

PSR regulatory fees 2017/18

Decision and further consultation on 2017/18 PSR regulatory fees for funding of the PSR's FSBRA and IFR functions

In this consultation paper we report on the responses to our consultation paper CP16/35, PSR regulatory fees 2017/18 (November 2016), and ask for responses to the consultation question set out in this document. The deadline for responding is 12 May 2017.

Please send any comments or enquiries to:
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25 The North Colonnade
Canary Wharf
London E14 5HS
Email: PSRfees@psr.org.uk

We may publish all non-confidential responses to our consultation paper along with our final policy statement.

We will not regard a standard confidentiality statement in an email message as a request for nondisclosure. Stakeholders who wish to claim commercial confidentiality over specific items in their response should identify those specific items which they claim to be commercially confidential by **highlighting them in yellow**.

We may nonetheless be required to disclose all responses which include information marked as confidential, in order to meet legal obligations – in particular, if we are asked to disclose a confidential response under the Freedom of Information Act 2000. We will endeavour to consult you in handling such a request. Any decision we make not to disclose a response is reviewable by the Information Commissioner and the Information Rights Tribunal.

You can download this document from our website:
www.psr.org.uk/psr-publications/consultations/CP-17-9-PSR-fees-2017-18

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1. Overview

Introduction

- 1.1** This paper sets out our decisions and proposals for consultation on how fees for the Payment Systems Regulator's (PSR's) functions under the Financial Services (Banking Reform) Act 2013 (FSBRA) and the EU Interchange Fee Regulation (IFR) for the financial year 2017/18 will be allocated. The paper also provides our decision on how PSR fees will be calculated and collected. It follows our November 2016 consultation paper CP16/35, *PSR regulatory fees 2017/18*.¹ We are consulting on the proposed fee rates for relevant market participants.
- 1.2** For convenience, when this document refers to 'we', this means the Financial Conduct Authority (FCA) and PSR jointly, although the final decision and fees rules are made by the FCA.
- 1.3** In CP16/35, we consulted on our proposed approach for allocating the PSR's annual funding requirement (AFR) and calculating and collecting fees for the year 2017/18. We received nine responses to our consultation, from payment system operators and payment service providers (PSPs). The majority of respondents were supportive of our proposals.
- 1.4** With this paper we:
- respond to submissions to the November 2016 consultation
 - set out our policy decisions on how the costs of the PSR's functions under FSBRA and IFR for year 2017/18 will be allocated, and fees calculated and collected
 - consult on our proposed 2017/18 PSR fee rates

Our consultation CP16/35

FSBRA

- 1.5** In our November 2016 consultation, we proposed to continue with the same allocation methodology as for the years 2016/17 and 2015/16 for the PSR's FSBRA funding requirements. This means equal allocation across regulated pan-UK payment systems, with PSR fees calculated for individual fee-payers based on their relative transaction volumes within each system (or shareholdings in the case of Northern Ireland Cheque and Credit (NICC)). All FSBRA respondents were content with our proposed approach. Few expressed some minor reservations discussed in Section 3.

IFR

- 1.6** We proposed to continue using a three-tier methodology to allocate the PSR's AFR for its IFR functions across the relevant card payment systems.
- 1.7** As with the FSBRA fees, we proposed that the IFR fees should continue to be calculated for individual fee-payers based on their relative transaction volumes within each IFR card payment system.
- 1.8** The majority of the respondents were content for us to continue using this methodology for the IFR AFR allocation, calculation and collection. However, the majority of the relevant IFR card scheme operators were critical of our approach. Only one IFR card scheme operator said it would be better to continue with our current approach, as described in paragraphs 3.9 to 3.12.

¹ www.psr.org.uk/psr-publications/consultations/cp-1635-fees-2017-2018

Proposed changes to fees rules

- 1.9** In our November consultation, we also proposed a small number of changes to our fees rules to address a number of issues raised towards the end of last year's consultation. These proposed changes relate to the invoicing and collection of fees, and do not affect the allocation of our costs or the methodology for calculating fees. We have developed these further as a result of the responses we received.
- 1.10** Respondents were generally supportive of these proposed changes, although some were concerned by the regulatory burden that the PSR could be imposing on the industry. These respondents highlighted concerns that have been raised previously over the administrative burden of invoicing and collecting PSR fees.

About this consultation

- 1.11** This paper includes a consultation on fee allocation relating to the PSR's FSBRA and IFR functions, which are collected by the FCA. It forms part of the 2017/18 fees consultations. The cycle for PSR fees for the year 2017/18 is set out in more detail in Chapter 2. The financial year 2017/18 is the annual financial year beginning 1 April 2017 and ending 31 March 2018.
- 1.12** This document is structured as follows:
- **Chapter 1** is this overview.
 - **Chapter 2** sets out the next steps.
 - **Chapter 3:**
 - summarises our proposed policy for funding the PSR's FSBRA and IFR functions and activities for the year 2017/18, as well as our proposed amendments to fees rules
 - summarises the submissions to our consultation and our response
 - sets out our decision on the PSR's FSBRA and IFR AFR allocation methodology and on the fees calculation and collection methodologies
 - sets out our decision on the proposed amendments to the fees rules, which we consulted on in November 2016
 - **Chapter 4** sets out our consultation on FSBRA and IFR fees rates, enabling those who will be liable to pay PSR fees to fund our FSBRA and IFR activities and functions for the year 2017/18 to assess their individual liability.
 - **Annex 1** contains the fees instrument amending the fees rules, which reflect the FCA's policy decisions, and which comes into effect on 15 April 2017.
 - **Annex 2** contains the additional draft fees instrument reflecting the points being consulted on in this document.

What do you need to do next?

- 1.13** Please consider our proposals and send us your comments on the question in this consultation paper by 5.00pm on 12 May 2017. You can email us at PSRfees@psr.org.uk or write to us at the following address:
- Payment Systems Regulator Ltd
Fees team
25 The North Colonnade
Canary Wharf
London E14 5HS

2. The PSR's and FCA's roles and the 2017/18 PSR fees timeline

This chapter describes the respective roles of the PSR and FCA in relation to PSR fees, and the fees timeline.

The PSR's and FCA's roles and the PSR AFR

- 2.1** The FCA is responsible for funding the PSR for its functions and activities through the collection of fees. It may make rules requiring participants in regulated payment systems (in relation to FSBRA functions) and regulated persons (in relation to IFR functions) to pay to it specified amounts, or amounts calculated in a specified way, to fund the PSR.²
- 2.2** The FCA works closely with the PSR on funding matters, and in particular in determining the policies for allocating the PSR's costs, and the calculation and collection of PSR fees.
- 2.3** The PSR's AFR for the year 2017/18 is shown in Table 1.

Table 1: PSR 2017/18 AFR

Annual funding requirement 2017/18	£ million
FSBRA 2017/18 budget	£11,400,000
IFR 2017/18 budget	£600,000
Total PSR AFR 2017/18 (initial budget)	£12,000,000

- 2.4** We use 'FSBRA AFR' and 'IFR AFR' as shorthand to refer to those portions of the overall PSR AFR that are budgeted to fund the PSR's FSBRA (and concurrent competition powers) and IFR functions and activities respectively. The FSBRA AFR will be recovered from participants in regulated payment systems. The IFR AFR will be recovered from regulated persons under the IFR.

Fee Year 2016/17 Underspend

- 2.5** The PSR is expected to have an underspend for the year 2016/17 of about £4.2m. The PSR has made a conscious effort to conduct its operations efficiently and provide value for money to its stakeholders. As the PSR moves away from its set-up phase, it has been able to reduce the amount set aside in anticipation of the initial set-up costs. This means we can now return some of the fees we have collected to the industry. We have decided to return the expected 2016/17 underspend to fee payers through the 2017/18 fees collection process. We provide further detail on our approach and reasons in paragraphs 3.72 to 3.75.
- 2.6** Individual PSPs who paid PSR fees in 2016/17 and are liable to pay 2017/18 PSR fees via the same operator are automatically eligible for a refund. This will be done by reducing each PSP's individual 2017/18 payment by the relevant amount, which will be set out in the invoice the operator issues to it. Any 2016/17 fee payer who is no longer liable to pay fees in 2017/18 can apply to the PSR for a refund under the fees rules (rule 9.2.8(G) and 9.2.9(G)).

² See FSBRA Schedule 4, s.40, paragraph 9, as modified by the 2016 Interchange Fee Regulation.

- 2.7** The individual PSP refunds will be calculated by allocating the expected total of £4.2 million underspend equally across the seven pan-UK regulated payment systems (treating C&C and NICC as one for this purpose). This amounts to £540,000 per FSBRA regulated system and £140,000 per IFR regulated system that sits in the first fee tier (subject to our decision to this consultation). The refund due to each eligible PSP within any one system will then be calculated in proportion to its share of the total PSR fees paid under that system for the year 2016/17.
- 2.8** This approach is intended to ensure that those PSPs which actually paid 2016/17 fees benefit from our returning the underspend. Reducing next year's AFR may not achieve this, as in some payment systems the PSP membership changes from one year to the next (see paragraphs 3.70 to 3.75 for more detail).
- 2.9** This approach allows operators to combine the credit for the 2016/17 underspend with the remaining fees for 2017/18 into a single invoice to be sent out to PSPs in summer 2017, avoiding multiple flows of funds.
- 2.10** As a consequence of the expected underspend, the payment on account arrangements, and the level of budget set for 2017/18, PSPs will be affected in different ways. We explain the reason for this in more detail below. As a result, many PSPs will not pay any significant further amount in respect of fees in September 2017. We expect that some PSPs will be due a refund, for example where their transaction volumes have decreased since last year. Nonetheless, some PSPs will need to pay fees, including any new or smaller fee payers who do not pay on-account fees.
- 2.11** The budget for 2017/18 is £12million. In accordance with the fees rules, we collected in March on-account payments of approximately £7.2 million to fund the PSR's activities in 2017/18. The on-account amount is based on the PSR's AFR for 2016/17 (which was £15.2m). Absent the credit refund discussed above, the PSR would be due to collect £4.8m in September 2017.
- 2.12** As set out in paragraph 2.5, we had an underspend of £4.2 million in the last fee year, which we will be returning to 2016/17 fee payers as a credit against their 2017/18 fees. This will have the effect of reducing the remaining payment due in the September 2017 collection round. As a result of this £4.2 million underspend rebate, the net sum to be collected in September 2017 will be £0.6 million. The operators will prepare invoices accounting for the fees and the rebate for the underspend in the same way as during last year's fee cycle.
- 2.13** We consider this situation as exceptional and arising due to two factors: (a) a considerable 2016/17 budget underspend and (b) a decrease in 2017/18 budget as compared with last year. We do not expect that this uneven collection of fees would be likely to occur again in the future.

