

Form B - General Direction 3

Please complete the form below. 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.

GD3.1 Self-assessment by the operator on compliance of its access requirements contained in regulation 97 of the Payment Services Regulations 2009 (PSRs 2009) [now updated to regulation 103 of the PSRs 2017] throughout 2017/18.

GD3.1.1 Please state whether you have or have not complied with the obligation contained in regulation 97 of the PSRs 2009 [now updated to regulation 103 of the PSRs 2017].

Please include a summary relevant to your response.

- Mastercard considers it has been fully compliant with regulation 97/103 of the Payment Services Regulations 2009/2017 throughout the relevant period.
- 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 97/103 of the Payment Services Regulations 2009/2017 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.

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	<p>Objective</p> <p>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</p> <p>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</p> <p>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>
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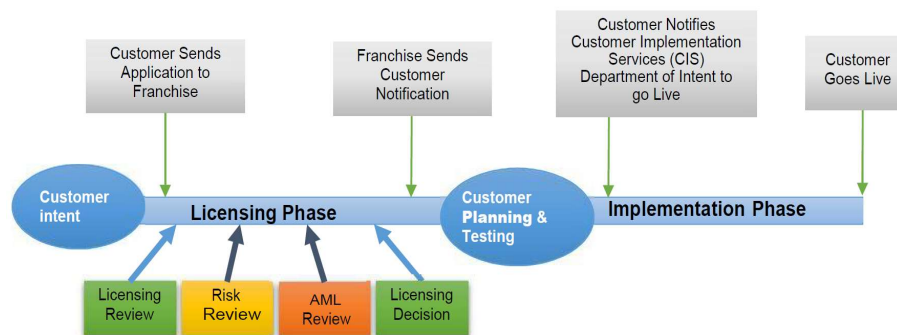
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<p>GD3.1.2 Please highlight any changes to your access requirements over 2017/18 (that are now complete). Where changes have been made, please explain the impact on the obligations in regulation 97 of the PSRs 2009 [now updated to regulation 103 of the PSRs 2017].</p>	<ul style="list-style-type: none">➤ Mastercard has made no changes to its access requirements, compared with the previous year.➤ As confirmed in below in relation to GD3.3, Mastercard has received no representations or requests for its access requirements to be changed.➤ Mastercard also carefully reviewed the PSR's "<i>Access and governance report on payment systems: update on progress</i>" published on 14 March 2018 and noted that it focussed only on the interbank payment systems and improvements required from those scheme operators. In particular, we noted the comment at para 2.3 of that report that "<i>The operators of the other regulated systems (LINK, Visa and Mastercard) have shown good progress on access, which is described in each operator's compliance report.</i>" Mastercard welcomes the PSR's endorsement of its access provision and agrees that no changes are required at this time.➤ The PSR has published no additional assessment of Mastercard's compliance with its access requirements which has raised any additional issues or areas of concern. In addition, Mastercard has not received any direct representations from the PSR indicating that any changes need be made to its access requirements.➤ Although the substantive access requirements have not changed, Mastercard has made some modifications to the licensing process.➤ Firstly, in December 2017 Mastercard updated its AML and sanctions compliance requirements globally (Rule 1.2 in Chapter 1 of the Mastercard Rules). There is no substantive change to the content of the Rule, but rather the changes are designed to clarify to licensees Mastercard's requirements and expectations. The amendments specifically state that lack of compliance may result in the denial or suspension of a licence.➤ Secondly, since October 2017 Mastercard has required the applicant licensee to complete a "<i>New Customer Onboarding Project Plan for Mastercard license application</i>". The simple easy-
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to-use document includes clear step-by-step instructions guiding the applicant through the process which is summarised in the diagram below.

Process Overview



(Legal review may be needed further to Licensing review)

- It also includes links to all of the documentation required to complete the application. Mastercard has a strong interest in making the licensing and onboarding process as simple and efficient as possible and this document is intended to help achieve that objective.
- Thirdly, in May 2018 Mastercard launched Accelerate, which is a new programme designed to facilitate the licensing and onboarding of smaller new entrants in the payments market. Amongst other tools, it involves dedicated licensing specialists and flexible early-stage collateral requirements.

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GD3.2 Details of all occasions in the 2017/18 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.

GD3.2.1 Information for publication on new members and demand for access.

Complete the following table. Data should be correct as at 30 September 2018.

- 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 submit a licence application) within a week of requesting it.

