

# **Access and governance report on payment systems: update on progress and areas for ongoing focus**

## **Annex: The operators' progress in 2016**

March 2017

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## Part 1 Introduction

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### The purpose of this annex

- 1.1 This annex provides a summary of the compliance reports we received from seven payment system operators (operators)<sup>1</sup>, showing how they are complying with measures we introduced to improve direct access (General Direction 2 and General Direction 3) and service-user representation (General Direction 4).<sup>2</sup>
- 1.2 The operators submitted reports explaining compliance with these directions to us in October 2016. We have published non-confidential sections of the operators’ reports alongside this annex.
- 1.3 This annex provides supporting material to the main report, which describes how access to payment systems is changing.

**Figure 1: The payment systems and their operators**

Payment system	Operator
Bacs	Bacs Payment Schemes Ltd (BPSL)
Cheque and Credit (C&C)	Cheque and Credit Clearing Company Ltd (C&CCCL)
CHAPS	CHAPS Clearing Company Ltd (CHAPS Co)
Faster Payments (FPS)	Faster Payments Scheme Ltd (FPSL)
LINK	Link Scheme Ltd (Link Scheme)
Visa	Visa Europe Ltd (Visa Europe)
Mastercard	Mastercard Inc

### Context

- 1.4 In April 2015 we introduced directions to address concerns raised by stakeholders about access to, and the governance of, payment systems. Our directions to participants in regulated payment systems require or prohibit specified actions in relation to those systems.<sup>3</sup>
- 1.5 General Direction 2 on access requires operators to publish their access requirements – which must promote fair and open access to their payment systems. General Direction 2 applies to the operators of Bacs, CHAPS, C&C and FPS.

1 BPSL, CHAPS Co, C&CCCL, FPSL, Link Scheme, Visa Europe and Mastercard Inc.

2 This annex and the report it accompanies do not consider General Direction 5 or General Direction 6.

3 See our policy statement PS15/1, *A new regulatory framework for payment systems in the UK* (March 2015): [www.psr.org.uk/psr-publications/policy-statements/policy-statement-151](http://www.psr.org.uk/psr-publications/policy-statements/policy-statement-151)

**1.6** General Direction 3 on access requires the operators of LINK, Mastercard and Visa to publish their access requirements.<sup>4</sup>

**1.7** In addition to the access directions, we introduced General Direction 4, which requires the operators of Bacs, CHAPS, C&C, FPS and LINK to ensure that the interests of service-users are appropriately represented in their governing body’s decision-making processes.

**Figure 2: Our general directions and the operators they apply to**

Operator	GD2	GD3	GD4
BPSL	✓		✓
C&CCCL	✓		✓
CHAPS Co	✓		✓
FPSL	✓		✓
Link Scheme		✓	✓
Visa Europe		✓	
Mastercard Inc		✓	

**1.8** All three directions require the relevant operators to submit an annual compliance report to us by 31 October each year.

**1.9** In 2015 we received the operators’ first compliance reports showing how they considered they were complying with these measures. We published our findings on the progress they had made in our December 2015 access and governance report.<sup>5</sup> While we considered that the operators had made a good start, we also identified a number of areas for operators to focus on, relating to both access and service-user representation in decision-making (‘focus areas’). This annex explains the further work the operators have done in response.

**Structure**

**1.10** The rest of this annex is structured as follows:

- **Part 2** explains the progress the operators made in relation to their access obligations (General Direction 2) in the last reporting period, and highlights further work that they plan to do.
- **Part 3** explains the progress the operators made in relation to their access obligations (General Direction 3) in the last reporting period, and highlights further work that they plan to do.
- **Part 4** explains the progress the operators made in relation to their service-user obligations (General Direction 4) in the last reporting period, and highlights further work they plan to do.

<sup>4</sup> General Direction 2 does not apply to Link Scheme, Mastercard and Visa as they have obligations under the Payment Services Regulations 2009.

<sup>5</sup> You can find out more about the December 2015 Access and governance report at: [www.psr.org.uk/psr-publications/news-announcements/access-and-governance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-and-governance-report)

## Part 2 Access (General Direction 2)

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### Introduction

- 2.1** In 2015 we saw some encouraging signs from the operators in opening up access. We found that operators had ensured their access requirements were publicly disclosed and were working towards ensuring the requirements were objective and risk-based (permitting fair and open access in line with General Direction 2). In some cases, operators also worked towards making direct access more flexible (for example, by developing new models of access). However, we found a number of areas, which stakeholders had previously identified, where more work was needed. To address these issues, we set operators a number of access-related focus areas. These included:
- **Public disclosure of access requirements:** We noted that operators had improved the information they make available to potential members. However, some information was only available on signing a non-disclosure agreement (NDA). We explained that we wanted operators to make as much information as possible available without an NDA, and only use an NDA when this is reasonably justified.
  - **Bank of England settlement account:** We set out an expectation for the operators to engage with the Bank where necessary on its real-time gross settlement (RTGS) review, and to continue to consider alternative solutions or settlement models.
  - **Access models:** We asked operators to continue to consider changes to their access models that could support more proportionate and open access for smaller banks and non-bank payment service providers (PSPs).
  - **Onboarding processes:** We asked operators to look at streamlining their onboarding processes or making them more consistent across operators.
- 2.2** This section provides a short summary of the progress made by each operator in 2015, and any additional focus areas we set for individual operators. This is followed by a summary of their progress in 2016 and future work they have told us about in their 2016 annual compliance reports.
- ### A. BPSL
- 2.3** In 2015 BPSL identified several pieces of work that it was to continue in 2016. These included reviewing its access and participation criteria, consulting on the Direct Debit Guarantee scheme, and completing a review of sort codes and bank reference data. BPSL also confirmed it was reviewing the Bacs technical access channels it offers to agency PSPs and new entrants.
- 2.4** In its 2015 compliance report, BPSL also said it was in discussions with a number of potential new direct participants. These discussions focused on:
- the impact of pre-funding<sup>6</sup>
  - access to appropriate accounts at the Bank
  - whether indirect access is more appropriate in the short to medium term for new participants to connect to Bacs
- 2.5** In September 2015, settlement pre-funding was introduced for Bacs, in conjunction with the Bank.

