS, LINK or NICC, and on acquiring and issuing PSPs that are members of Mastercard or Visa, and which is proposed to be used for acquiring and issuing PSPs (and in some cases on operators) in IFR card payment systems. PSR fees are collected on behalf of the FCA and PSR by operators acting as collection agents (fee collection methodology). The operators also issue invoices for the PSR fees determined for individual direct members using the fee calculation methodology.
JCB	<i>The JCB International IFR card payment system</i>
LINK	<i>The LINK regulated payment system designated by HM Treasury under section 43 of FSBRA</i> (The regulated payment system which enables end users to take cash out of their accounts (amongst other activities) using the network of ATMs in the UK. It is operated by LINK Scheme.)
Mastercard	<i>The Mastercard regulated payment system designated by HM Treasury under section 43 of FSBRA and the Mastercard IFR card payment system</i>
NICC (Northern Ireland Cheque Clearing)	<i>The Northern Ireland Cheque Clearing regulated payment system designated by HM Treasury under section 43 of FSBRA</i> (The regulated payment system in Northern Ireland that processes cheques and other paper instruments. It is operated by Belfast Bankers' Clearing Company Ltd)
operator	<i>In relation to a payment system, any person with responsibility under a payment system for managing or operating it; and any reference to the operation of a payment system includes a reference to its management. It does not include the Bank of England.</i>

Term or abbreviation	Description
<i>operator acting as a PSR fee payer</i>	An operator of a <i>card payment system</i> or an <i>IFR card payment system</i> acting as an <i>acquirer</i> , as a <i>card issuer</i> or as both an <i>acquirer</i> and <i>card issuer</i> in that <i>payment system</i>
PAD (EU Payment Accounts Directive)	Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, published in the Official Journal of the EU on 28 August 2014
<i>participants</i>	<p>(a) In relation to a regulated payment system, any operator, payment service provider and infrastructure provider to a regulated payment system. See also s.42(2) FSBRA.</p> <p>(b) In relation to IFR card payment systems , any operator and payment system provider in to that IFR payment card scheme</p>
<i>payee</i>	<i>A person who is the intended recipient of transferred funds</i>
<i>payer</i>	<i>A person who holds a payment account and allows instructions to be given to transfer funds from that payment account, or who gives instructions to transfer funds</i>
<i>payment service provider (PSP)</i>	<p>(a) Any person with access to a regulated payment system who provides services to consumers or businesses who are not participants in the system, for the purposes of enabling the transfer of funds using that regulated payment system. For the purposes of FEES 9, the Bank of England is not considered a payment service provider.</p> <p>(b) Any person with access to an IFR card payment system who acts as an acquirer or card issuer for the purposes of enabling the transfer of funds under the rules of that IFR card payment system</p>
<i>payment system</i>	<i>A system which is operated by one or more persons in the course of business for the purpose of enabling persons to make transfers of funds, and includes a system which is designed to facilitate the transfer of funds using another payment system</i>
<i>payment transaction</i>	<i>An action of transferring funds, initiated by the payer or on its behalf or by the payee, irrespective of any underlying obligations between the payer and the payee</i>

Term or abbreviation	Description
PCIFR	The Payment Card Interchange Fees Regulations 2015 (SI 2015/1911)
person	<i>(In accordance with the Interpretation Act 1978) any person, including a body of persons corporate or unincorporate (that is, a natural person, a legal person and, for example, a partnership)</i>
processing entity	<i>Any person providing payment transaction processing services, in terms of the actions required for the handling of a payment instruction between the acquirer and the card issuer in a card payment system or in an IFR card payment system</i>
PSD2	Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, published in the Official Journal of the EU on 23 December 2015
PSR	<i>The Payment Systems Regulator Limited, the body corporate established by the FCA under section 40(1) of FSBRA</i>
PSR fee (also referred to as PSR regulatory fee)	<i>The fee payable by a PSR fee payer under FEES 9.2.1R</i>
PSR fee payer	<i>A direct payment service provider, or an operator acting as a PSR fee payer, eligible to pay a PSR fee in accordance with FEES 9.2.1R</i>
PSRs 2017	Payment Services Regulations 2017
regulated payment system	<i>Any payment systems designated by the Treasury in accordance with s.43 FSBRA. As of the date of publication this includes Bacs, C&C, CHAPS, FPS, LINK, NICC, Mastercard and Visa</i>
regulated person	<i>A person on whom an obligation, prohibition or restriction is imposed by any provision of the IFR, including participants in IFR card payment systems</i>
relevant time period	For each <i>payment system</i> listed in column 1 of the table in FEES 9 Annex 1R, the time period or date specified for that <i>payment system</i> in column 3 of Table A

Term or abbreviation	Description
service-user	Those who use, or are likely to use, services provided by payment systems
transaction values	For each <i>payment system</i> listed in column 1 of the table in <i>FEES 9 Annex 1R</i> , the total value of the transfers of funds of the type specified in column 2 of the table undertaken by each <i>PSR fee payer</i> in the <i>relevant time period</i>
transaction volumes	For each <i>payment system</i> listed in column 1 of the table in <i>FEES 9 Annex 1R</i> , the total number of transfers of funds of the type specified in column 2 of the table undertaken by each <i>PSR fee payer</i> in the <i>relevant time period</i>
transactions by acquirers operating in the UK	<p><i>All transactions acquired by:</i></p> <p><i>(a) UK-based acquirers (or an operator acting as such an acquirer) resulting in payments to merchants located in the United Kingdom</i></p> <p><i>(b) UK-based acquirers (or an operator acting as such an acquirer) resulting in payments to merchants located outside the UK and</i></p> <p><i>(c) non-UK-based acquirers (or an operator acting as such acquirer) resulting in payments to merchants located in the UK</i></p>
(the) Treasury	Her Majesty's Treasury
Visa (Visa Europe)	<p><i>The Visa Europe regulated payment system designated by HM Treasury under section 43 of FSBRA and the Visa Europe IFR card payment system</i></p> <p><i>(The regulated payment system supporting payments made by cards and operated by Visa Europe and Visa UK Limited)</i></p>
working days	<i>Any day other than a Saturday, a Sunday, Christmas Day, Good Friday or a day which is a bank holiday under the Banking and Financial Dealings Act 1971 in any part of the United Kingdom</i>

Annex 6

List of respondents to CP17/44

The following firms responded to CP17/44:

- American Express
- Bacs
- Barclays
- Belfast Bankers Clearing Company
- Faster Payments
- HSBC
- LINK
- Lloyds
- Mastercard
- Metro Bank
- Nationwide
- PayPoint
- PSP (name redacted)
- RBS
- Visa