Fees timeline

2.14 The FCA's usual fees cycle begins with a consultation paper published in November of each year. We also issued the consultation on PSR fees for the year 2017/18 in November 2016. This year we aim to publish our final policy statement by the end of July 2017. Our intended timeline is:

Table 2: Fees timeline

November 2016	Consultation paper: How 2017/18 PSR regulatory fees will be allocated, how we propose to calculate and collect PSR fees, and changes to the fees rules that we propose to introduce.
January 2017	Consultation closes.
January to March 2017	Fee data collection: Participants in regulated payment systems and regulated persons are asked to provide data that is not already available to the PSR.
15 March 2017	Payment date for on-account invoices: Fee-payers whose 2016/17 PSR fees were £20,000 or more for their participation in any individual regulated payment system are required to make an advance payment of 50% of their 2016/17 PSR fees to each of the relevant operators.
As soon as practicable after 19 March 2017	Operators to submit information to the PSR on late payers of 2017/18 on-account payments. This information must be submitted on a spreadsheet showing 2016 transaction volumes and 2017/18 on-account fees broken down by PSP, updated to show late/partial payers (and their contact details). Operators have until 30 March to submit that information.
31 March	Consultation paper: Proposed fee rates for individual fee-payers for the coming year, together with our response to submissions to the November 2016 consultation and the making of any rules which need to come into effect from April 2017 (this document).
1 April 2017	Payment date for operators to transfer collected on-account payment monies to the PSR.
4 May 2017	Operators to submit their 2017/18 fees spreadsheet to the PSR, with 2016/17 transaction volumes and 2017/18 fees broken down by PSP.
12 May 2017	Deadline to respond to March fees consultation (this document).
July 2017	Policy statement finalising the periodic fee rates rules for 2017/18 and making any other rules.
July 2017	From July, the operators of regulated payment systems and IFR card systems invoice fee-payers (and the operators of IFR card systems where they are liable for the payment of PSR fees themselves).
15 September 2017	The 2017/18 PSR fees are due to be paid to the operators (after deducting any on-account payments made on 15 March 2017).
17 September 2017	Operators to submit information on late payers of 2017/18 fees (on a spreadsheet showing 2016 transaction volumes and 2017/18 fees broken down by PSP) to the PSR, updated to show late/partial payers and to provide their contact details.
1 October 2017	Operators pay 2017/18 PSR fees they have collected to the FCA.

3. Consultation responses and policy decision on allocation, calculation and collection of the PSR's 2017/18 FSBRA and IFR regulatory fees

In this chapter we:

- summarise our November 2016 proposals on how we will allocate the PSR's FSBRA and IFR AFR between regulated payment systems and regulated persons, and how we will calculate and collect the fees
- summarise our proposals on a number of other policy issues discussed in CP16/35, and the modifications to the fee rules suggested in the same consultation paper
- summarise the responses to our November 2016 consultation
- give our feedback on those responses
- set out our decision about how we will allocate the PSR's FSBRA and IFR AFR and how we will calculate and collect the fees to fund our FSBRA and IFR functions and activities
- set out our decision on the other policy issues we consulted on in November 2016

Annex 1 contains the fees instrument amending the fees rules, which reflect our policy decision.

Our proposed approach to the allocation of the FSBRA AFR

- 3.1** In CP16/35, we proposed to raise PSR fees to fund our FSBRA functions and activities for the year 2017/18 by continuing with the same allocation, calculation and collection approach we adopted for 2016/17. This means that we would allocate the PSR's FSBRA AFR equally across all the pan-UK payment systems it regulates under FSBRA: Bacs, CHAPS, Cheque and Credit (C&C), Northern Ireland Cheque Clearing (NICC), Faster Payments Scheme (FPS), LINK, Mastercard, and Visa.
- 3.2** We also proposed to continue treating C&C and NICC as a single pan-UK cheque system for allocation purposes, as they are both cheque and credit clearing systems but operate in distinct, complementary geographic areas. The allocation between them is based on their respective transaction volumes (calculated based on 2016 volumes). For this year the respective transaction proportion for each system is 97% for C&C and 3% for NICC.
- 3.3** This means that each regulated pan-UK system will contribute 14.3% of the funding for the PSR's FSBRA functions. For 2017/18 this will be £1,628,571 million for each system (compared to £1.96 million for the year 2016/17).
- 3.4** We proposed that in future years we will continue using this allocation, unless we consider that material changes are required to our approach (for example, due to significant changes in circumstances).

Our proposed approach for the calculation and collection of FSBRA fees

- 3.5** We proposed that, as in 2016/17 and 2015/16, the liability for paying the PSR's FSBRA AFR for each payment system should fall on its direct PSP members, based on each PSP's relative individual transaction volumes (or shareholdings in the case of NICC).
- 3.6** We also proposed to use the same 'indirect billing' method for collecting the PSR's FSBRA fees for 2017/18 as we did in 2016/17 and 2015/16. This means that the operators of each regulated payment system would act as our collection agents, issuing invoices to their member PSPs (or shareholders for NICC) in accordance with our instructions (as set out in the fees rules).
- 3.7** This approach ensures that the PSR regulatory fees are outside the scope of VAT.³
- 3.8** We also proposed to continue applying the minimum transaction volume threshold for card systems as we did in 2016/17 and 2015/16. This reflects the fact that the cost of collecting fees from some very small PSPs under the card systems may equal or exceed the amount collected.

Our proposed approach for the allocation of the IFR AFR

- 3.9** In CP16/35, we proposed to continue using our 2016/17 allocation methodology for the IFR AFR. This is a three-tier methodology which starts with the principle of equal allocation, but recognises the significant differences in scale of the different systems' current UK presence:
- IFR card payment systems with more than 10 million UK transactions (American Express (AmEx), Mastercard and Visa) would be allocated an equal share of our IFR AFR, amounting to approximately £199,000 each in 2017/18.
 - IFR card systems with more than 100,000 and fewer than 10 million UK transactions (Diners Club International) would be allocated a flat fee amounting to 0.5% of the overall IFR AFR or £3,000 in 2017/18.
 - IFR card systems with fewer than 100,000 UK transactions (Union Pay International (UPI) and JCB) would have no allocation, and would therefore pay no PSR fees.

Our proposed approach for the calculation and collection of IFR fees

- 3.10** We proposed continuing to levy PSR fees on acquiring and card-issuing PSPs operating in the UK which are direct PSP members or licensees of IFR card payment systems operating in the UK. Where an operator of a card payment system also acts as an acquiring or card-issuing PSP for that system, the operator itself would be liable to pay the entire fee for the system.
- 3.11** We considered that the 'indirect billing' method is still appropriate for collecting IFR fees. Therefore we proposed to continue using it for PSR fees in relation to the IFR for 2017/18, to ensure that these fees are outside the scope of VAT.
- 3.12** Finally we proposed that the same minimum transaction volume thresholds (100,000 or £50 – see paragraphs 3.23 to 3.24 of CP16/35) should continue to apply to our IFR fees, as this is also relevant for all card systems.

³ See paragraph 4.25 and Annex 1 of CP15/26: www.fca.org.uk/publication/consultation/psr%20fees%20201516%20final.pdf

Our approach in future years

- 3.13** We proposed that in future years we will continue using these allocation approaches, and the same methodology for calculating and collecting fees (both FSBRA and IFR), unless we consider that material changes are required to our approach (for example, due to significant changes in circumstances). We also said that we do not intend to consult each year, unless we are proposing material changes to our approach. The FCA always consults on rule changes. Therefore fee payers should assume that our fee allocation, calculation and collection methodologies remain the same unless we consider there is a case to do otherwise – for example, if circumstances change significantly.

Summary of responses

- 3.14** We received a total of nine responses to our consultation. Three stakeholders commented on our FSBRA proposal, three commented on our IFR proposal and five commented on both or made more general comments.
- 3.15** Stakeholders were generally supportive of our proposals. Although some were critical of our methodology, one of these highlighted the benefit of limiting further change and uncertainty. We note that several stakeholders repeated criticisms of our approach which were raised in response to previous fees consultations and were taken into account in our decision on the 2016/17 fee year.
- 3.16** A number of stakeholders said that the methodology should be reviewed when the proposals to consolidate three of the interbank payment system operators go ahead.

Activity-based costing methodology

- 3.17** One stakeholder has repeated calls for the allocation to be based on the PSR's activities. This respondent claimed that the allocation methodology for the FSBRA AFR results in card systems disproportionately bearing the cost of the PSR's activities compared to interbank systems. It suggested that an activity-based cost model would be more reflective of how the PSR's resources are used.
- 3.18** Another stakeholder suggested that the PSR fees should be more closely linked to the PSR's key areas of focus.

Administrative burden

- 3.19** Two respondents to our consultation considered that indirect billing places a considerable administrative burden on the operators, who in some cases have to issue a large number of invoices. These two respondents said they needed to make the adjustment manually, as their invoicing systems are not set up to capture the PSR fees-related elements.
- 3.20** One stakeholder suggested that, after we publish our final decision on PSR regulatory fees, we should give operators at least one month to calculate fees and invoice their members.
- 3.21** Some stakeholders asked us to consider adjusting the PSR fees rules to cease the collection of on-account fees. In their view the process of collecting on-account fees adds to the administrative burden.

Minimum transaction threshold

- 3.22** One stakeholder proposed that we raise the minimum thresholds from 100,000 transactions or £50 fees to 500,000 transactions or £250 fees. This stakeholder told us that that the increase in fees due from other fee payers in a card system caused as a result of this change would not be a meaningful sum for the larger PSPs, who effectively end up subsidising those below the threshold.

Tiering

3.23 AmEx expressed concerns that our IFR allocation proposal affects it disproportionately. It felt it should not be placed in the top of our three tiers because:

- it had fewer transactions than the other two IFR card payment systems in the top tier
- not all of its transactions are covered by the IFR cap on interchange fees

AmEx considers that it should not pay the same fee as Mastercard and Visa, whose volumes are greater and all fall under the IFR cap.

Our response and policy decision

3.24 We agree that the introduction of the proposed consolidated payment system operator (paragraph 3.16) may lead us to revisit our approach to our regulatory fees. As we proposed in CP16/35, in future years we will continue using the approaches outlined in CP16/35, and the same methodology for calculating and collecting fees (for both FSBRA and IFR), unless we consider that material changes are required to our approach (for example, due to significant changes in circumstances). We would therefore expect to consider whether any material changes are required once the proposed consolidation has taken place.

Activity-based costing methodology

3.25 We do not consider that an activity-based costing methodology would be more appropriate than our current allocation methodology for FSBRA and IFR. As we explained in CP16/35, the PSR continues to maintain a broad focus across all of the regulated payment systems. More generally, we consider that all payment systems (and their participants) benefit from our activities, our programme of work and our regulatory and competition interventions.