<sup>6</sup> Pre-funding requires all direct participants to hold cash to the value of their net payments made, which means if they get into difficulties this money can be used to settle them without other participants having to contribute.

2.6 In addition to the general focus areas set out above, we asked BPSL to:

- complete its review of the process for allocating sort codes and managing related data
- through consultation, consider and assess stakeholder concerns relating to the Direct Debit Guarantee

### Progress in this reporting period

2.7 In 2016 BPSL did not grant access to Bacs to any new direct participants (there are currently 16). However, BPSL currently anticipates five new joiners in 2017 (including two banks as part of implementing ring-fencing).

2.8 In BPSL's 2016 compliance report<sup>7</sup> it describes recent developments including the following:

- **Public disclosure of access requirements:** BPSL has begun a project with the Interbank System Operators' Coordination Committee (ISOCC) to ensure that documentation is made available on its website in a manner that is consistent with other operators. This is scheduled to be complete in Q1 2017. BPSL's document publication policy is to publish documentation where BPSL is the owner and where publication does not present a risk to the security of the Bacs service, breach data protection, or disclose commercially sensitive information where distribution should be controlled.
- **Bank of England settlement account:** BPSL notes that it assisted the Bank in a number of discussions relating to the approach and direction of its RTGS review.
- **Access models:** Following work in 2016, BPSL launched its accredited aggregator service in January 2017. Under this arrangement, firms can apply to become a 'Bacs Accredited Aggregator', which enables them to provide their PSP customers with technical access to all Bacs services.<sup>8</sup> BPSL expects that aggregators will help to remove potential cost barriers by providing PSPs with a 'one-stop shop' for technical access.
- **Onboarding:** BPSL reviewed its onboarding processes as part of its 2016 work programme, using live experiences with a number of new applicants to assist with this exercise. As a result of the review BPSL has completed a draft new onboarding process. It has also created a small team to support PSPs who are considering becoming Bacs participants and has set up a dedicated access mailbox for enquiries.
- **Sort codes:** In June 2016, BPSL made changes to simplify the way PSPs get access to sort codes. It has launched a website providing cross-scheme information about sort code access and is continuing to update this content.

### Areas of future work

2.9 As well as the work identified above, BPSL told us it will be doing work in the following areas in 2017:

- BPSL is continuing its work considering the Direct Debit Guarantee as part of its wider strategy for the Direct Debit product. It has completed research on the Guarantee and carried out a public consultation. BPSL is now working on developing proposals driven by the evidence from its research. It expects to report its findings and strategy proposals to its board in March 2017.
- Work is underway to work fully with the Bank on the decisions it makes on the future development of RTGS.

<sup>7</sup> [www.psr.org.uk/psr-publications/news-announcements/access-BPSL-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-BPSL-compliance-report)

<sup>8</sup> *Bacs Accredited Aggregator Service* (January 2017): [www.bacs.co.uk/documentlibrary/bacsaggregatorproposition.pdf](http://www.bacs.co.uk/documentlibrary/bacsaggregatorproposition.pdf)

- BPSL will continue to develop and refine its onboarding process. It has plans to develop a message validation tool that could provide for earlier testing.
- BPSL is also developing a plan to deliver an ISO 20022 Message Implementation Guide and Schema documentation to support the ISO 20022 Translation Guide it published in January 2017.
- BPSL is rolling out new functionality that enables PSPs to collect payment and Direct Debit Instruction output via the Bacs Payment Services Website (PSW). BPSL says this will provide a low-cost alternative to its existing channels for low-volume participants.

**2.10** BPSL has also noted that, as a member of ISOCC, it is working on a project proposed by the Payments Strategy Forum (the Forum) to introduce common participation models and rules across CHAPS, Bacs, FPS, C&C and LINK. This work is expected to continue throughout 2017.

## **B. C&CCCL**

**2.11** In 2015 C&CCCL told us it was working on its Future Clearing Model (FCM) to enable sterling cheque and credit payments to be processed using imaging technology. It had identified a number of actions it was to take forward during the FCM project to improve access. These included redefining its technical and operational requirements to bring them in line with the infrastructure development supporting the new system, called the Image Clearing System (ICS). C&CCCL was also working to ensure that its funding and charging principles for the new system would be fair, open and transparent.

**2.12** In addition to the general focus areas set out above, we asked C&CCCL to consider the development of an accreditation process for providers of technical access solutions to the ICS.

## **Progress in this reporting period**

**2.13** C&CCCL currently has 11 direct participants using its existing system. It did not grant access to any new members in the last year (it has placed a freeze on adding new PSPs to the old C&C system, as it prepares to introduce ICS), but has over 20 expressions of interest to join the new ICS.

**2.14** In C&CCCL's 2016 compliance report<sup>9</sup> it describes recent developments including the following:

- **Public disclosure of access requirements:** To support transparency and the provision of information, C&CCCL issued a direct access proposition document to potential new participants in January 2016. This gave them an update on the development of ICS. C&CCCL continues to develop this document as the ICS project moves forward.
- **Access models:** C&CCCL describes the access criteria for its newly defined participant types – Settlement Participant, Direct (Switch) Participant and Access Participant (see the compliance report for a list of the access criteria and how they apply to different participant types). The participation types are structured so as to promote fair and open access. As a result of this it is possible that a PSP, processor or infrastructure company that submits payments directly to the ICS central switch may process transactions for itself or for indirect participants. The participant types will be available from the onset of ICS. C&CCCL anticipates that participants will have greater flexibility to switch between participation options after the launch of ICS.
- **ICS funding:** C&CCCL is also continuing to finalise its funding and charging models for ICS, based on volume and a standard per item charge for services used. This supports the key principle of ensuring the models are fair, open and transparent.

