

Mastercard Inc Compliance Report

- General Direction 3

Form B – General Direction 3

Please complete the form below, ensuring that you respond to each section of the paper. The **main headings** relate to the reporting requirements of general direction 3 (3.4, a-f). The *sub-headings* provide you with guidance on the information that we would like you to provide in order to meet the reporting requirements.

| a) Self-assessment by the operator on compliance of its access requirements contained in regulation 97 of the PSR 2009 throughout the relevant period. | |
|--|---|
| <p><i>I) Please provide a statement as to whether you consider that you have complied with the obligation contained in regulation 97 of the PSR 2009 throughout the relevant period.</i></p> <p><i>You should cross-refer to a statement of compliance from a responsible person in this regard.</i></p> | <ul style="list-style-type: none"> ➤ Mastercard considers it has been fully compliant with regulation 97 of the Payment Services Regulations 2009 throughout the relevant period. We refer to the statement of compliance contained on the cover sheet above. |
| <p><i>II) Please provide us with an explanation and evidence as to why you consider that your access requirements mean that you have complied with the obligation contained in regulation 97 of the PSR 2009.</i></p> | <ul style="list-style-type: none"> ➤ Mastercard’s access requirements are contained within its Rules at Chapter 1: The Licence and Participation. There are 3 basic obligations outlined in sections 1.1, 1.2 and 1.3 of the Rules, respectively. Section 1.1 requires a potential licensee to be authorised and supervised to provide financial services. Section 1.2 requires a potential licensee to provide evidence that it complies with Mastercard’s Anti-Money Laundering (AML) programme. Section 1.3 requires a potential licensee to satisfy minimum financial requirements. Section 1.4 allows Mastercard to impose special conditions, primarily in order to support compliance with sections 1.2 and 1.3. ➤ The core requirement of regulation 97 of the Payment Services Regulations 2009 is that those access requirements should be objective, proportionate and non-discriminatory. We will briefly address each in turn in order to demonstrate how the relevant Rules demonstrably comply with those requirements both in terms of how they are drafted and how they are applied. |

General Directions: Mastercard Compliance Report

| | |
|--|---|
| | <p>Objective Mastercard’s access requirements are objectively justifiable both in terms of their conditions and the manner in which they are applied. The section 1.1 requirement to be authorised to provide financial services is necessary minimum legal requirement. The section 1.2 requirement to demonstrate compliance with Mastercard’s AML programme is similarly a necessary minimum designed to protect both Mastercard and the potential licensee. The section 1.3 requirement to satisfy minimum financial requirements is essential to support Mastercard’s settlement guarantee, which is the core element of the services provided by Mastercard and the basis for the engagement of all parties. Section 1.4 allows Mastercard to require potential licensees to provide collateral, which is the essential means by which merchants can be protected and be assured of receiving payment.</p> <p>Proportionate As outlined above, the requirements in section 1 are necessary basic conditions without which Mastercard would be unable to provide its services, with the result that consumers, merchants and the integrity of the payment system would not be adequately protected. As such, they are entirely proportionate to the significant risk of harm which they are specifically designed to address. They are carefully targeted at the highlighted risks and do not impose any broader obligations than necessary which might otherwise unjustifiably benefit Mastercard or adversely affect the potential licensee.</p> <p>Non-Discriminatory The requirements in section 1 are applied consistently to all potential licensees. Inevitably, the outcomes will be determined on a case by case basis, but differing outcomes result from the different circumstances of each applicant e.g. its financial status or provision of adequate evidence of AML compliance. They do not result from differences in how Mastercard applies the requirements. In addition, the requirements are not drafted in such a way as to favour one type of potential licensee over another. As explained above, they are objectively justifiable and proportionate on their own merits.</p> |
| <p><i>III) Please highlight any changes that have been made to the access requirements over the relevant period. Where changes have been made, please explain how they better meet the obligation contained in regulation 97 of the PSR 2009</i></p> | <ul style="list-style-type: none"> ➤ Although the access requirements have not themselves been changed (as the PSR has not suggested to Mastercard that there is any need or benefit in doing so), Mastercard has taken steps to improve transparency, clarity and understanding of the licence application process. This was in response to specific representations made by the PSR and indeed it was the only area which the PSR directly stated that improvements needed to be made. ➤ Mastercard has established a new section of its UK website in order to help potential licensees understand exactly what they need to do in order to obtain a Mastercard licence. It begins with |