3.26 Further, as we highlighted during the 2016/17 fees consultation cycle when similar proposals were made, while the PSR's work is directed by its forward work programme, this does not create an absolute boundary for its activities. It must remain flexible and agile in order to be able to deal with issues that might arise at any time. Therefore, it would be inappropriate to allocate the PSR's AFR on the basis of a forward-looking work programme which, by its nature, cannot fully reflect the PSR's workload during the full course of any year.

Administrative burden

3.27 We have decided to continue using the indirect billing approach for the year 2017/18 for two reasons:

1. To ensure that paying PSR regulatory fees does not attract VAT.
2. Because operators are better placed to invoice their members, as they already have the necessary data (list of members and transaction volumes) and relationship with their members.

We continue to believe that indirect billing is appropriate for these reasons.

3.28 We also note that it is not practicable to change our billing approach significantly for this year, as co-ordinating and setting up a new workable system that might address some of the concerns raised by stakeholders would take significant time and effort.

- 3.29** However, we are taking the concerns raised in this consultation on board, and propose to explore the benefits and downsides of altering our collection methodology for future years. As we indicated in CP16/35 (see paragraph 3.13), we would expect to consult stakeholders if this consideration prompts us to propose material changes to our approach. We note one suggestion made by a stakeholder is that we should move to a system where the FCA invoices participants directly. However, in that situation we would still require the operators to provide accurate transaction data to the FCA and handle direct participants' queries, as they hold the relevant information (see point 2 of paragraph 3.27).
- 3.30** The purpose of on-account fees is to allow the PSR to manage its cash-flow efficiently. Changing our methodology will mean that operators may have to pay a large up-front fee in one year to allow the PSR to build a buffer to insulate it from cash flow fluctuations.

Minimum transaction threshold

- 3.31** The minimum transaction threshold was introduced to reflect the administrative burden of billing very small participants under either FSBRA or IFR. More specifically, during the 2015/16 consultation⁴ that led to our adoption of the threshold rule, two card payment system operators expressed concerns that the cost of collecting fees from PSPs with very few UK transactions could be similar to or higher than the fees themselves. We also recognised that some of these PSPs might not be expecting to contribute to the PSR's funding, given how limited their UK activities are. Following discussions with both FSBRA regulated card payment systems, we decided to apply a minimum transaction volume threshold for acquiring and card-issuing PSPs in the regulated card payment systems.
- 3.32** We were satisfied that a minimum threshold was reasonable and proportionate, and that there would not be any meaningful 'cross-subsidisation' of very small-UK-volume PSPs by larger PSPs which could distort effective competition. Circumstances have not changed significantly since our 2015/16 consultation, and we have not received any new evidence to suggest such a change is necessary. Therefore, we will maintain the threshold at its current level.

Tiering

- 3.33** We first set out our proposed approach to allocating the IFR AFR for the 2016/17 fee year in our December 2015 consultation.⁵ In that consultation, we explained that allocating the IFR AFR using a transaction volumes or values approach would not achieve an adequate balance between:
- ensuring that all card payment systems operating in the UK make an appropriate contribution to funding the PSR's IFR activities, and
 - keeping contributions fair and proportionate

We also considered a weighted transaction volume and values approach, but concluded that setting appropriate weightings would be complex.

- 3.34** Our December 2015 consultation provides more details as to why using any other way of allocating our AFR IFR would be inappropriate.⁶
- 3.35** Amongst the responses to the consultation were responses by a number of very small card scheme operators that agreed with our view that equal allocation of the IFR AFR would place a disproportionate burden on them. Our analysis showed that some card operators had such a small share of the UK transaction that it would not be appropriate to allocate an equal share of IFR AFR fees to them. We considered that placing the IFR card payment systems in the three tiers best reflected the differences between those systems with a large number of relevant UK transactions (in the top tier), the one system with a modest number of UK transactions (in the middle tier) and those with very little UK presence (in the bottom tier).

⁴ www.fca.org.uk/publication/policy/ps-15-25.pdf

⁵ CP15/44, paragraphs 4.12 to 4.13: www.fca.org.uk/publication/consultation/cp15-44.pdf

⁶ CP15/44, paragraphs 4.10 to 4.16: www.fca.org.uk/publication/consultation/cp15-44.pdf

- 3.36** For the 2016/17 fee year we nonetheless considered the principle of equal allocation for all card payment systems regulated under the IFR as important.⁷ By equal allocation we meant that all card payment systems would be allocated an equal share of the IFR AFR, which would be paid by their direct members. We considered that this was a fair and easy way to administer our approach. This was also aligned with our equal allocation approach under FSBRA.
- 3.37** For the 2016/17 fees cycle, we therefore allocated the PSR's IFR AFR across three tiers. Card payment systems placed in the third tier, which were payment systems with less than 100,000 relevant transactions, were not allocated a PSR fee. Card payment systems placed in the second tier, which were payment systems with more than 100,000 but less than 10,000,000 relevant transactions (only one firm last year), were allocated 0.5% of the IFR AFR. Card payment systems placed in the first tier, which were those with more than 10,000,000 relevant transactions, were given an equal allocation of the remainder of the IFR AFR (i.e. 99.95% last year). Third tier card systems last year were AmEx, Mastercard and Visa.
- 3.38** For the 2016/17 fees cycle, we considered the number of tiers we should create, and which tier to place each IFR card payment system in, including in response to arguments raised by individual card systems following our consultation proposals. We were mindful of both transaction values and volumes, given that volume is only one of the metrics for size and each of the IFR card systems has a different profile in terms of its overall transaction values and volumes. We also considered the implied cost per transaction of our fees for each system. We responded in detail to the arguments made, including the arguments raised by AmEx about its allocation, which arguments AmEx broadly maintains in relation to its allocation this year (see paragraph 3.23).⁸
- 3.39** Having considered the responses to our November 2016 consultation, we consider that our three-tier allocation methodology remains appropriate. We continue to consider that the principle of equal allocation is important for allocating fees, recognising the limitations of other possible approaches that we outlined in our December 2015 consultation, but that our IFR allocation methodology must take account of the very significant disparities in the current UK presence of the different IFR card systems. We acknowledge that regulatory costs are a burden for businesses, but this is a necessary consequence of regulation. We still believe our distribution of this burden under our three-tier approach is fair and proportionate.
- 3.40** We also continue to consider the three tiers we established to be appropriate. These were designed to best reflect the differences between those systems with a large number of relevant UK transactions (in the top tier), the one system with a modest number of UK transactions (in the middle tier) and those with very little UK presence (in the bottom tier). We do not consider that circumstances have changed significantly, and therefore believe the relative tiers and allocation of the card systems to these remains appropriate.

Our decision

- 3.41** Taking account of the consultation responses we received, we have decided to fully implement the proposals for funding the PSR's FSBRA and IFR functions and activities, as set out in CP16/35, without amendment. We will also implement the collection methodology as set out in CP16/35. With a few minor changes discussed in the next section we will continue using the same fee calculation methodology. We describe the calculation methodology for determining fees rates for funding our FSBRA and IFR activities and functions in the next chapter.

⁷ CP16/11 para 4.3 and 4.4 and 4.20

⁸ CP16/11 paras 4.21, 4.23 and 4.24

Decision on other policy issues considered and modifications proposed to FEES rules

3.42 In Chapter 4 of CP16/35 we proposed a number of changes to the fees rules to deal with certain technical and clarification issues that arose during the 2016/17 fee year.

3.43 Below we briefly summarise these proposals and the responses we received, and provide our decision.

Publishing transaction volumes

3.44 In CP16/35, we proposed to:

- continue with our previous approach of publishing total transaction volumes (as decided in the 2016/17 consultation cycle)
- extend this approach to IFR transaction volumes for those systems where the operator does not act as a PSP itself (currently Visa and Mastercard)

3.45 One stakeholder challenged our reasoning for publishing transaction volumes. In CP16/35 we said that enabling individual PSPs to calculate their fee liability will allow them to participate meaningfully in our consultation process. The stakeholder did not believe that this is necessary. Furthermore, it considered that publishing transaction volumes may have a commercial and competitive impact on both operators and PSPs.

3.46 Another stakeholder said that the publication of transaction volumes is only concerning, from a competition point of view, for operators with a small number of participants. This is because participants may be able to calculate their competitors' volumes from this, as they already know their own current and past share of the system's transaction volumes. The stakeholder suggested that we keep our approach under review in the future.

Our decision

3.47 In our November consultation we proposed to continue with the approach of publishing total transaction volumes, unless we became aware of any good reason not to. One stakeholder felt this may have a commercial and competitive impact on both operators and PSPs. The other stakeholders were broadly in agreement with our suggestion. Based on the consultation submissions, we have reconsidered our proposed approach of publishing transaction volumes. We have published FSBRA volumes in the last three years and have not seen any evidence of this having a negative effect. Therefore we consider it appropriate to keep publishing them in relation to this fee year also.

3.48 We now consider that it would be more appropriate not to publish IFR volumes this year, but instead to adopt the same approach we did last year: requiring operators to adjust the published FSBRA volumes in their invoicing process. By adopting last year's approach we avoid revealing any information by way of the difference between FSBRA and IFR volumes. As we stated in CP16/35, we consider that FSBRA figures are a good proxy for IFR volumes and sufficiently close to enable meaningful participation in the consultation. We think that the marginal additional benefit from publishing both IFR and FSBRA volumes in this consultation is likely to be very small.

3.49 This decision has been informed by the fact that no stakeholder supported greater disclosure of information, and some stakeholders noted that the disclosure of additional information could be harmful. We have taken the evidence we have received into account, in particular that the potential benefits of additional disclosure are limited, if any, and that it may cause harm. With this in mind, we have decided to continue using the same approach that we used for the 2016/17 fees cycle: publishing FSBRA transaction volumes but not IFR. We will not implement the approach we proposed in CP16/35.

Operator visibility of transaction volumes covered by the IFR

- 3.50** During the 2016/17 fees consultation process it became apparent that some operators do not always see details of certain PSPs' transactions in card systems – specifically, transactions that are not processed by the operator of that card system, but by the issuing or acquiring PSP (**'on us' transactions**), or by a third party processor on their behalf (**third party processor transactions**). The operator may not hold enough information to be able to determine which of these transactions fall within the scope of the IFR, and so must estimate the relevant transaction volumes for those PSPs.
- 3.51** We proposed to require PSPs to provide operators with sufficient information to be able to assess, or estimate, relevant transaction volumes more accurately (including for 'on us' and third party processor transactions). In November 2016 we proposed a new rule, FEES 9.2.4DR(4), to require PSPs to provide this information.
- 3.52** The majority of respondents supported this proposal. However, we received no suggestions as to the type of information that we could require to allow operators to calculate these transaction volumes. Some operators said that they did not have any problems with estimating the individual PSP fee liability. We have also engaged with the operator who raised this issue. The operator said they are confident that the current figures allow them to estimate the fee liability accurately.
- 3.53** One operator suggested that rather than asking for 'sufficient information to be provided by the PSPs for the operator to be able to calculate their transaction volume', we should rephrase the requirement to say that 'the information provided by the PSP must allow the operators to calculate fee liability'.
- 3.54** Another operator said that the provisions concerning reporting in FEES 9.2.4DR have no relevance and should not be applicable to them, given that they are responsible for the fee payable to the PSR as set out in FEES 9.2.1ER and 9.2.1FR. They believe that this should be made explicitly clear in the PSR fees policy and in the amendments to the FCA fees handbook.
- 3.55** We have not received any comments on the type of information that PSPs could provide to operators that would allow them to estimate their fee liability.