<sup>9</sup> [www.psr.org.uk/psr-publications/news-announcements/access-C&CCCL-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-C&CCCL-compliance-report)

- **Onboarding:** C&CCCL is also working to make sure its onboarding processes are transparent and proportionate to each type of participant. It will publish the full processes on its website once it has completed this work and in line with the live dates for ICS. The onboarding process will form a part of the ICS manual; as such, it will be subject to stakeholder consultation. Work is also underway on defining a proportionate assurance process for new participants. This work will assess the risk brought to the system by each type of participant. Again, C&CCCL will publish these assurance requirements when it has completed them and in line with the live dates for ICS.
- **Accreditation process:** C&CCCL intends to introduce a warranty process for third party organisations that provide hardware and software services to ICS participants. A list of organisations who have signed the warranty will be available on the C&C website detailing the type of services they provide with a description of the organisation.

### Areas of future work

- 2.15** C&CCCL's focus for 2017 is on completing the development of the ICS. It is also continuing work with ISOCC to introduce common participation models and rules across CHAPS, Bacs, FPS, C&C and LINK.

### C. CHAPS Co

- 2.16** In 2015, CHAPS Co was in the process of implementing its Participant Categorisation Model (PCM), in which participants would be assigned to a risk category based on the systemic and operational risk they brought to the system. At the time, CHAPS Co was in the final stages of a review of the draft CHAPS manual. This was published and adopted by all direct participants in February 2017.
- 2.17** In 2015 CHAPS Co introduced a new funding model which comprised two elements. First is a fixed annual shareholder's charge (around £30,000), and second is a usage charge based on the previous year's transaction volumes. CHAPS Co considers that this new model reduces participation fees by around 50% for a low-volume participant. CHAPS Co feels that this significantly lowers potential barriers for some smaller PSPs as its previous model was based on the volume of processed payments (subject to all participants making a minimum 2% contribution towards the total costs).
- 2.18** In addition to the general focus areas set out above, we also encouraged CHAPS Co to explore how it could share the new rule framework with prospective participants once the CHAPS Board had approved it in Q1 2016.

### Progress in this reporting period

- 2.19** During 2016, CHAPS Co granted direct access to two participants. It now has 24 direct participants. It currently anticipates four new joiners during 2017 (including two ring-fenced banks).
- 2.20** In CHAPS Co's 2016 compliance report<sup>10</sup> it describes recent developments including the following:
- **Public disclosure of access requirements:** CHAPS Co published a draft version of the CHAPS reference manual on its website on 31 October 2016. It intends its updated reference manual to enable an increase in the amount of information in the public domain. This would reduce the need for NDAs. CHAPS Co published its finalised reference manual in February 2017.

<sup>10</sup> [www.psr.org.uk/psr-publications/news-announcements/access-CHAPS-CO-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-CHAPS-CO-compliance-report)



- **Access models:** CHAPS Co has integrated its PCM into the new CHAPS reference manual, allowing it to categorise participants according to the level of risk they bring to the payment system. CHAPS Co has identified the following considerations when it assesses which category participants fall into:
  - o whether the participant is a financial market infrastructure (FMI)
  - o the volume and values of transactions submitted
  - o whether the CHAPS participant holds the status of a global systemically important bank or is a primary clearer for an FMI

CHAPS Co participants that are categorised as Category 1 (i.e. bringing the largest potential systemic risk to the payment system) must meet all the requirements in the CHAPS Co Reference Manual governing participation in CHAPS. Participants categorised as Category 2 or 3 only need to meet a subset of the requirements.

- **Onboarding:** In support of the onboarding focus area highlighted in December 2015, CHAPS Co has recruited a new Head of Onboarding and an Onboarding Project Manager. A new onboarding handbook has been introduced, with the aim of covering all onboarding participants regardless of their reasons for joining. CHAPS Co also has an Expressions of Interest tracker, which is an internal tool it uses to track the expressions of interest from prospective participants.

#### Areas of future work

**2.21** As well as the work identified above, CHAPS Co told us it will be doing work in the following areas in 2017 and beyond:

- CHAPS Co will issue a separate annex to the CHAPS rules to include ring-fence related amendments. This annex will describe additional requirements that the affected direct participants will need to comply with. CHAPS Co does not anticipate the introduction of any other access requirements. It has confirmed that the separate annex will be removed once the affected direct participants have complied with the ring-fencing regime.
- In its RTGS review, the Bank has been examining alternative solutions and settlement models that would facilitate more open access to settlement accounts. These are intrinsically linked to direct participation in CHAPS and other payment systems. CHAPS Co expects further work to come out of the review.

#### D. FPSL

**2.22** In its 2015 compliance report, FPSL explained that participants gained access to its system by connecting directly via the participants' own dedicated in-house systems or indirectly via a sponsor bank. At the time, FPSL had been encouraging the use of aggregators as another way to enable direct connection to Faster Payments. It felt that this should mean lower costs and better service for prospective joiners.

**2.23** FPSL also said it was conducting several further pieces of work:

- It was reviewing public disclosure of its full costs and was planning to publish as much information as possible.
- It was introducing a software accreditation programme for technical vendors and aggregators who wanted to offer FPS technical access services.
- It was working on new assurance processes that involved a more risk-based approach. These were to be implemented in early 2016. It would carry out periodic reviews with varying frequencies, determined by the level of risk brought to the service by each PSP.

### Progress in this reporting period

**2.24** In 2016 FPSL increased its number of direct participants from 11 to 13. It currently anticipates 11 new joiners in 2017 (including two ring-fenced banks as part of implementing ring-fencing).