General Directions: Mastercard Compliance Report

| | |
|--|---|
| <p><i>and how they addressed any relevant concerns or focus areas we have identified.</i></p> | <p>a link to the Mastercard Rules, explaining that they contain the access and eligibility criteria and sets out “<i>Who can become an issuing and/or acquiring licensee of Mastercard?</i>”, describing the difference between a Principal and Affiliate customer.</p> <ul style="list-style-type: none"> ➤ The remainder of the section contains a “<i>Step by step guide to becoming a principal licensee of Mastercard</i>”, explaining in clear and simple language exactly what a prospective customer will need to do, including the information and documentation which will be required. (As outlined above, that documentation is kept to a minimum and is limited only to what is genuinely required by Mastercard to process the application.) It explains that the decision to grant the licence will be made simply on the basis of Customer Risk Management and AML considerations (which as outlined above, are applied in an objective and non-discriminatory manner). Finally, it explains that the granting of the licence is necessarily separate from any commercial and technical implementation which may be required for issuing or acquiring activity. ➤ The section of the website also includes a Q&A covering matters such as timing and AML requirements. It also contains relevant contact details for enquiries and submission of the application ➤ The section is available here, but it is also very easily accessible from the search box on the homepage. For example it will be displayed by searching for a wide range of relevant terms including “<i>access</i>”, “<i>new licence</i>”, “<i>join Mastercard</i>” or “<i>licensee</i>” |
| <p>b) Details of all occasions in the relevant period when an expression of interest in potentially securing direct access or direct technical access has been made and details of the operator’s response to, and outcome of, such expression of interest.</p> | |
| <p><i>I) Information for publication on new members and demand for access.</i></p> | <p><i>Complete the following table. Data should be correct as at 30 September 2016.</i></p> <ul style="list-style-type: none"> ➤ Mastercard does not monitor or receive formal expressions of interest in the manner envisaged by the PSR. Rather, the first stage in the process is for the customer to request access to the ‘New Customer Onboarding’ tool. Following such a request, Mastercard takes 1-3 business days to create an ‘NCO Work Object’, which is the first stage in the process which Mastercard tracks. Following creation of the ‘NCO Work Object’ on its system, Mastercard takes a further 2-3 business days to grant the customer access to that ‘NCO Work Object’ i.e. to the onboarding tool. Therefore a customer will typically receive access to Mastercard’s system (in order to |

General Directions: Mastercard Compliance Report

| | | | | |
|--|---|---|---|---|
| | <p>submit a licence application) within a week of requesting it.</p> <ul style="list-style-type: none"> ➤ The next stage in the process is for the customer actually to submit the application. Mastercard has no control over how long a customer may decide to wait until submitting an application. Some do so within a few days, whilst others might put it on hold for several months. ➤ On receipt of an application, Mastercard will carefully consider it according to its rules, following which process a license is almost always granted. | | | |
| | <i>Number of Expressions of interest</i> | <i>Number of signed letters of intent</i> | <i>Number of new members/direct participants during reporting period</i> | <i>Number of members/direct participants</i> |
| | <ul style="list-style-type: none"> ➤ As explained, Mastercard does not monitor or receive formal expressions of interest in the manner envisaged by the PSR. | <ul style="list-style-type: none"> ➤ Mastercard does not provide letters of intent, but at 30 September it had 9 outstanding applications, which it was reviewing. In addition, it had granted access to its 'New Customer Onboarding' tool to a further 6 potential licensees, which had not yet submitted applications | <ul style="list-style-type: none"> ➤ Mastercard has approved 12 applications during the period | <ul style="list-style-type: none"> ➤ Mastercard had a total of 98 direct participants on 30 September 2016 |
| <p><i>II) Confidential information on demand for access.</i></p> | <p>Please complete the table at confidential annex 1. This information will not be published.</p> <p>We have amended the headings in the table in order more accurately to reflect Mastercard processes, as outlined above.</p> | | | |