Our decision

- 3.56** In light of the responses received, we have decided not to adopt this proposal. We note the difficulty in specifying the information PSPs would be required to provide in the rules. If any concerns around the availability of information to the operators arise, the PSR has powers to require PSPs to provide information.

Rounding

- 3.57** Operators raised a number of questions about rounding during our process of collecting the 2016/17 fees.
- 3.58** We proposed to round PSR fees amounts up to two decimal places. Therefore, fees invoices should be rounded to charge amounts in pence only, not in fractions of pence. We have not proposed to require any rounding of transaction volumes or other figures. We have proposed an amendment to the rules reflected in the new FEES 9.2.4F G to clarify this. For example, an operator that has three members and is allocated a PSR fee of £1,000 will charge each PSP £333.33.
- 3.59** If we issue rebates due to an underspend compared to the AFR, we proposed in November's fees consultation that if the final figure owed to the PSR (fees minus rebate) is less than £1 then the operator should ignore this amount and not charge the fee payer anything.

3.60 Regarding our rounding proposals, one stakeholder said it would prefer to deal with the total number of transactions rather than rounding to the nearest 1,000. Our fee rules and guidance do not require operators to round their transaction volumes to the nearest 1,000.

3.61 Two stakeholders did not agree with our proposal to disregard a £1 payment if the total figure that a PSP owes (fees minus rebate) is below the £1 cut-off. Instead they suggested that the cut-off should be raised to £50 so that it is consistent with the minimum fees threshold specified under Fees Rule 9.2.1CR(1)(a). Respondents claimed that the administrative burden of issuing invoices for amounts between £1 and £49 is too high.

Our decision

3.62 We understand the stakeholders' concern that issuing invoices for amounts between £1 and £49 places an administrative burden on them. We agree that raising invoices and collecting fees for amounts less than £50 is not likely to be efficient.

3.63 We examined the issue further by engaging directly with the operators. We asked them:

- whether they believed that this change would bring considerable benefits to them as operators by reducing the administrative burden through issuing a smaller number of invoices
- whether, in their opinion, this would have unintended consequences or material negative effects, such as significantly affecting the fees others pay

3.64 The majority of operators agreed that such a change would reduce the administrative burden on them. However, they noted that the reduction is unlikely to be too high. No operator foresaw any unintended consequences from the adoption of this rounding proposal.

3.65 Therefore, in line with our existing minimum threshold, we will not collect any money where the total amount owing after a rebate is less than £50. As the sums involved are very small, we consider the impact of this is likely to be minimal.

3.66 In response to the query around rounding total transaction volumes to the nearest 1,000, we would like to clarify that any rounding in the fees rules is only done for the purposes of the publication of the payment systems denominator. We do not expect operators to round their calculations to the nearest thousand or 500 when calculating individual PSP fee liability.

Underspend

3.67 The PSR underspent its budget for 2015/16. The underspend was largely returned to the industry by reducing the 2016/17 FSBRA fee payment for those who paid fees in 2015/16 through issuing rebates.⁹ We considered what the appropriate methodology should be were there to be an underspend in 2016/17 or any future years.

3.68 We considered whether it would be better to follow an alternative approach in which we simply reduce the PSR's total fees (both FSBRA and IFR) for the following financial year by the amount of any underspend.

3.69 The PSR conducted an internal analysis of the disadvantages and benefits of switching to this approach. This analysis showed that some PSPs would pay reduced fees, while others would pay higher fees, depending on the approach used, and that in some cases these differences were significant. Based on the analysis we proposed to continue with our current approach of rebating PSPs in the 2017/18 fee year if there is a significant underspend for 2016/17.

⁹ Rebates can be made both for FSBRA and IFR where there is an underspend. Last year fee payers had not paid any IFR fees for 2015/16 and therefore there was no IFR rebate.

3.70 Our proposal to continue using the current methodology for returning the underspend to the industry, which returns the money to those who were liable to pay these fees in the first place, was welcomed by most stakeholders. One stakeholder asked us to provide more details of the PSR's quantitative analysis in order to be able to respond meaningfully to our proposal.

Our decision

3.71 Our underspend analysis was based on the 2015/16 underspend, and demonstrates that the way we choose to handle the rebate makes a considerable difference to PSP fee payers. The first approach was to reduce the following year's AFR by the total underspend and then apply our current methodology for allocating the FSBRA AFR (i.e. equal allocation across payment systems). The second approach (the one we currently employ) was to reimburse participants with part of our underspend based on their fee liability from the previous year.

3.72 The analysis showed that changing our approach would have a disproportionate impact on PSPs whose share within a payment system has decreased. This is because the rebate reflects past year's transactions. Changing our current approach would, therefore, benefit PSPs whose transaction volumes are increasing, and new direct PSPs, while placing a heavier cost on businesses whose volumes are falling.

3.73 In light of this analysis and the consultation responses, we continue to consider that our current approach is fair.

Clarification on fee liability

3.74 We had been asked to clarify the fees rules for PSPs that were only members of a system for part of the financial year: a card system operator wanted to know whether these PSPs would be liable to pay a PSR fee. We provided guidance on this, including detailed example scenarios.

3.75 All respondents agreed with this guidance.

Our decision

3.76 Based on the responses to our consultation, we will not make any changes to the guidance that we provided in CP16/35.

Timing of payment

3.77 We proposed to make a small change to FEES 9.2.3B, stating that where an operator is required to pay the fee itself it must do so by 15 September. The existing rule allows the operator to pay the fee within 30 days of receiving the invoice, which can be later than 15 September, even though the operator in this situation is invoicing itself. We consider that this change is appropriate as, unlike a PSP, the operator is in control and should always be able to invoice itself in time to fulfil its obligation to pay our fees by 15 September.

Our decision

3.78 Our changes to the Fees rules 9.2.3BR and 9.2.4DR will be implemented as set out in Annex 1 and the CP16/35.

Assessment of compatibility with FCA duties and PSR regulatory principles

- 3.79** As set out at paragraph 4.36 of our November 2016 consultation, we are required to assess the compatibility of our proposals with certain requirements under the Financial Services and Markets Act 2000 (FSMA), as amended by FSBRA. The FCA is exempt from the obligation to carry out a cost benefit analysis in relation to PSR fees rules.
- 3.80** When consulting on new rules, the FCA is required by section 138(2)(d) of FSMA to explain why it believes making the proposed rules is compatible with its strategic objectives, advances one or more of its operational objectives and has regard to the regulatory principles in section 38 of FSMA.
- 3.81** We set out in our November 2016 consultation¹⁰ our view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way that promotes effective competition in the interests of consumers (section 1B(4) of FSMA). This duty applies in so far as promoting competition is compatible with advancing its consumer protection and/or integrity objectives. We also included our assessment of the equality and diversity implications of these proposals, and set out our view of how the proposed rules are compatible with the regulatory principles applicable to the PSR under section 53 of FSBRA.
- 3.82** We regard the compatibility statement included in our November 2016 consultation as still applicable. Below, we reiterate the reasons we consider that our rules and proposed fee rates are compatible with the FCA's duty to discharge its general functions (which include rule-making) in a way that promotes effective competition in the interests of consumers (s.1B(4) FSMA). This duty applies in so far as promoting competition is compatible with advancing its consumer protection and/or integrity objectives. We also include our assessment of the equality and diversity implications of these proposals.
- 3.83** In addition, we set out our view of how the proposed rules are compatible with the regulatory principles applicable to the PSR under section 53 of FSBRA.

(a) The FCA and PSR's objectives and regulatory principles

- 3.84** The proposals we set out in this consultation are not intended in themselves to advance the FCA's operational objectives. However, they will help the FCA to ensure the PSR is capable of discharging its functions, by funding the activities the PSR needs to do in 2017/18 to meet its responsibilities under FSBRA and IFR. Therefore, these proposals will indirectly advance the FCA's operational objectives of:
- delivering consumer protection – securing an appropriate degree of protection for consumers
 - enhancing market integrity – protecting and enhancing the integrity of the UK financial system
 - building competitive markets – promoting effective competition in the interests of consumers
- 3.85** We consider these proposals to be compatible with the FCA's strategic objective of ensuring that the relevant markets function well, as they will help fund activities designed to meet this strategic objective.

¹⁰ Paragraphs 4.35 to 4.57 of <https://www.psr.org.uk/sites/default/files/media/PDF/CP-1635-PSR-fees-2017-2018.pdf>

3.86 This consultation consults on the proposed fee rates for 2017/18. These will be used to fund the PSR so it can meet its statutory objectives. These are:

- to promote effective competition in the markets for payment systems and the services provided by payment systems, in the interests of service-users
- to promote development and innovation in payment systems, including in infrastructure used for the purpose of operating payment systems, in the interests of service-users
- to ensure payment systems are operated and developed in a way that takes account of and promotes the interests of service-users

Funding also enables the PSR to carry out its functions to monitor and enforce the IFR.

3.87 In preparing the proposals set out in this consultation, the FCA must have regard to the regulatory principles set out in section 3B of FSMA. The most relevant regulatory principles are considered below. These are also broadly consistent with the PSR's regulatory principles under section 53 of FSBRA.

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

3.88 Our approach to calculating and collecting PSR fees reflects a balance between an approach that is relatively simple, transparent and predictable (and, as a result, low-cost) and one that is not disproportionate or unfair to individual payment systems or participants. This is consistent with the need to use resources in an efficient and economical way. In particular, at a small additional cost to the PSR (in terms of administrative expense), we are able to eliminate the risk of a potentially significant increase in the regulatory burden on the payments industry.

3.89 Applying a minimum transaction volume threshold below which PSPs are not required to pay fees reduces the administrative burden both for us and for the card payment systems, and ensures that the cost of collecting the fees does not exceed the amount collected. It achieves this without making any material difference to the allocation of PSR fees between PSPs, because the amounts involved are so small.

(c) The principle that a burden or restriction should be proportionate to the benefits, considered in general terms, which are expected to result from imposing it

3.90 The calculation methodology for determining the PSR FSBRA fee payable by individual PSPs within a regulated payment system largely mirrors the way in which the operators recover their own operating costs from their direct PSP members, acquirers and card issuers. In particular, the use of transaction volumes reflects a PSP's usage of a payment system, and is therefore both fair and transparent. It also does not create an inappropriate burden for new direct PSP members, whose PSR fee will be proportionate to the volumes of transactions they process or generate.