**2.25** In FPSL's 2016 compliance report<sup>11</sup> it describes recent developments including the following:

- **Public disclosure of access requirements:** In January 2016, FPSL published detailed information about its fees structure. Its fees and tariffs are publicly available on its website. FPSL has also reviewed its fees for direct access so that prospective participants can assess for themselves if joining FPS is right for them. Once participants have signed an NDA, FPSL discusses further costs with them, which will include any one-off testing and integration costs.
- **Access models:** FPSL has sought to open up access through the use of technical aggregators. It has introduced an online testing environment, allowing technical vendors and aggregators to test that their software meets the functional requirements for FPS and then be accredited. It has developed a new access model containing three levels of technical accreditation:
  1. participant to participant
  2. sponsor bank authorisations
  3. non-settling participants

It has already implemented the first two levels, and expects to implement the third in the summer of 2017.

FPSL accredited five technical aggregators during 2016.

Vendors who pass the accreditation test and want to be accredited by FPSL are charged a nominal fee. FPSL uses this to offset the cost of developing and maintaining this service.

FPSL has also confirmed it is in the process of reviewing all of its documentation to take the role of aggregators into account. The review will look at documentation such as scheme procedures and rules. FPSL states that this will provide clear boundaries of responsibility between PSPs and aggregators.

- **Onboarding:** In 2016, FPSL expanded its onboarding team from one to three onboarding managers, to support the growing interest from prospective participants. FPSL told us it has not found any PSP to be uncomfortable in signing an NDA. It has also given prospective participants access to an onboarding 'roadmap' which explains the activities involved in the process.

<sup>11</sup> [www.psr.org.uk/psr-publications/news-announcements/access-FSPL-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-FSPL-compliance-report)

- **Sort codes:** FPSL has also been working alongside BPSL on its Bank Reference Data project. They have been creating a way to arrange sort codes for new FPS participants on an ad-hoc basis without the need to become a Bacs member. FPSL and BPSL have identified a 'short to medium-term' solution that has allowed sort codes to no longer be a barrier to entry, while BPSL works on a longer-term solution.

### Areas of future work

**2.26** As well as the work identified above, FPSL has identified the following areas of work in 2017 and beyond:

- During 2016 FPSL began developing its new assurance model, which will take a more risk-based approach to its participants and aggregators. The new model will see FPSL seek periodic assurances from new and existing participants that they have appropriate and sufficient controls to mitigate risks or threats to the system. FPSL will require all applicants to complete an assurance statement at the frequency determined by the level of risk they bring to FPS.
- It will continue to modify and refine its onboarding roadmap throughout 2017. This sets out the logical view of activities required and the business functions to be established by new participants. FPSL has also developed a plan which outlines a detailed step-by-step guide for potential new FPS participants.

**2.27** FPSL has also been working with ISOCC on a project to introduce common participation models and rules across CHAPS, Bacs, FPS, C&C and LINK.

### Conclusion

**2.28** We think the relevant operators made good progress in addressing the focus areas that we set relating to General Direction 2. The result of this, and other work that has been done by the industry in recent years, is a significant increase in the number of direct participants and the choice of access options available to PSPs. A significant amount of this work is now complete. In particular, we note the progress that FPSL has made in this area, but BPSL and C&CCCL are both working to implement similar improvements in 2017.

### Next steps

**2.29** We have proposed three areas we want the operators to focus on during 2017. We expect them to:

- finish their work in developing access models to make them fair and open
- ensure they have solutions in place to support aggregators
- be ready to progress applications for direct access for non-bank PSPs, if the Bank of England amends its settlement account policy and necessary legislative changes are made

**2.30** Further detail on these focus areas can be found in our main report.

## Part 3 Access (General Direction 3)

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### Introduction

- 3.1** Access for LINK, Visa and Mastercard is regulated according to the requirements set out in the Payment Services Regulations 2009.<sup>12</sup> In addition, our General Direction 3 requires the operators of these systems to publically disclose their access requirements and to provide a report on compliance with their obligations under the Payment Services Regulations 2009.
- 3.2** This section provides a short summary of the progress made by Link Scheme, Mastercard Inc and Visa Europe in 2015. This is followed by a summary of their progress in 2016 and future work they have told us about in their 2016 annual compliance reports.

### A. Link Scheme

- 3.3** In 2015 Link Scheme told us it had recently conducted a review into its governance. In the light of this it felt it might reconsider matters such as membership categories, so that it could better support innovation and competition. It also confirmed that it regularly reviewed its access requirements, and did not consider that changes were necessary at the time.

### Progress in this reporting period

- 3.4** Since our last report, Link Scheme has granted access to two new members. It now has 39 members, and has signed a further three letters of intent from prospective members.
- 3.5** In Link Scheme's 2016 compliance report<sup>13</sup> it describes recent developments including the following:
- Link Scheme is a voluntary contributor to the Forum's Simplifying Access to Markets working group. It notes its belief that LINK is structured in a manner that minimises cost and complexity for service-users, but it is also keen to support the ongoing work of the Forum.
  - Link Scheme has developed a detailed set of documentation to support onboarding and membership enquiries. It made this documentation available to prospective members in late 2016.

### Areas of future work

- 3.6** As well as the work identified above, Link Scheme told us it will be doing work in the following areas in 2017 and beyond:
- It has identified that a review of its process for assessing its eligibility criteria may be appropriate following the restructure of Link Scheme. This review will reflect the possible future set-up of the operator as a company limited by guarantee and the requirement for all members to become a guarantor within that company. Link Scheme expects this review to be completed in the first half of 2017.
- 3.7** Link Scheme is also working alongside other members of ISOCC to introduce common participation models and rules across CHAPS, Bacs, FPS, C&C and LINK. This is expected to continue into 2017.

<sup>12</sup> S.108(1) Financial Services (Banking Reform) Act 2013. The implementation of the second EU Payment Services Directive will alter these regulations in due course.