General Directions: Mastercard Compliance Report

| c) Details of all occasions in the relevant period when an enquiry or objection regarding potential changes to the <i>access requirements</i> has been made to the <i>operator</i> and details of the <i>operator's</i> response to, and outcome of, such enquiry or objection. | |
|---|--|
| <i>I) Number of enquires made to change access requirements.</i> | ➤ Mastercard has not received any enquiries to change its access requirements. Details of the number of applications declined during the relevant period are included at footnote 2 to confidential annex 1. This highlights why potential licensees are most unlikely to have grounds for complaining about Mastercard's access requirements. |
| <i>II) Please provide a general explanation of the process that is followed to deal with these enquires.</i> | ➤ N/A |
| <i>III) Number of objections made to any proposed changes.</i> | ➤ For reasons further explained in section (e), Mastercard has not proposed any changes its access requirements and therefore no such objections have been received. |
| <i>IV) Please provide a general explanation of the process that is followed to deal with these objections.</i> | ➤ N/A |
| <i>V) Confidential information on enquiries and objections.</i> | <i>Please complete the table at confidential annex 2. This information will not be published.</i> Mastercard has not received any enquiries or objections regarding potential changes to its access requirements. |
| d) Details of all occasions in the relevant period when the operator has engaged with, and considered, the views of payment service providers and other interested parties on the operation and effectiveness of its access requirements. | |
| <i>I) Please provide a general explanation of the process you follow to engage with interested parties.</i> | <i>(e.g. consult, survey, research, etc)</i> Mastercard's UK business is deliberately structured entirely around engaging with customers and responding to any issues or concerns which they may raise. The vast majority of staff employed by the UK business are directly engaged in account management roles, interacting with customers on a very regular (if not daily) basis. It is their job to have an acute sense and understanding of their customers' needs and expectations and to be extremely responsive to any issues or concerns which arise. |

General Directions: Mastercard Compliance Report

In addition to this highly developed account management function, Mastercard engages with its customers in a wide variety of other fora including:-

- *PSR Panel and Payments Strategy Forum* – Mastercard is a member of/closely involved in the work of these groups, engaging on a variety of issues including access
- *UK Cards Association* – Mastercard meets regularly with UK Cards, attends some working groups and maintains a close relationship with them on a wide range of issues, impacting its issuing and acquiring members
- *Acquirers Forum* – Mastercard engages with the Acquirers Forum, established during 2016, although we understand it currently to be an informal
- *Quarterly Business Reviews* – detailed customer meetings typically attended by a range of representatives from both Mastercard and the customer, at which a wide range of issues are raised and discussed
- *Customer events* – Mastercard hosts a number of events from larger conferences to smaller roundtables at which it engages with its customers on a variety of issues
- *Industry engagement* – led primarily by the Market Development team, Mastercard attends a plethora of industry events at which a wide range of issues are raised

Following a restructure in late 2015, Mastercard also now has dedicated UK-based regulatory staff who attend and engage in all of the above, in order to hear from customers directly. This ensures that any customer concerns related to access or other regulatory matters can be effectively identified, monitored and escalated accordingly.

In terms of the specifics of the access and licensing process itself, Mastercard engages very directly with potential licensees throughout that process. As can be seen in the responses to section (b), the number of licence applications which Mastercard receives is reasonably limited and therefore each application can be carefully considered and each applicant directly engaged from start to finish. It is straightforward for any applicant to get in touch and make representations to Mastercard at any point during the process.