3.91 FSBRA and IFR fees will only apply for transactions with a sufficient UK connection. This avoids imposing a fees burden on a large number of members or licensees of card payment systems for whom this may not be appropriate because they have no activities at all in the UK, and reduces the resulting administrative invoicing burden on card payment systems and us.

3.92 This is also supported by our decision to continue with a minimum transaction volume threshold. Where no individual acquirer or card issuer operating in the UK is above the minimum threshold, the fee is payable by the operator itself. This ensures that all systems contribute to the funding of the PSR's activities and functions.

3.93 In addition, we consider it proportionate that all card payment systems subject to the IFR in the UK contribute to the funding of the PSR's IFR functions and activities. This is made commensurate with their size through our three-tier approach, which exempts systems with a very small UK presence and imposes a flat fee on systems with limited UK presence.

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

3.94 In respect of fees for our FSBRA functions, we will continue with different calculation methodologies for the different regulated payment systems to reflect differences between the way that they operate and the usual methodologies the operators of those systems use to recover their operating costs.

3.95 For all card payment systems in relation to both FSBRA and IFR, our decision to continue with the definition of 'transactions by acquirers and card issuers operating in the UK', and the minimum transaction volume threshold, recognise some specific differences in the nature of card systems, and ensures that only acquirers, card issuers and operators actually operating in the UK at a sufficient scale are required to pay the fees.

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

3.96 We believe this consultation clearly specifies the fee rates to fund the PSR. Our approach is intended to minimise the regulatory burden and cost on industry participants, while ensuring a simple and transparent method of both calculating PSR fees payable by each individual participant in a payment system and collecting PSR fees (via the operators acting as collection agents for FSBRA and where appropriate for IFR).

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

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

3.98 Our approach demonstrates flexibility in dealing with circumstances unique to different payment systems. We believe this will reduce concerns of other, non-designated payment systems regarding the potential direct financial cost if they were to be designated for FSBRA regulation in future, as well as for potential new direct PSP members of existing regulated payment systems. It will also reduce concerns of other card systems subject to the IFR but not yet operating in a material way in the UK.

(g) Equality and diversity

3.99 We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions. As part of this, we conduct an equality impact assessment (EIA) to ensure that the equality and diversity implications of any new policy proposals are considered. We conducted an EIA for our 2017/18 fees consultation cycle and concluded that none of our proposals are relevant to equality and diversity considerations. We do not believe that any of our proposals will have an impact on equality and diversity.

- 3.100** However, we would welcome comments on any equality and diversity issues you believe may arise from our proposals.
- 3.101** The funding for the PSR will enable it to progress its programme of work. This may in due course lead it to consider new general directions or generally applicable requirements (or modifications to existing ones). In these circumstances the PSR would carry out an EIA with regard to those specific proposals.
- 3.102** Under the IFR, the PSR's role is to monitor and enforce compliance with EU legislation implemented in the UK.

4. Consultation on calculation of fee rates for the funding of the PSR's FSBRA and IFR activities and functions for 2017/18

In this chapter we set out our consultation on the proposed FEES 9 Annex 1R Tables A, B and C, enabling those who will be liable to pay PSR FSBRA and IFR fees for the year 2017/18 to calculate their individual fee liability.

In this consultation we are consulting on the fee rates and not on the methodology for calculating fees.

Annex 2 contains the proposed fees instrument, which reflects our proposals.

Consultation on calculation of fee rates for the funding of the PSR's FSBRA activities and functions

- 4.1** We describe below the calculation methodology for determining fees payable by individual direct PSP members for each regulated payment system, which is also set out in FEES 9 (Table A) which would come into effect from 15 April 2017.
- 4.2** It should be noted that under section 42(8) of FSBRA, the Bank of England (the Bank) is not a participant within the meaning of section 42 of FSBRA. This means the Bank is not liable to pay PSR fees. This also means that when considering transaction volumes (numbers of transfers of funds), volumes attributed to the Bank are not to be taken into account).
- 4.3** The calculation methodologies for FSBRA fees for each regulated payment system for 2017/18 are set out below, and the payment system allocations and payment system denominators for each regulated payment system for 2017/18 are set out in Table A of FEES 9 Annex 1R, included as Annex 2 to this consultation. Direct PSP members can calculate their 2017/18 PSR fee rates for the funding of the PSR's FSBRA functions using their transaction volumes (or, for NICC, shareholdings in the operator), as follows:
- a) **Bacs:** The PSR fee to be recovered from individual direct PSP members of the Bacs payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct PSP through Bacs during the relevant time period. The 2017/18 relevant time period for transaction volumes processed through the Bacs regulated payment system is between 1 January and 31 December 2016. Transactions include both the initiation of the transfer of funds, and the receiving of transferred funds. For these purposes, the direct PSP members are listed at <http://www.bacs.co.uk/Bacs/Corporate/CorporateOverview/Pages/OurMembers.aspx>, excluding the Bank of England.
 - b) **C&C:** The PSR fee to be recovered from individual direct PSP members of the C&C payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct PSP member through C&C during the relevant time period. The 2017/18 relevant time period for transaction volumes processed through the C&C regulated payment system is between 1 July and 31 December 2016. Transaction volumes include cleared transaction volumes 'in clearing' and 'out clearing' for GBP, USD and EUR. For these purposes, the direct PSP members are listed at <https://www.chequeandcredit.co.uk/banking-industry/participate-system/our-members>.

- c) **CHAPS:** The PSR fee to be recovered from individual direct PSP members of the CHAPS payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct PSP member through CHAPS during the relevant time period. The 2017/18 relevant time period for transaction volumes processed through the CHAPS regulated payment system is between 1 January and 31 December 2016. Transaction volumes include CHAPS' internal MT103 and MT202 categories of transfers of funds. Transactions include both the initiation of the transfer of funds, and the receiving of the transferred funds. For these purposes, the direct PSP members are the direct participants listed at <http://www.chapsco.co.uk/participation/currentparticipants/> (excluding the Bank of England).
- d) **FPS:** The PSR fee to be recovered from individual direct PSP members of the FPS payment system will be calculated proportionally to the transaction volumes processed on behalf of that direct PSP member through FPS during the relevant time period. The 2017/18 relevant time period for transaction volumes processed through the FPS regulated payment system is between 1 January and 31 December 2016. Transactions include both the initiation of the transfer of funds, and the receiving of the transferred funds. For these purposes, the direct PSP members are listed at <http://www.fasterpayments.org.uk/about-us/current-participants>.
- e) **LINK:** The PSR fee to be recovered from individual direct PSP members of the LINK payment system will be calculated proportionally to the transaction volumes issued and acquired on behalf of that direct PSP member through LINK during the relevant time period. The 2017/18 relevant time period for transaction volumes issued and acquired through the LINK regulated payment system is between 1 January and 31 December 2016. Transaction volumes include all transactions issued and acquired through the LINK regulated payment system (including GBP cash withdrawals, foreign currency dispenses, balance enquiries, PIN management, charity donations, non-cash transactions and mobile payment transactions), excluding 'on us' cash withdrawals (which do not get processed through the LINK regulated payment system). Both acquired and issued transactions are included. For these purposes, the direct PSP members are listed at <http://www.link.co.uk/about-link/members/>.
- f) **Mastercard:** The PSR fee to be recovered from individual acquirers and card issuers operating in the UK that are direct PSP members or licensees of the Mastercard payment system will be calculated proportionally to the transaction volumes issued and acquired on behalf of that acquirer or card issuer) under the Mastercard system in the UK during the relevant time period. The 2017/18 relevant time period for transaction volumes issued and acquired under the Mastercard regulated payment system in the UK is between 1 January and 31 December 2016.

This includes all transactions by acquirers or card issuers operating in the UK under the Mastercard regulated payment system, including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards (such as buying foreign currency at a bureau de change or getting cashback when buying groceries at a supermarket), but excluding cash-only withdrawals (such as from ATMs or over the counter). All Mastercard-branded transactions are included irrespective of the processing entity (Mastercard itself, a third party processing entity or 'on us' transactions). For these purposes, 'transactions by acquirers and card issuers operating in the UK' means:

- On the acquiring side:
 - all transactions acquired by UK-based acquirers resulting in payments to merchants located in the UK
 - all transactions acquired by UK-based acquirers resulting in payments to merchants located outside the UK
 - all transactions acquired by non-UK-based acquirers resulting in payments to merchants located in the UK

- On the issuing side: all transactions on cards issued by UK-based card issuers

A minimum transaction volume threshold is applied whereby an acquirer or card issuer operating in the UK is not required to pay a PSR fee in the given year, and the UK transaction volumes that they realise are to be excluded from the total Mastercard transaction volumes used for fee calculation purposes, if:

1. it has acquired and issued less than 100,000 relevant UK transactions in the relevant time period, or
 2. the PSR fee it would normally pay, as calculated according to the fees rules, would be less than £50 for the current fee year if the minimum transaction volume threshold was not applied
- g) **NICC:** The PSR fee to be recovered from individual direct PSP members of the NICC payment system will be calculated proportionally to their shareholding in the operator of the NICC regulated payment system (Belfast Bankers' Clearing Company Ltd) during the relevant time period. For the NICC regulated payment system, this is defined as relevant shareholdings as of 31 December 2016. The direct PSP members Danske Bank (formerly Northern Bank), Ulster Bank, First Trust and Bank of Ireland.
- h) **Visa Europe:** The PSR fee to be recovered from individual acquirers and card issuers operating in the UK that are direct PSP members or licensees of the Visa payment system will be calculated proportionally to the transaction volumes issued and acquired on behalf of that acquirer or card issuer under the Visa system in the UK during the relevant time period. The 2017/18 relevant time period for transaction volumes issued and acquired under the Visa regulated payment system in the UK is between 1 January and 31 December 2016.

This includes all transactions by acquirers and card issuers operating in the UK under the Visa regulated payment system, including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards (such as buying foreign currency at a bureau de change or getting cashback when buying groceries at a supermarket), but excluding cash-only withdrawals (such as from ATMs or over the counter). All Visa-branded transactions are included irrespective of the processing entity (Visa itself, a third party processing entity or 'on us' transactions). For these purposes, 'transactions by acquirers and card issuers operating in the UK' means:

- On the acquiring side:
 - all transactions acquired by UK-based acquirers resulting in payments to merchants located in the UK
 - all transactions acquired by UK-based acquirers resulting in payments to merchants located outside the UK
 - all transactions acquired by non-UK-based acquirers resulting in payments to merchants located in the UK

- On the issuing side: all transactions on cards issued by UK-based card issuers

A minimum transaction volume threshold is applied whereby an acquirer or card issuer operating in the UK is not required to pay a PSR fee in the given year, and the UK transaction volumes that they realise are to be excluded from the total Visa transaction volumes used for fee calculation purposes, if:

1. it has acquired and issued less than 100,000 relevant UK transactions in the relevant time period, or
2. the PSR fee it would normally pay, as calculated according to the fees rules, would be less than £50 for the current fee year if the minimum transaction volume threshold was not applied

Consultation on calculation of fee rates for the funding of the PSR's IFR activities and functions

4.4 We describe below the calculation methodology for determining fees payable by individual direct PSP members and operators for each IFR card payment system, which is also set out in the proposed amendments to FEES 9 (Tables B and C). The relevant time periods and dates are those to be taken into account when calculating the PSR fees applicable for 2017/18 to individual direct PSP members. For AmEx and Diners Club, the calculation methodologies take our treatment of systems where the operator also acts as a PSP into account.