<sup>13</sup> [www.psr.org.uk/psr-publications/news-announcements/access-LINK-Scheme-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-LINK-Scheme-compliance-report)

## B. Mastercard Inc

**3.8** In 2015 Mastercard Inc confirmed that:

- it believed it was fully compliant with Regulation 97 of the Payment Services Regulations 2009<sup>14</sup>
- it did not plan to review its access requirements in 2016

**3.9** It did note that Article 6 of the Interchange Fee Regulation 2015 (IFR)<sup>15</sup> will require licences for access granted by card schemes to be valid for the 28 EU Member States from December 2015. However, Mastercard Inc noted that no change was needed as it has ensured its licences for participants within the European Economic Area (EEA) are valid for the 31 EEA Member States.

### Progress in this reporting period

**3.10** Mastercard has 98 direct participants. In the last year Mastercard Inc has granted access to 12 new licensees, and had a further nine outstanding applications as of 31 October 2016.

**3.11** In Mastercard Inc's 2016 compliance report<sup>16</sup> it describes recent developments including the following:

- Mastercard Inc's access requirements have not changed in 2016. Despite this, it has taken steps to improve the transparency, clarity and understanding of its license application process. One change it has made is a new section on its UK website to help potential licensees understand exactly what they need to do to obtain a Mastercard license. The website also contains a 'Step by step' guide to becoming a principal licensee of Mastercard, explaining in clear and simple language exactly what a prospective customer will need to do to gain a licence.
- Following a restructure, Mastercard Inc now also has dedicated UK-based regulatory staff who attend and engage in a large number of forums in order to hear from Mastercard's PSPs directly. Mastercard Inc feels that this will ensure it correctly identifies, monitors and escalates any customer concerns.
- Mastercard Inc does not monitor formal expressions of interest but instead tracks participants once the PSP has requested access to its 'New Customer Onboarding Tool'. Once a PSP submits an application, it will 'carefully consider each according to its rules'.

### Areas of future work

**3.12** Mastercard Inc has not identified any future areas of work in relation to its access requirements. However, it stated that it will continually review any access issues.

## C. Visa Europe

**3.13** In 2015, Visa Europe considered itself to be compliant with the requirements of Regulation 97 of the Payment Services Regulations 2009.<sup>17</sup> It also conducted an annual review of its Member Risk Policy to ensure that the policy remains fit for purpose, and is fair, proportionate and non-discriminatory.

**3.14** Visa Europe told us it would need to update its access requirements in light of the IFR.

<sup>14</sup> Payment Services Regulations 2009, S.I. 2009/209: Reg. 97 requires relevant operators' access rules to be (among other things) objective, proportionate and non-discriminatory.

<sup>15</sup> Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions.

<sup>16</sup> [www.psr.org.uk/psr-publications/news-announcements/access-Mastercard-Inc-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-Mastercard-Inc-compliance-report)

<sup>17</sup> Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions.

## Progress in this reporting period

- 3.15** As at 30 September 2016, Visa had 133 direct participants, 70 of which are UK principal members. In the last year, Visa Europe granted access to six new members and has a further eight signed letters of intent with prospective members.
- 3.16** In June 2016, Visa Inc. announced that it had acquired Visa Europe. Visa Europe is now exploring how it can operate more efficiently as part of a global company. It has not yet determined what changes it may make.
- 3.17** Visa Europe told us it has different classes of membership, and that its access requirements differ proportionately across these classes according to the level of risk exposure each one presents.
- 3.18** In Visa Europe's 2016 compliance report<sup>18</sup> it describes recent developments including the following:
- In light of Article 6 of the IFR (which deals with territorial restrictions on licensing), Visa Europe has updated its access requirements. The three core changes of these access requirements were:
    - o removing limits on members' operating jurisdiction
    - o retiring the Visa Europe Cross-Border acquiring and issuing programmes
    - o removing the Group Membership class
  - Following Visa Europe's integration with Visa Inc in June 2016, Visa Inc began work to produce a global set of rules. These went live in October 2016.
  - Since June 2016, and pursuant to the requirements of the IFR, Visa Europe has operated separate business units for its scheme and processing. The separation is supported by new, separate versions of Visa's Operating Regulations for each unit. Visa Europe has noted that the two sets of Operating Regulations provide greater certainty to prospective members.
  - Visa Europe has conducted a review into the use of NDAs and has noted that this is a 'common business practice'. It contends that this is because NDAs are essential to giving parties certainty that vital non-public confidential information will be protected, and also to maintain a competitive advantage.
  - Visa Europe is also working with stakeholders to ensure it is considering the evolving nature of markets and the needs of stakeholders. This ongoing review based on stakeholder needs is expected to continue into 2018.
  - In 2016 Visa Europe reviewed its enquiries mailbox, which is part of the membership section of its website. Its aim was to see how effective the mailbox was in capturing genuine membership enquiries. It has told us that over a 16-month period (June 2015 to September 2016) only one enquiry resulted in a membership application.

## Areas of future work

- 3.19** Visa Europe has not identified any future areas of work in relation to its access requirements.

<sup>18</sup> [www.psr.org.uk/psr-publications/news-announcements/access-VISA-Europe-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-VISA-Europe-compliance-report)

## Conclusion

- 3.20** We have found that Link Scheme, MasterCard Inc and Visa Europe have shown good progress since our last report in December 2015.
- 3.21** Going forward, the second EU payment services directive (PSD2) is expected to be implemented into UK law in January 2018 by way of the Payment Services Regulations 2017 (PSRs 2017). PSD2 is a maximum harmonisation directive and may require us to amend our General Direction 3.
- 3.22** As we describe in the main report, we plan to conduct a review of our General Direction 3 later in the year and will consult on any proposed changes.