- 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>Expressions of interest</i>	<i>Signed letters of intent</i>	<i>New members during reporting period</i>	<i>No. of 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 1 outstanding application from a potential direct participant, which it was 	<ul style="list-style-type: none"> ➤ Mastercard has approved 5 applications during the period 	<ul style="list-style-type: none"> ➤ Mastercard had a total of 108 direct participants on 30 September 2018

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		<p>reviewing. In addition, it had granted access to its 'New Customer Onboarding' tool to a further 1 potential direct participants, which had not yet submitted an application. In addition, Mastercard cancelled the applications of three potential licensees due to the non-responsiveness from the potential applicants</p>		
<p>GD3.2.2 Confidential information on demand for access.</p>	<p><i>Please complete the table at confidential annex 1. This information will not be published.</i></p>			
<p>GD3.3 Details of all occasions in the <u>2017/18</u> 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.</p>				
<p>GD3.3.1 Please detail the number of enquires made to change your access requirements including a summary of the processes</p>	<p>➤ Mastercard has not received any enquiries to change its access requirements.</p>			

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<p>followed to deal with those enquiries.</p>	
<p>GD3.3.2 Please detail the number of objections made to any proposed changes to your access requirements including a summary of the process followed to deal with those enquiries.</p>	<p>➤ For reasons further explained below in relation to GD3.5, Mastercard has not proposed any changes its access requirements and therefore no such objections have been received.</p>
<p>GD3.3.3 Confidential information on enquiries and objections.</p>	<p><i>Please complete the table at confidential annex 2. This information will not be published.</i></p> <p>Mastercard has not received any enquiries or objections regarding potential changes to its access requirements.</p>
<p>GD3.4 Details of all occasions in the <u>2017/18</u> 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.</p>	
<p>GD3.4.1 Please detail the instances when you have engaged with and considered the views of PSPs and other interested parties on the operation and effectiveness of your access requirements.</p>	<p>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.</p> <p>In addition to this highly developed account management function, Mastercard engages with its customers and other interested parties in a wide variety of other fora including:-</p> <ul style="list-style-type: none"> • <i>UK Finance</i> – Mastercard has recently joined UK Finance, taking up a position on the Board and with close involvement in all of its payments work. This provides the opportunity to

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	<p>engage with issuing and acquiring PSPs on access and a wide variety of other issues of interest or concern</p> <ul style="list-style-type: none">• <i>Merchant and industry associations</i> – Mastercard engages positively with several merchant and similar associations and has attended meetings of the BRC Payments Policy working group• <i>PSR Panel</i> – Mastercard’s Mark Barnett is a member of the PSR Panel enabling him to engage with PSPs on a variety of issues including access• <i>Quarterly Business Reviews</i> – 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• <i>Customer events</i> – Mastercard hosts a number of events from larger conferences to smaller roundtables at which it engages with its customers on a variety of issues• <i>Industry engagement</i> – led primarily by the Market Development team, Mastercard attends a plethora of industry events at which a wide range of issues are raised <p>Mastercard maintains 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.</p> <p>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 relation to the responses above to GD3.2, the number of licence applications which Mastercard receives is 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.</p> <p>As referred to in relation to GD3.3 above, Mastercard has not received any objections to its access requirements or licensing process. This is unsurprising as the process is both limited and</p>
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	<p>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.</p> <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 may 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>GD3.4.3 Confidential information on views express relating to the operation and effectiveness of the access requirements.</p>	<p><i>Please complete the table at confidential annex 3. This information will not be published.</i></p> <p>Mastercard has not received any views relating to the operation and effectiveness of the access requirements.</p>
<p>GD3.5 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>GD3.5.1 If you have work on-going reviewing your access requirements please include a description of that work, the progress that has been made so far, and the expected completion date.</p>	<p>As outlined above in relation to GD3.1, Mastercard believes that its access requirements are entirely compliant with regulation 97/103 of the Payment Services Regulations 2009/2017.</p> <p>As further explained, Mastercard reviewed the PSR’s “<i>Access and governance report on payment systems: update on progress</i>” and statement at para 2.3 of that report that “<i>The operators of the other regulated systems (LINK, Visa and Mastercard) have shown good progress on access, which is described in each operator’s compliance report.</i>”</p>

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	<p>As outlined above in relation to GD3.3, Mastercard has not received any objections to its licensing process.</p> <p>For all of these reasons, Mastercard is not currently undertaking any changes to its access requirements.</p>
<p>GD3.5.2 If you are planning to review your access requirements in the next 12 months please include a description of the planned work.</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 and onboarding 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 103 of the Payment Services Regulations 2017.</p>
<p>GD3.6 Details of any anticipated future developments that the <i>operator</i> considers may require or justify material updates or changes to its <i>access requirements</i>.</p>	
<p>GD3.6.1 Please provide an explanation of any anticipated future external developments you have identified that will impact on your access requirements.</p>	<p>Mastercard is not aware of any anticipated future developments which may require or justify material updates or changes to its access requirements</p>