As referred to in response to section (c) above, Mastercard has not received any objections to its access requirements or licensing process. This is unsurprising as the process is both limited and straightforward for potential licensees, on average takes just 8-10 weeks for a typical application leading to a licence being granted in the vast majority of cases.

General Directions: Mastercard Compliance Report

| | |
|---|--|
| | <p>Therefore although Mastercard has not undertaken any formal surveys or research regarding its licensing process, it has a very good understanding of how effectively it operates for potential licensees and whether they encounter substantive difficulties at any stage. It is clear to Mastercard that that is not the case and that for applicants which are able to provide the (limited and necessary) information and documentation required, the process proceeds extremely smoothly.</p> <p>Once licensees are onboard and operational, they enter into Mastercard’s extensive account management process described above, which is extremely receptive and responsive to any issues or objections which they may raise on any matter.</p> |
| <p><i>II) Confidential information on views expressed relating to the operation and effectiveness of the access requirements.</i></p> | <p>Please complete the table at confidential annex 3. This information will not be published.</p> <p>Mastercard has not received any views relating to the operation and effectiveness of the access requirements.</p> |
| <p>e) Details of any anticipated <i>operator</i> review, or engagement with <i>payment service providers</i> and other interested parties, that the <i>operator</i> plans to take over the following 12-month period in relation to its access requirements.</p> | |
| <p><i>If you are currently reviewing your access requirements, please include a description of that work. You should explain the aim of the work (and how it relates to the General Direction 3 obligation), the progress that has been made to date, the way in which stakeholders have</i></p> | <p>As outlined in section (a), Mastercard believes that its access requirements are entirely compliant with regulation 97 of the Payment Services Regulations 2009, but during the relevant period we have taken steps to improve the transparency, clarity and understanding of the licence application process.</p> <p>As outlined in section (c), Mastercard has not received any objections to its licensing process.</p> <p>Mastercard has considered in detail the PSR’s report “Access and governance of payment systems: the operators’ progress and areas for ongoing focus” published on 15 December 2015. In particular</p> |

General Directions: Mastercard Compliance Report

| | |
|--|---|
| <p><i>informed the work and the expected completion date.</i></p> | <p>we have also considered the “Mastercard: Areas for further focus” subsequently provided. In that document, four areas for further progress were included. Although they do not appear to relate specifically to Mastercard access requirements, we comment on each one as follows:-</p> <ul style="list-style-type: none"> ▪ <u>Public disclosure of access requirements</u> – this has been fully addressed as outlined in section (a) ▪ <u>Technical and operating requirements</u> – Mastercard has evaluated its access requirements and believes that they constitute the necessary minimum ▪ <u>Fee requirements (including Interchange Fee Regulation)</u> – no further changes have been made or are considered necessary, in addition to those outlined in the 2015 Compliance Report ▪ <u>On-boarding processes</u> – Mastercard has evaluated its on-boarding processes and considers that they are clear and well-defined and we are not aware of any objections having been received concerning them <p>For all of these reasons, Mastercard is not currently proposing any changes to its access requirements.</p> |
| <p><i>If you are planning to review your access requirements in the next 12 months, please include a description of the planned work. You should explain the aim of the work (and how it related to the General Direction 2 obligation), the way in which stakeholders will be engaged in the work, the planned stages of the project and the expected completion date.</i></p> | <p>For all of the reasons outlined above, Mastercard is not currently planning to amend its access requirements during the next 12 months. However, access issues are continually kept under review and we therefore welcome comments which the PSR may have in that regard, specifically in relation to any areas of non-compliance with regulation 97 of the Payment Services Regulations 2009.</p> |
| <p>f) Details of any anticipated future developments that the operator considers may require or justify</p> | |

General Directions: Mastercard Compliance Report

| material updates or changes to its <i>access requirements</i> . | |
|--|--|
| Please provide an explanation of the anticipated future developments you have identified. | Mastercard is not aware of any anticipated future developments which may require or justify material updates or changes to its access requirements |
| Please provide an explanation of how any of these developments could have an impact on your access requirements. | N/A |