## Part 4

### Service-user representation (General Direction 4)

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#### Introduction

- 4.1** In 2015 we said we wanted operators to make more progress on meeting the requirement of General Direction 4. This requires operators of certain regulated payment systems to ensure that there is appropriate representation of the interests of service-users in the operator's governing body's decision-making processes. We identified three areas in which we wanted to see particular focus:
- 1. Breadth of engagement:** Not all the operators had been engaging with a wide enough range of service-users. While some look broadly and engage different groups, others focus narrowly on certain PSPs. We intended to work with the respective operators to agree which service-users should be understood and considered as part of the decision-making process for their payment systems.
  - 2. Representation:** We wanted to be confident that the operators' boards will properly consider the evidence they collect from service-users. Some operators have put clearer representation in place compared to others. Therefore we want operators to demonstrate that they are representing these views appropriately in board discussions. This could include board representation from independent non-executive directors (INEDs) with dedicated accountability for service-users, sub-committees to the board or service-user-focused standing agendas.
  - 3. Continuity:** We noted that several operators were conducting ongoing reviews of their governance arrangements. We wanted the operators to talk to service-users during these reviews to make sure they continue to represent service-users appropriately.
- 4.2** This section provides a short summary of our assessment of the operators' work on service-user representation and governance. This includes a summary of work in this reporting period and areas of future work the operators have identified. In addition, in their compliance reports some of the operators have given updates on work they have done on their governance arrangements. We have included a short summary on this work for each operator.
- #### A. BPSL
- 4.3** In 2015 BPSL told us it was conducting market research and surveys to collect evidence and views about the interests of its service-users. BPSL also co-led, with FPSL, the Electronic Payments Affiliates Interest Group (EPAIG) that met quarterly to engage with payment originators, bureaux, agency banks and other suppliers. BPSL explained that it used member committees to consider proposals and recommendations for change and to take into account service-user views.

## Progress in this reporting period

**4.4** In BPSL's 2016 compliance report<sup>19</sup> it describes recent developments including the following:

### Breadth of engagement

BPSL explained that in 2016 it developed a new approach to its engagement with service-users across the payments value chain. BPSL says this has enabled it to have more and broader engagement with users, industry representatives, consumers, academics and regulators. In its compliance report, it lists a wide range of different organisations that it has engaged with. It also explains that this engagement takes many forms including direct engagement, via affiliate groups, industry groups and other interest groups, and digital and social media.

**4.5** BPSL has also discussed the variety of communication channels and campaigns it uses to relay information and announcements to its stakeholders and service-users. It has run nationwide campaigns including the payment of Council Tax, housing rent, driving licences and household bills.<sup>20</sup>

**4.6** BPSL has created a 'knowledge centre' to increase customer awareness and education. This has included updating guides and rules, delivering 'masterclasses' and webinars and reviewing and redeveloping supporting guides. It will continue to develop further updates.

### Representation

**4.7** In 2016 BPSL developed recommendations regarding its governance arrangements, including increasing service-user representation. This resulted in recruitment of an additional INED onto its board, primarily representing consumer needs.

**4.8** BPSL also carried out an in-depth analysis of its governance in 2016, which identified changes it needed to make. These were to take place in two phases. Phase one included an in-depth analysis of its existing committee structure; it concluded that it should restructure the number of board sub-committees and operational committees. The continuation of this phase will see BPSL introduce a simplified governance model, splitting the company by its product lines. This will result in a smaller number of board executive and operational committees. This will also give the board:

- the ability to develop and promote the vision of the company's purpose, strategy, culture and value
- the opportunity to undertake high-quality decision-making and be held accountable to those who own the Bacs scheme

**4.9** These proposed changes to its governance structure should support the effectiveness of service-user representation in the BPSL decision-making processes.

### Areas of future work

**4.10** BPSL will continue work on phase two of its governance analysis, taking into account the planned consolidation of BPSL, FPSL and C&CCCL at the end of 2017.

<sup>19</sup> [www.psr.org.uk/psr-publications/news-announcements/access-BPSL-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-BPSL-compliance-report)

<sup>20</sup> This includes the London council tax campaign, the Freedom Guaranteed campaign, the National Housing rents campaign and the national council tax campaign.



## B. C&CCCL

- 4.11** In 2015 C&CCCL told us it had several service-user forums and groups it engaged with, and that it conducted surveys on some of the forums to find out service-users' views on various issues. At the time, C&CCCL had three INEDs with a public interest remit on its board, including the Chair. C&CCCL told us that the views of indirect PSPs were represented at board level by directors appointed by indirect access providers. At the time, it was considering developing further communication tools to engage with its service-users (such as webinars, for example).

### Progress in this reporting period

- 4.12** In C&CCCL's 2016 compliance report<sup>21</sup> it describes recent developments including the following:

#### Breadth of engagement

- 4.13** C&CCCL has developed a stakeholder engagement workplan that has identified a number of forums where it can find out stakeholders' views. These include the Cheque Printer Forum, the Electronic Payments Affiliates Interest Group, its own ad-hoc agency bank workshops and cheque user forums. Stakeholders' views that are raised at these forums are now captured on its stakeholder database.
- 4.14** During the first four months of 2016, C&CCCL noted that its stakeholder engagement programme was less active than planned due to the rescheduling of the ICS implementation. However, during this period C&CCCL engaged with various parties about its ICS programme. This engagement included C&CCCL-hosted agency workshops, one-to-one meetings with relevant government bodies, regulators and agency banks, and meetings with key representatives from relevant organisations and charities.
- 4.15** C&CCCL tracks all the issues raised through its engagement with other parties using an internal database. It assigns an owner to each issue and tracks it at each meeting until it's resolved.

#### Representation

- 4.16** C&CCCL relies on the INED who chairs its Governance and Stakeholder Management Committee to update the board on issues raised by that committee. It also notes that the board cannot make a decision unless one of its three INEDs (who have a public interest duty) has voted for the resolution. We understand it relies on these processes to ensure that service-users' views are represented in decision-making.