4.5 The calculation methodologies for each IFR card payment system for 2017/18 are set out below, and the payment system allocations and payment system denominators for each IFR card payment system for 2017/18 (where applicable) are set out in Table C of FEES 9 Annex 1R. Direct acquiring and/or card-issuing PSP members can calculate their 2017/18 PSR fee rates for the funding of our IFR functions using their transaction volumes and the methodologies set out below. Operators are liable to pay fees when:

- a) There are no PSPs within their IFR card payment system which are above the minimum volume threshold.
- b) The operator also acts as a PSP.

4.6 For each of the IFR card payment systems, the following common definitions apply:

- a) 'Transactions by acquirers and card issuers operating in the UK' in a relevant time period means:
 - On the acquiring side:
 - any transactions acquired by UK-based acquirers (or by an operator acting as such an acquirer) resulting in payments to merchants located in the UK, where the card issuer is located in the European Economic Area (EEA)
 - any transactions acquired by UK-based acquirers (or by an operator acting as such an acquirer) resulting in payments to merchants located outside the UK, where the card issuer is located in the EEA
 - any transactions acquired by EEA-based acquirers (based outside the UK) (or by an operator acting as such an acquirer) resulting in payments to merchants located in the UK, where the card issuer is located

- On the issuing side: any transactions on cards issued by UK-based card issuers (or operators acting as such a card issuer), where the acquirer is located in the EEA.
- b) All transactions by acquirers or card issuers operating in the UK, or by the operator acting as such an acquirer and/or card issuer, under the relevant card payment systems are taken into account, including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards (such as buying foreign currency at a bureau de change or getting cashback when buying groceries at a supermarket), but excluding cash-only withdrawals (such as from ATMs or over the counter).
- c) There is a minimum transaction volume threshold for each of the IFR card payment systems. This means an acquirer or card issuer operating in the UK is not required to pay a PSR fee in the given fee year for a given IFR card payment system, and the UK transaction volumes that it realises are to be excluded from the total transaction volumes under each IFR card payment system used for fee calculation purposes, if:
- any such PSP has acquired and issued fewer than 100,000 relevant UK transactions in the relevant time period in that IFR card payment system, or
 - the PSR fee it would normally pay for that IFR card payment system, as calculated according to the fees rules, would be less than £50 for the current fee year if the minimum transaction volume threshold was not applied

4.7 The methodologies for each IFR card payment system are:

- a) **JCB and Union Pay International:** These IFR card payment systems are within the third tier as they realised less than 100,000 UK transactions between 1 January and 31 December 2016. These systems, operators and the PSPs in these systems are consequently exempted from paying any PSR fee to fund our IFR activities in respect of JCB and/or Union Pay International.
- b) **Diners Club:** This IFR card payment system is within the second tier as it realised between 100,000 and 10 million UK transactions between 1 January and 31 December 2016. The payment system allocation is 0.5% of the IFR AFR, amounting to £3,000 in 2017/18. As the Diners Club operator also acts as an acquiring and/or card-issuing PSP it will be liable for the entire payment system allocation of £3,000.
- c) **American Express:** This IFR card payment system is within the first tier as it realised more than 10 million UK transactions between 1 January and 31 December 2016. The payment system allocation is 33.2% of the IFR AFR, amounting to £199,000 in 2017/18. As the American Express operator also acts as an acquiring and/or card-issuing PSP, the American Express operator will be liable for the entire payment system allocation of £ 199,000.
- d) **Mastercard and Visa:** These IFR card payment systems are within the first tier as they realised more than 10 million UK transactions between 1 January and 31 December 2016. The payment system allocation is 33.2% of the IFR AFR, amounting to £199,000 in 2017/18 for each of Mastercard and Visa. The PSR fees to be recovered from individual acquirers and card issuers operating in the UK that are direct PSP members or licensees will be calculated proportionally to the transaction volumes issued and acquired on behalf of that acquirer or card issuer under the Mastercard, respectively Visa, system in the UK during the relevant time period. The 2017/18 relevant time period for transaction volumes issued and acquired under these IFR card payment systems in the UK is between 1 January and 31 December 2016. All Mastercard-branded transactions, respectively Visa-branded transactions, are included irrespective of the processing entity (Mastercard or Visa itself, a third party processing entity or 'on us' transactions).

Consultation question

Do you have any comments on the proposed fee rates for funding the PSR's FSBRA and IFR functions and activities for 2017/18, pursuant to the fees rules set out in Annex 2 (draft fees rules, in particular Tables A, B and C of FEES 9 Annex 1R used for the calculation of fees rates)?

Glossary

This table includes the glossary and abbreviations used for the purposes of this consultation paper on 2017/18 PSR regulatory fees.

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

Term or abbreviation	Description
<i>acquirer (acquiring PSP)</i>	<i>A payment service provider contracting with a payee to enable them to accept payment transactions made by means of any card, telecommunication, digital or IT device or software, and which result in a transfer of funds to the payee.</i>
AFR	Annual funding requirement.
allocation	The methodology whereby the PSR AFR to be recovered is allocated across regulated payment systems and IFR card payment systems.
<i>AmEx</i>	<i>The American Express IFR card payment system.</i>
<i>Bacs</i>	<i>The Bacs regulated payment system designated by HM Treasury under section 43 of FSBRA.</i> (The regulated payment system which processes payments through two principal electronic payment schemes: Direct Debit and Bacs Direct Credit. The payment system is operated by Bacs Payment Schemes Limited (BPSL).)
<i>C&C (Cheque & Credit)</i>	<i>The Cheque & Credit regulated payment system designated by HM Treasury under section 43 of FSBRA.</i> The regulated payment system in England, Scotland and Wales that processes cheques and other paper instruments. It is operated by Cheque and Credit Clearing Company Limited (C&CCCL).
calculation (fee calculation)	The methodology whereby the PSR AFR allocated to a specific regulated payment system or IFR card payment system is calculated for an individual fee-paying PSP (or card operator acting as such an acquirer or card issuer) (part of the 'indirect billing' approach).
<i>card issuer (card-issuing PSP)</i>	<i>A payment service provider contracting with a payer to enable the latter to initiate a payment transaction, made by means of any card, telecommunication, digital or IT device or software.</i>
<i>card payment system</i>	<i>A regulated payment system that enables a holder of a payment card to effect a payment.</i>

CHAPS (Clearing House Automated Payment System)	<i>The CHAPS regulated payment system designated by HM Treasury under section 43 of FSBRA.</i> (The UK's real-time, high-value sterling regulated payment system, where payments are settled over the Bank of England's Real Time Gross Settlement (RTGS) system. It is operated by CHAPS Co.)
collection (fee collection)	The methodology whereby the operators act as collection agents for the PSR fee (part of the 'indirect billing' approach)
CP15/26	'PSR regulatory fees 2015/16' – a document published in August 2015 at www.psr.org.uk/about-psr/how-psr-funded and http://fca.org.uk
CP16/35	'PSR regulatory fees 2017/18' – a document published in November 2016 at www.psr.org.uk/psr-publications/consultations/cp-1635-fees-2017-2018
CP15/44	'PSR regulatory fees 2016/17' – a document published in December 2015 at www.fca.org.uk/publication/consultation/cp15-44.pdf
CP16/11	'PSR regulatory fees 2016/17' – a document published in April 2016 at www.psr.org.uk/psr-publications/consultations/cp1611-psr-regulatory-fees-2016-2017
Diners Club	The Diners Club International IFR card payment system
direct payment service provider (also referred to as a 'direct member' of a regulated payment system)	<i>(a) Any person with direct access to a regulated payment system who provides services to consumers or businesses who are not participants in a regulated payment system, for the purposes of enabling the transfer of funds using that regulated payment system. For the purposes of FEES 9, direct payment service provider includes an acquirer and a card issuer, and does not include the Bank of England.</i> <i>(b) Any person with direct access to an IFR card payment system who acts as an acquirer or card issuer for the purposes of enabling the transfer of funds under the rules of that IFR card payment system.</i>
FCA	<i>Financial Conduct Authority.</i>
FEES 9	<i>PSR fees rules included in the FCA Fees Manual (FEES) at FEES 9 (http://fshandbook.info/FS/html/FCA/FEES/9).</i>
FPS (Faster Payments Scheme)	<i>The Faster Payments Scheme regulated payment system designated by HM Treasury under section 43 of FSBRA.</i> (The regulated payment system that provides near real-time payments as well as standing orders. It is operated by Faster Payments Scheme Limited (FPSL).)
FSBRA	<i>Financial Services (Banking Reform) Act 2013.</i>
FSMA	<i>Financial Services and Markets Act 2000.</i>

<i>IFR (EU Interchange Fee Regulation)</i>	<i>Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions, published in the Official Journal of the EU on 19 May 2015.</i>
<i>IFR card payment system</i>	<i>A payment card scheme as defined in the IFR, being a single set of rules, practices, standards and/or implementation guidelines for the execution of card-based payment transactions and which is separated from any infrastructure of payment system that supports its operation, and includes any specific decision-making body, organisation or entity accountable for the functioning of the scheme.</i>
<i>IFR transactions by acquirers operating in the United Kingdom</i>	<i>All transactions subject to the IFR acquired by:</i> <i>(a) UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located in the United Kingdom, where the card issuer is located in the EEA;</i> <i>(b) UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located outside the United Kingdom, where the card issuer is located in the EEA; and</i> <i>(c) non-UK-based acquirers (or an operator acting as acquirer) resulting in payments to merchants located in the United Kingdom, where the card issuer is located in the EEA.</i>
<i>IFR transactions by card issuers operating in the United Kingdom</i>	<i>All transactions subject to the IFR on cards issued by UK-based card issuers (or an operator acting as card issuer), where the acquirer is located in the EEA.</i>
<i>'indirect billing' approach</i>	<i>The approach to raising PSR fees whereby PSR fees are levied on direct members of Bacs, CHAPS, C&C, FPS, LINK or NICC, and on acquiring and issuing PSPs that are members of MasterCard or Visa, and which is proposed to be used for acquiring and issuing PSPs (and in some cases on operators) in IFR card payment systems. PSR fees are collected on behalf of the FCA and PSR by operators acting as collection agents (fee collection methodology). The operators also issue invoices for the PSR fees determined for individual direct members using the fee calculation methodology.</i>
<i>interchange fees</i>	<i>A fee paid for each transaction directly or indirectly (i.e. through a third party) between the issuer and the acquirer involved in a card-based payment transaction. The net compensation or other agreed remuneration is considered to be part of the interchange fee.</i>
<i>JCB</i>	<i>The JCB International IFR card payment system</i>

