MARKET REVIEW INTO CARD-ACQUIRING SERVICES

Notice of the Payment Systems Regulator's intention to operate a confidentiality ring following publication of the interim report of the market review into card-acquiring services

As part of the market review into the supply of card-acquiring services (the 'Market Review'), the Payment Systems Regulator ('the PSR') considers it necessary to disclose certain material underlying its pass-through analysis, the results of which will shortly be published as part of its interim report. This will assist the PSR in carrying out its functions under Part 5 of the Financial Services (Banking Reform) Act 2013. Specifically, disclosing this information will allow interested parties to understand and intelligently respond to the provisional findings in the Market Review and the reasons for those findings.

The PSR received data from a number of parties to run its pass-through analysis. The PSR intends to disclose the data, as well as the code it applied to the data in the analysis.

In planning this confidentiality ring, we have taken the ongoing COVID-19 situation – especially widespread home working - into account.

Material to be disclosed

The PSR intends to disclose the following material (together, the "Disclosed Material"). Disclosed Material includes both **data** and Stata **code**.

A. Data:

Pass-through data
The data which used in the pass-through analysis are recorded at a monthly merchant level. We received four randomly drawn samples of 2000 merchants from five acquirers in response to PSR information requests using data templates. The four samples together provide monthly data for the period 2014 to 2018. In total, there are over one million observations.

These data underlie the pass-through analysis and provide additional background information in other areas of the Interim Report.

The data can be broken down into the following categories:

1. MSC – the total amount the merchant paid to the acquirer for card-acquiring services in the month in question

2. Fees that the acquirer pays for the merchant's transactional activity, broken down by type of transaction (the type of card, location (domestic UK, other domestic, intra-EEA, other) and channel (face-to-face, e-commerce etc.)), comprising:

- interchange fees paid by the acquirer to the issuer for the merchant's transactional activity
- scheme fees paid by the acquirer to Mastercard and Visa for the merchant's transactional activity

3. Merchant characteristics, including (but not limited to):
   - merchant ID
   - volume of transactions, broken down by type of transaction
   - value of transactions, broken down by type of transaction
   - number of outlets the merchant has
   - month and year of the merchant's first transaction with the acquirer
   - how the merchant was signed up
   - the pricing option the merchant has (blended, IC+, IC++, fixed, other or unknown)
   - merchant category code (MCC)
   - the fees paid by merchants to acquirers for card acceptance products and certain value-added services (CAP).

Other data
We are also disclosing data on the proportion of total card turnover each of the five acquirers had in 2016, which we make use of in one of the robustness tests.

We will disclose the raw pass-through data we received as it was provided to us in comma separated values (.csv) format - all changes to the data are done in Stata code. The data include names of acquirers indirectly via merchant IDs. We do not propose to redact or change these merchant IDs, nor do we propose to anonymize acquirers in the code (see below). This is for reasons of fairness and to ensure that all acquirers are treated equally: we expect those granted access to the Disclosed Material to be able to determine the identities of some (but not all) of the acquirers even if we redact or change these IDs.

B. Code:

We will disclose the Stata code used to clean the raw data and perform the econometric analysis. All the code is in Stata's .do file format (contrary to our initial intention to use R to do the analysis, we used Stata).

The code comprises:

- 5 cleaning files, one for each acquirer: imports the raw datasets (.csv files) into Stata files, integrates each individual acquirer's CAP files, cleans and simplifies (prepares variables, removes outliers).
- 1 append and transform file: joins the five datasets into a master dataset, makes variables consistent, performs additional data cleaning and imputes missing data.
- 1 analysis file: runs regressions using the master dataset.
- 1 descriptive statistics file: calculates a set of descriptive statistics to be presented in the pass-through annex to the interim report.

The code names each acquirer. As above, because we expect those granted access to the Disclosed Material to be able to determine the identities of some (but not all) of the acquirers even if we remove these names, we do not propose to remove them for reasons of fairness and to ensure that all acquirers are treated equally.