#### Areas of future work

- 4.17** C&CCCL is reviewing its governance structure to ensure it is able to reflect the interests of a wider group of participants. The review is also assessing the possible benefits of altering C&CCCL's corporate structure so it becomes a company limited by guarantee. The constitution of the board will also be examined and C&CCCL will consider increasing the number of INEDs on its board. In 2016 C&CCCL rationalised the structure and reporting lines of its senior committees, including in relation to the governance of its ICS programme.

## C. CHAPS Co

- 4.18** In 2015 CHAPS Co told us it has a Service-User Group (SUG) which meets on a biannual basis and has a direct reporting line into its Business and Strategy Committee. At the time, CHAPS Co was also considering appointing a fourth INED with the specific remit of chairing the SUG and that the SUG engagement would be represented as a standing agenda item on the CHAPS Co board.

<sup>21</sup> [www.psr.org.uk/psr-publications/news-announcements/access-C&CCCL-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-C&CCCL-compliance-report)

## Progress in this reporting period

**4.19** In CHAPS Co's 2016 compliance report<sup>22</sup> it describes recent developments including the following:

### Breadth of engagement

**4.20** CHAPS Co explains that it maintains its awareness of its users' needs by analysing a number of sources of information, including:

- information from direct participants through their relationship with their indirect participants
- information provided by the new chair of the SUG
- feedback on its onboarding process from new participants
- the knowledge and expertise direct participants bring to the CHAPS Co board

**4.21** CHAPS Co has identified seven user segments, which it regularly monitors and analyses. It uses its findings in the CHAPS Market Report. The segments are: FMIs; Government; Wholesale Interbank; Treasury Operations; Business to Business; Housing Market; and Individuals.

### Representation

**4.22** CHAPS Co reported that some of its board members have a role in engaging directly with service-users, with the aim of considering their views in decision-making.

**4.23** In September 2016, CHAPS Co appointed a further two INEDs in addition to the three it appointed in 2013. All of the INEDs on CHAPS Co's board have a responsibility to protect the public interest.<sup>23</sup> One of the INEDs appointed in 2016 also has a specific remit to chair the SUG. The SUG was previously chaired by the independent board chair. As CHAPS Co had proposed in 2015, the input from the SUG is now a standing agenda item for the CHAPS Co board.

**4.24** The CHAPS Co board is also in the process of being restructured. The restructured board will comprise five INEDs, four category one participant directors (larger banks) and seven category two participant directors (smaller banks). CHAPS Co has identified that a result of these changes is that not all direct participants will be asked to nominate directors to the board.

**4.25** CHAPS Co had also begun a review of the status and functions of its Technical and Operations Committee.

### Areas of future work

**4.26** CHAPS Co will continue its review of its Technical and Operations Committee and will implement the changes to its board composition, as described above.

<sup>22</sup> [www.psr.org.uk/psr-publications/news-announcements/access-CHAPS-CO-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-CHAPS-CO-compliance-report)

<sup>23</sup> CHAPS Co defines 'public interest' as a matter concerning the company, CHAPS and the payments industry for the long-term benefit of the United Kingdom, its citizens and businesses as a whole, with particular emphasis on customer needs, competition, innovation, reducing barriers to entry in the payments industry and limiting systemic risk.

## D. FPSL

- 4.27** In 2015, FPSL told us it ran a number of engagements to take into account the representation of service-users, and was planning to recruit a service-user engagement manager in 2016. In 2015 FPSL had also developed a set of service-user principles, which was to drive its longer-term commitment to continue to engage effectively with a full spectrum of service-users. It explained that it provided feedback to its service-users through various means (publications, for example), and had a dedicated email address to answer queries or receive complaints.

### Progress in this reporting period

- 4.28** In FPSL's 2016 compliance report<sup>24</sup> it describes recent developments including the following:

#### Breadth of engagement

- 4.29** In February 2016 FPSL appointed a dedicated Service-User Engagement Manager.
- 4.30** FPSL has identified a number of external processes for collecting and documenting service-users' views. It has direct interaction with its service-users through the use of dedicated email addresses set up to monitor and track communications. It also co-leads the Electronic Payments Affiliates Interest Group (EPAIG), a quarterly meeting of interested service-users where updates of FPSL and BPSL's developments and projects are provided, with scope for feedback to be received. It also participates in conferences, roundtables and events.
- 4.31** FPSL also uses a number of techniques to collect and document specific service-user views. It has created an internal service-users log which it updates and monitors regularly. FPSL also has bilateral meetings with both existing and potential service-users.
- 4.32** FPSL has developed a service-user map which identifies six key user segments. It hopes this will ensure it proactively engages with all its service-users.<sup>25</sup> FPSL is continuing work to identify stakeholders on a more granular level within each segment.
- 4.33** FPSL has also introduced a new step in the way it manages enquiries and complaints. It will now document enquiries in its service-users log, with the aim of ensuring it is aware of its service-users' interests and concerns and acts accordingly.

#### Representation

- 4.34** In 2016, FPSL created its formal service-user engagement process in order to ensure that all service-users' views, ideas and feedback are represented and considered throughout the different stages of its decision-making process. FPSL's board is planning to conduct an annual effectiveness review of the new process. FPSL also conducted an internal audit of the effectiveness of its processes. FPSL's internal audit has completed its report, the outcome of which is currently under review by the FPSL Executive.
- 4.35** FPSL's development committee has been renamed the 'FPSL development forum'. The forum is chaired by FPSL's Head of Development. Topics that are discussed at these meetings include: new ideas; progress of live projects; regulatory changes; group feedback and service-users' feedback. An example of a noticeable issue raised here is FPSL's business hours. All participant organisations attend this forum. From the end of 2016 this included technical aggregators.