LINK	<p><i>The LINK regulated payment system designated by HM Treasury under section 43 of FSBRA.</i></p> <p>(The regulated payment system which enables end users to take cash out of their accounts (amongst other activities) using the network of ATMs in the UK. It is operated by LINK Scheme.)</p>
Mastercard	<p><i>The Mastercard regulated payment system designated by HM Treasury under section 43 of FSBRA and the Mastercard IFR card payment system.</i></p>
NICC (Northern Ireland Cheque Clearing)	<p><i>The Northern Ireland Cheque Clearing regulated payment system designated by HM Treasury under section 43 of FSBRA.</i></p> <p>(The regulated payment system in Northern Ireland that processes cheques and other paper instruments. It is operated by Belfast Bankers' Clearing Company Ltd).</p>
'on us' transactions	<p><i>Transactions where the acquirer and card issuer are the same entity.</i></p>
operator	<p><i>In relation to a payment system, any person with responsibility under a payment system for managing or operating it; and any reference to the operation of a payment system includes a reference to its management.</i></p>
PAD (EU Payment Accounts Directive)	<p>Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, published in the Official Journal of the EU on 28 August 2014.</p>
participants	<p>(a) In relation to a regulated payment system, any operator, payment service provider and infrastructure provider to a regulated payment system. See also s.42(2) FSBRA.</p> <p>(b) In relation to IFR card payment systems, any operator and payment system provider in to that IFR payment card scheme.</p>
payment service provider (PSP)	<p>(a) Any person with access to a regulated payment system who provides services to consumers or businesses who are not participants in the system, for the purposes of enabling the transfer of funds using that regulated payment system. For the purposes of FEES 9, the Bank of England is not considered a payment service provider.</p> <p>(b) Any person with access to an IFR card payment system who acts as an acquirer or card issuer for the purposes of enabling the transfer of funds under the rules of that IFR card payment system.</p>
payment system	<p><i>A system which is operated by one or more persons in the course of business for the purpose of enabling persons to make transfers of funds, and includes a system which is designed to facilitate the transfer of funds using another payment system.</i></p>

<i>payment system allocation</i>	<p>(a) For each regulated payment system listed in column 1 of Table A of FEES 9 Annex 1R, the allocation of PSR fees specified for that regulated payment system in column 2 of Table A of FEES 9 Annex 1R</p> <p>(b) For each IFR card payment system listed in column 1 of Table C of FEES 9 Annex 1R, the annual allocation of PSR fees specified for that IFR card payment system in column 2 of Table C of FEES 9 Annex 1R.</p>
<i>payment system denominator</i>	<p>(a) For each regulated payment system listed in column 1 of Table A of FEES 9 Annex 1R, the figure specified for that regulated payment system in column 6 of Table A and which is also the total transaction volumes for that regulated payment system undertaken by all relevant direct payment service providers in the relevant time period, prior to any adjustment resulting from the application of FEES 9.2.1AR</p> <p>(b) For each IFR card payment system listed in column 1 of Table C of FEES 9 Annex 1R, the figure specified for that IFR card payment system in column 4 of Table B and column 6 of Table C of FEES 9 Annex 1R, and which is also the total transaction volumes for that IFR card payment system undertaken by all relevant acquirers, card issuers and operators acting as an acquirer or card issuer in the relevant time period, prior to any adjustment resulting from the application of FEES 9.2.1BAR.</p>
<i>payment transaction</i>	An action of transferring funds, initiated by the payer or on its behalf or by the payee, irrespective of any underlying obligations between the payer and the payee.
<i>person</i>	(In accordance with the Interpretation Act 1978) any person, including a body of persons corporate or unincorporate (that is, a natural person, a legal person and, for example, a partnership).
<i>processing entity</i>	Any person providing payment transaction processing services, in terms of the actions required for the handling of a payment instruction between the acquirer and the card issuer in a card payment system or in an IFR card payment system.
<i>PSR</i>	The Payment Systems Regulator Limited, the body corporate established by the FCA under section 40(1) of FSBRA.
<i>PSR fee (also referred to as PSR regulatory fee)</i>	The fee payable to the FCA by a direct payment service provider or by an acquirer, card issuer or operator of an IFR card payment system under FEES 9.2.1R.
<i>regulated payment system</i>	Any payment systems designated by the Treasury in accordance with s.43 FSBRA. As of the date of publication this includes Bacs, C&C, CHAPS, FPS, LINK, NICC, MasterCard and Visa.
<i>regulated person</i>	A person on whom an obligation, prohibition or restriction is imposed by any provision of the IFR, including participants in IFR card payment systems.

<i>relevant time period</i>	<p>(a) For each regulated payment system listed in column 1 of Table A of FEES 9 Annex 1R, the time period or date specified for that regulated payment system in column 4 of Table A</p> <p>(b) For each IFR card payment system listed in and column 1 of Table C of FEES 9 Annex 1R, the time period specified for that IFR card payment system in column 2 of Table B and column 4 of Table C of FEES 9 Annex 1R.</p>
<i>service- user</i>	Those who use, or are likely to use, services provided by payment systems.
<i>transaction volumes</i>	<p>(a) For each regulated payment system listed in column 1 of Table A of FEES 9 Annex 1R, the number of transfers of funds of the type specified in column 5 of Table A undertaken by a direct payment service provider in the relevant time period</p> <p>(b) For each IFR card payment system listed in column 1 of Table C of FEES 9 Annex 1R, the number of transfers of funds of the type specified in column 1 of Table B and column 5 of Table C of FEES 9 Annex 1R undertaken by an acquirer, issuer or operator of an IFR card payment system acting as such an acquirer or card issuer in the relevant time period.</p>
<i>transactions by acquirers operating in the UK</i>	<p>All transactions acquired by:</p> <p>(a) UK-based acquirers (or an operator acting as such an acquirer) resulting in payments to merchants located in the United Kingdom</p> <p>(b) UK-based acquirers (or an operator acting as such an acquirer) resulting in payments to merchants located outside the UK and</p> <p>(c) non-UK-based acquirers (or an operator acting as such an acquirer) resulting in payments to merchants located in the UK.</p>
<i>transactions by card issuers operating in the UK</i>	All transactions on cards issued by UK-based card issuers (or an operator acting as such a card issuer).
<i>UPI</i>	The Union Pay International IFR card payment system.
<i>Visa (Visa Europe)</i>	<p>The Visa Europe regulated payment system designated by HM Treasury under section 43 of FSBRA and the Visa Europe IFR card payment system.</p> <p>(The regulated payment system supporting payments made by cards and operated by Visa Europe and Visa UK Limited).</p>

Annex 1

Fees instrument giving effect to our policy decision and making amendments to the PSR fees rules which take effect on 15 April 2017

FEES (PAYMENT SYSTEMS REGULATOR) INSTRUMENT (No 3) 2017

Powers exercised

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

Commencement

- C. This instrument comes into force on 15 April 2017.

Amendments to the Handbook

- D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Fees (Payment Systems Regulator) Instrument (No 3) 2017.

By order of the Board
30 March 2017

Annex

Amendments to the Fees manual (FEES)

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

9 Payment Systems Regulator funding

...

9.2 PSR fees

...

Time of payment

...

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

- (1) by 15 September in the current *fee year*; ~~or~~
- (2) ~~if later, within 30 days of the date of the invoice.~~

Method of payment and invoicing

...

9.2.4F G With respect to invoices for *PSR fees*, an *operator* of a *regulated payment system* or an *IFR card payment system* should round any monetary sums to two decimal points.

...

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

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provision: coming into force

...										
12.4	<i>FEES</i> 9.2.2R, <i>FEES</i> 9.2.2AR and <i>FEES</i> 9.2.2BR	R	<p>Replace <i>FEES</i> 9.2.2R, <i>FEES</i> 9.2.2AR and <i>FEES</i> 9.2.2BR with the following:</p> <p>“If the <i>PSR fee</i> paid by a <i>direct payment service provider</i> for the previous <i>fee year</i> for a particular <i>regulated payment system</i> was at least £20,000, that <i>direct payment service provider</i> must pay:</p> <table border="1"> <tr> <td>(1)</td> <td>an amount equal to 50% of the <i>PSR fee</i> payable for the previous <i>fee year</i>, by 15 April in the current <i>fee year</i>; and</td> </tr> <tr> <td>(2)</td> <td>the balance of the <i>PSR fee</i> due by 15 September in the current <i>fee year</i>.</td> </tr> </table> <p>The <i>operator</i> of each <i>regulated payment system</i> must pay the amounts collected (as collection agent for the <i>FCA</i>) under <i>FEES</i> 9.2.2R to the <i>FCA</i> by the following dates:</p> <table border="1"> <tr> <td>(a)</td> <td>30 April in the current <i>fee year</i>; and</td> </tr> <tr> <td>(b)</td> <td>1 October in the current <i>fee year</i>.²² [expired]</td> </tr> </table>	(1)	an amount equal to 50% of the <i>PSR fee</i> payable for the previous <i>fee year</i> , by 15 April in the current <i>fee year</i> ; and	(2)	the balance of the <i>PSR fee</i> due by 15 September in the current <i>fee year</i> .	(a)	30 April in the current <i>fee year</i> ; and	(b)	1 October in the current <i>fee year</i> . ²² [expired]	From 15 April 2016 until 29 February 2017	1 March 2017
(1)	an amount equal to 50% of the <i>PSR fee</i> payable for the previous <i>fee year</i> , by 15 April in the current <i>fee year</i> ; and												
(2)	the balance of the <i>PSR fee</i> due by 15 September in the current <i>fee year</i> .												
(a)	30 April in the current <i>fee year</i> ; and												
(b)	1 October in the current <i>fee year</i> . ²² [expired]												

Annex 2

Proposed fee rates for 2017/18

We are consulting on the rates shown on the following pages.

FEES (PAYMENT SYSTEMS REGULATOR) INSTRUMENT (No 4) 2017

Powers exercised

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

Commencement

- C. This instrument comes into force on [1 July 2017].

Amendments to the Handbook

- D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Fees (Payment Systems Regulator) Instrument (No 4) 2017.

By order of the Board
[date]

Annex

Amendments to the Fees manual (FEES)

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

Amend the following as shown.

9 Annex 1R PSR fees for the period 1 April ~~2016~~ 2017 to 31 March ~~2017~~ 2018

...