The PSR considers that the Disclosed Material includes 'confidential information' within the meaning of section 91 of the Financial Services (Banking Reform) Act 2013 ('FSBRA'), to which the general restriction on disclosure by the PSR in section 91 of FSBRA applies. The PSR has decided to disclose the Disclosed Material to certain parties in accordance with section 92(1) of FSBRA and regulation 3(2) of the Financial Services (Banking Reform) Act 2013 (Disclosure of Confidential Information) Regulations 2014 for the sole purpose of allowing such parties to review and understand the PSR's analysis in the Interim Report, in order to prepare submissions and make representations to the PSR in connection with the Market Review and, accordingly, to facilitate the exercise by the PSR of its statutory functions under Part 5 of FSBRA and (if relevant) to prepare and conduct an appeal against any decision of the PSR in connection with the Market Review, including an appeal in which such parties are, or are intending to apply to be, an intervener ('the Permitted Purpose').

The PSR intends to disclose the Disclosed Material through a confidentiality ring (the 'Confidentiality Ring'). Specific details of the Confidentiality Ring are set out below.

Separately, we will also make the Stata code available to certain parties themselves, on request, outside of the Confidentiality Ring, subject to the removal of acquirer names, cleaning elements that do not relate to the party requesting the code, and one robustness test (which could be used to identify the acquirers).This may be made available to acquirers who provided data before the start of the confidentiality ring.

Confidentiality Ring Timing

The Confidentiality Ring will operate until 5pm on the final day of the consultation period. We will provide **at least 8 weeks'** access to the Confidentiality Ring.

Access to the Confidentiality Ring

In order to safeguard the confidentiality of the Disclosed Material, access to the Confidentiality Ring will be granted to a limited number of approved external legal and/or economic advisers of certain parties. These external advisers and their employer firms will be required to sign undertakings before they will be granted access to the Confidentiality Ring.

The draft undertakings that the external legal and/or economic advisers approved by the PSR (and their employer firms) will be required to sign before they will be granted access to the Confidentiality Ring by the PSR accompany this notice.

The PSR will approve a specified number of external legal or economic advisers per party to access the Confidentiality Ring. The PSR will consider the maximum number of advisers allowed to access the Confidentiality Ring based upon the number of expressions of interest received.

We intend to make the Disclosed Material available to the advisers who have provided satisfactory undertakings to the PSR ('the Authorised Advisers') via a secure method of data transfer (the HighQ system). The PSR will register one email address, corresponding to one named Authorised Adviser per firm, onto the HighQ system to facilitate transfer.

The software necessary to run the code and replicate the PSR's analysis is Stata 14 or higher.

This notice invites interested parties to submit expressions of interest for their external legal and/or economic advisers to access the confidentiality ring. In addition to providing an explanation of their interest, parties should also provide their reasons for requesting access to the confidentiality ring, and details of the interested party's external legal and/or economic advisers (i.e. name, job title and employer) seeking access to the confidentiality ring.

We will also make code available to interested parties themselves, on request, outside of the Confidentiality Ring, subject to the removal of acquirer names, confidential cleaning elements, and one robustness test (which could be used to determine identities). **Parties should specify in their expression of interest whether they want direct access to the code.**

This notice also invites parties expressing an interest to submit any comments they may have on the PSR's proposed approach to disclosing the Disclosed Material, including the attached draft undertakings. Comments should be supported with an appropriate explanation so that the PSR is in a position properly to consider the merits of the comments received.

Any expressions of interest together with any comments interested parties have on the attached draft undertakings must be submitted to the Market Review team at cards@psr.org.uk **by 5pm on 25 September 2020**. The PSR will consider the comments and each expression of interest received within the above deadline, and the reasons given for access to be granted, before deciding, at the PSR's discretion, whether to grant access to the Confidentiality Ring and whether any amendment is to be made to the attached draft undertakings