<sup>24</sup> [www.psr.org.uk/psr-publications/news-announcements/access-FSPL-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-FSPL-compliance-report)

<sup>25</sup> FPSL's six key user segments include: consumers, businesses, third sector and charities, PSPs, FinTechs and government.

- 4.36** In response to feedback received from service-users, FPSL has recently been discussing the possibility of relaxing its 24/7 availability requirements to allow different groups of participants to join directly. In addition, it has been engaging with the Bank to consider arrangements in the event a non-bank PSP defaults.
- 4.37** FPSL has ensured that every INED has the responsibility to protect the public interest. This includes a broad responsibility to look at the scheme and the payments industry for the long-term benefit of the UK, its citizens and businesses.
- 4.38** During 2016 FPSL implemented a number of changes to its governance. One of the changes includes officers from potential participants being invited to FPSL's board, strategy day and committees before joining the scheme. Two of its recent direct members took advantage of this.

#### **Areas of future work**

- 4.39** In December 2016 FPSL updated its website to make it easier to navigate and to allow users to raise concerns. In future, its new website will also contain a section dedicated to FPSL service-users. This will describe who its service-users are, what FPSL is trying to do for them and how service-users can interact with FPSL more easily if they have a query or concern. FPSL explained it will take on board feedback and views from its service-users and action as appropriate.
- 4.40** FPSL has been increasing dialogue between its service-users and participants via its development forum. It has identified that participants are better-equipped to develop solutions for its services than FPSL itself. Therefore, it has developed an initiative in which FPSL acts as a mediator and provides a channel where key service-user representatives can engage directly with participants to discuss issues, ideas and experiences. FPSL is looking to continue this in 2017 and introduce guest speakers at its development forums.

#### **E. Link Scheme**

- 4.41** In 2015, Link Scheme explained that it had developed a set of consumer engagement and communication tools that would allow it to obtain feedback from and have continuous engagement with its service-users. It also had a Consumer Council to engage with service-users, which includes representatives from consumer organisations and PSPs. Link Scheme also reviewed its governance arrangements through an independent review which was likely to affect the future governance of its operational structure.

#### **Progress in this reporting period**

- 4.42** In Link Scheme's 2016 compliance report<sup>26</sup> it describes recent developments including the following:

##### **Breadth of engagement**

- 4.43** Link Scheme has identified a number of ways it collects views from service-users:
- Link Scheme's Consumer Council, where its independent Chairman, independent members and consumer groups provide input with their experience and knowledge.
  - Link Scheme's research conducted over the last few years, including work on consumer challenges on financial inclusion and research into how technology can improve consumers' access to cash.
  - Link Scheme employs a Head of Consumer Affairs, who has proactive engagement and communication with consumers and stakeholders on consumer matters.

<sup>26</sup> [www.psr.org.uk/psr-publications/news-announcements/access-LINK-Scheme-compliance-report](http://www.psr.org.uk/psr-publications/news-announcements/access-LINK-Scheme-compliance-report)

- Link Scheme's Network Members Council (NMC) provides a single equal representation forum for its members to govern the scheme and input their views.

**4.44** Link Scheme has also continued to develop its consumer engagement and communication tools<sup>27</sup>, which are designed to help service-users make the best use of the ATM network and give feedback to Link Scheme on any issues.

### Representation

**4.45** Link Scheme's Independent Governance Review has recommended that the Link Scheme should be governed by its board rather than the NMC. As a result, in 2016 LINK Scheme made a number of changes to the board. It is now ensuring that the board comprises both independent directors and member directors. The NMC is due to relinquish its powers to the board in March 2017. However, the NMC will still retain a veto on high-impact decisions. The review also recommended appointing a new Independent Chairman to its Consumer Council, which it did in 2016.

**4.46** As part of its governance review, Link Scheme has now made its Consumer Council a sub-committee of its main board. The independent chair of the council outlines current topics and issues that are to be considered on the consumer agenda, to give the board the opportunity to engage and comment on the work of the Council.

**4.47** The independent chair of the Consumer Council is also an INED of the board and represents the views of the Council at the board. The board also has three member NEDs who are senior representatives within their organisation, bringing direct experience of consumer needs and how LINK can meet them.

### Areas of future work

**4.48** Link Scheme is looking to set up the operator as a company limited by guarantee. In preparation for this, Link Scheme Holdings Ltd (LSHL) was incorporated in December 2016 and the drafting of the member agreement changes required to reflect the new governance structure are nearing completion. It is intended that these changes will be agreed by the Link Scheme board, the LSHL board and the NMC in March 2017. Once agreed, Link Scheme will engage with the appropriate regulators to re-designate LSHL as the operator of LINK.

### Conclusion

**4.49** The operators' compliance reports have provided a useful insight into their governance and their approaches to service-user engagement. We have found that all of the operators have some form of engagement with service-users, and there is generally some attempt through corporate governance to link that engagement to their boards through adequate representation. We particularly welcome the models developed by FPSL and Link Scheme, which we think go further than their peers.

**4.50** As we have set out previously, well-governed and open interbank payment systems create conditions for effective competition and innovation to thrive across all sectors of the UK economy. Although operators have taken steps to change their engagement processes and representations of service-users' views in their decision-making bodies, we have not yet been able to clearly identify the impact General Direction 4 is having on service-user outcomes. As such we will further review the effectiveness of General Direction 4 to consider whether we need to revise the direction, or develop some form of best practice guide to support the operators in meeting the requirements. We expect this issue to be considered as part of a wider review of the effectiveness of our directions, which is described in our main paper, taking into account the planned consolidation of BPSL, C&CCCL and FPSL into one new payment system operator.

<sup>27</sup> [www.link.co.uk/financial-inclusion/financial-inclusion-mapping-tool/](http://www.link.co.uk/financial-inclusion/financial-inclusion-mapping-tool/)

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