Tables A, B and C in FEES 9 Annex 1R are deleted in their entirety and the deleted text is not shown. Insert the following new Tables A, B and C in FEES 9 Annex 1R. The text is not underlined.

Table A

Regulated payment system (column 1)	Payment system allocation for 2017/18 (£) (column 2)	Calculation methodology for PSR fee payable by direct payment service providers, acquirers and card issuers of regulated payment systems (column 3)	Relevant time period (column 4)	Relevant transaction volumes or shareholdings, as applicable (column 5)	Payment system denominator (column 6) (rounded to the nearest 500)
<i>Bacs</i>	£1,628,571	The <i>PSR fee</i> is calculated for each individual <i>direct payment service provider</i> proportionally to the relevant <i>transaction volumes</i> processed, issued or acquired on behalf of that <i>direct payment service provider</i> through the <i>regulated payment system</i> in question during the <i>relevant time period</i> .	1 January to 31 December 2016	All transactions processed through the <i>Bacs regulated payment system</i> . Transactions include both the initiation of the transfer of funds, and the receipt of transferred funds.	12,436,987,000
<i>C&C</i>	£1,579,302		1 July to 31 December 2016	All transactions including ‘in clearing’ and ‘out clearing’ transactions for GBP, USD and EUR processed through the <i>C&C regulated payment system</i> .	354,564,500
<i>CHAPS</i>	£1,628,571	The calculation formula is: <i>payment system allocation</i> multiplied by <i>direct payment service provider’s</i> relevant	1 January to 31 December 2016	All MT103 and MT202 transactions processed through the <i>CHAPS regulated payment system</i> . Transactions include both the initiation of the	77,764,500

Regulated payment system (column 1)	Payment system allocation for 2017/18 (£) (column 2)	Calculation methodology for PSR fee payable by direct payment service providers, acquirers and card issuers of regulated payment systems (column 3)	Relevant time period (column 4)	Relevant transaction volumes or shareholdings, as applicable (column 5)	Payment system denominator (column 6) (rounded to the nearest 500)
		<i>transaction volumes</i> divided by <i>payment system denominator</i> .		transfer of funds, and the receipt of transferred funds.	
<i>FPS</i>	£1,628,571		1 January to 31 December 2016	All transactions processed through the <i>FPS regulated payment system</i> . Transactions include both the initiation of the transfer of funds, and the receipt of transferred funds.	2,852,185,500
<i>LINK</i>	£1,628,571		1 January to 31 December 2016	All transactions issued and acquired under the <i>LINK regulated payment system</i> , including GBP cash withdrawals, foreign currency dispenses, balance enquiries, PIN management, charity donations, non-cash transactions and mobile payment transactions, but excluding ' <i>on us</i> ' transactions. Both issuing and acquiring transactions are taken into account.	6,341,414,500
<i>MasterCard</i>	£1,628,571	<p>General calculation methodology:</p> <p>The <i>PSR fee</i> is calculated for each individual <i>acquirer</i> and <i>card issuer</i> proportionally to the relevant <i>transaction volumes</i> under the <i>card payment system</i> in question during the <i>relevant time period</i>.</p> <p>The calculation formula is: <i>payment system allocation</i> multiplied by</p>	1 January to 31 December 2016	All <i>transactions by acquirers operating in the United Kingdom</i> and <i>transactions by card issuers operating in the United Kingdom</i> under the <i>MasterCard regulated payment system</i> , including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards, but excluding cash-only withdrawals. All <i>MasterCard-branded transactions</i> are included irrespective of the <i>processing entity</i> (<i>MasterCard</i> itself, a third party <i>processing entity</i> or ' <i>on us</i> ' transactions). Both issuing and acquiring transactions are taken into account.	5,440,165,500 (prior to any adjustment resulting from the application of <i>FEES 9.2.1AR</i>)

Regulated payment system (column 1)	Payment system allocation for 2017/18 (£) (column 2)	Calculation methodology for PSR fee payable by direct payment service providers, acquirers and card issuers of regulated payment systems (column 3)	Relevant time period (column 4)	Relevant transaction volumes or shareholdings, as applicable (column 5)	Payment system denominator (column 6) (rounded to the nearest 500)
Visa	£1,628,571	<p><i>acquirer or card issuer's relevant transaction volumes divided by payment system denominator.</i></p> <p>Exception pursuant to FEES 9.2.1ER: Where the <i>operator</i> of a <i>card payment system</i> is acting as an <i>acquirer</i>, as a <i>card issuer</i> or as both, the <i>PSR fee</i> is equal to the <i>payment system allocation</i> for that <i>card payment system</i>.</p>	1 January to 31 December 2016	All transactions by acquirers operating in the United Kingdom and transactions by card issuers operating in the United Kingdom under the Visa regulated payment system, including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards, but excluding cash-only withdrawals. All Visa-branded transactions are included irrespective of the processing entity (Visa itself, a third party processing entity or 'on us' transactions). Both issuing and acquiring transactions are taken into account.	26,423,855,000 (prior to any adjustment resulting from the application of FEES 9.2.1AR)
NICC	£49,269	<p>The <i>PSR fee</i> is calculated for each <i>direct payment service provider</i> proportionally to its <i>shareholding</i> in the <i>operator</i> of the <i>NICC regulated payment system</i> during the <i>relevant time period</i>.</p> <p>The calculation formula is: <i>payment system allocation</i> multiplied by <i>direct payment service provider's shareholding</i> in the capital of the Belfast Bankers' Clearing Company Ltd (expressed as a percentage).</p>	December 2016	All shareholdings held in Belfast Bankers' Clearing Company Ltd, the <i>operator</i> of the <i>NICC regulated payment system</i> .	Not applicable

Table B below shows the tiers and their levels for determining how the *payment system allocation* is allocated to individual *IFR card payment systems*.

Table B

Relevant IFR transaction volumes (column 1)	Relevant time period (column 2)	Tier (column 3)	Payment system denominator (rounded to the nearest '000) (column 4)	Allocation methodology for the payment system allocation for 2017/18 for each IFR card payment system (column 5)
<p>All <i>IFR transactions by acquirers operating in the United Kingdom and IFR transactions by card issuers operating in the United Kingdom</i> (or those by the operator of that <i>IFR card payment system</i> acting as such an <i>acquirer</i> or <i>card issuer</i>) under that <i>IFR card payment system</i>, including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards, but excluding cash-only withdrawals.</p> <p>All transactions under the brand of that <i>IFR card payment system</i> are included irrespective of the <i>processing entity</i> (the <i>operator</i> or <i>IFR card payment system</i> itself, a third party <i>processing entity</i> or '<i>on us</i>' transactions).</p> <p>Both issuing and acquiring transactions are taken into account for each <i>IFR card payment system</i>.</p>	1 January to 31 December 2016	3	Total relevant <i>IFR transaction volumes</i> for the <i>IFR card payment system</i> in question of <100,000 in the <i>relevant time period</i> (application of <i>FEES</i> 9.2.1DR)	Exemption from <i>PSR fees</i>
		2	Total relevant <i>IFR transaction volumes</i> for the <i>IFR card payment system</i> in question of between 100,000 and 10,000,000 in the <i>relevant time period</i> (prior to any adjustment resulting from the application of <i>FEES</i> 9.2.1CR)	<i>Payment system allocation</i> to each relevant <i>IFR card payment system</i> amounting to 0.5% of the total 2017/18 funding requirement in relation to the <i>PSR's IFR</i> functions and activities
		1	Total <i>IFR transaction volumes</i> for the <i>IFR card payment system</i> in question of greater than 10,000,000 in the <i>relevant time period</i> (prior to any adjustment resulting from the application of <i>FEES</i> 9.2.1CR)	Equal <i>payment system allocation</i> to each relevant <i>IFR card payment system</i> for the remaining total 2017/18 funding requirement in relation to the <i>PSR's IFR</i> functions and activities

Table C below shows the *PSR fee* applicable to the *acquirers, card issuers and operators* of each *IFR card payment system*.

Table C

IFR card payment system (column 1)	Payment system allocation for 2017/18 (£) (column 2)	Calculation methodology for PSR fee payable by acquirers, card issuers and operators of IFR card payment systems (column 3)	Relevant time period (column 4)	Relevant IFR transaction volumes (column 5)	Payment system denominator (column 6) (rounded to the nearest '000)
<i>JCB</i>	Nil	<p>General calculation methodology: The <i>PSR fee</i> is calculated for each individual <i>acquirer</i> and <i>card issuer</i> proportionally to the relevant <i>transaction volumes</i> under the <i>IFR card payment system</i> in question during the <i>relevant time period</i>.</p> <p>The calculation formula is: <i>payment system allocation</i> multiplied by <i>acquirer</i> or <i>card issuer's</i> relevant <i>transaction volumes</i> divided by <i>payment system denominator</i>.</p> <p>The figure in column 6 of Table C is the <i>payment system denominator</i> set out in column 6 of Table A, and it must be adjusted for the purposes of Table C by the <i>operator</i> to reflect the total relevant <i>transaction volumes</i> for that <i>IFR card payment system</i>, including <i>IFR transactions</i> by <i>acquirers</i> operating in the United Kingdom plus <i>IFR transactions</i> by</p>	1 January to 31 December 2016	<p>All <i>IFR transactions</i> by <i>acquirers</i> operating in the United Kingdom and <i>IFR transactions</i> by <i>card issuers</i> operating in the United Kingdom (or by the <i>operator</i> of that <i>IFR card payment system</i> acting as such an <i>acquirer</i> or <i>card issuer</i>) under that <i>IFR card payment system</i>, including point of sale transactions, merchant sales volumes, and cash purchase transactions on cards, but excluding cash-only withdrawals.</p> <p>All transactions under the brand of that <i>IFR card payment system</i> are included irrespective of the <i>processing entity</i> (the <i>operator</i> or the <i>IFR card payment system</i> itself, a third party <i>processing entity</i> or '<i>on us</i>' transactions).</p> <p>Both issuing and acquiring transactions are taken into account for each <i>IFR card payment system</i>.</p>	Not applicable as a result of the application of <i>FEES</i> 9.2.1DR
<i>UPI</i>	Nil				Not applicable as a result of the application of <i>FEES</i> 9.2.1DR
<i>Diners Club</i>	£3,000				Not applicable as a result of the application of <i>FEES</i> 9.2.1GG
<i>AmEx</i>	£199,000				Not applicable as a result of the application of <i>FEES</i> 9.2.1GG
<i>MasterCard</i>	£199,000				5,440,165,500 (prior to any adjustment resulting from the application of <i>FEES</i> 9.2.1CR and prior to any adjustments by the <i>operator</i> as set out in column 3 of Table C to reflect the relevant <i>transaction volumes</i> for that <i>IFR card payment system</i>)
<i>Visa</i>	£199,000	26,423,855,000 (prior to any adjustment resulting from the application of <i>FEES</i> 9.2.1CR and prior to any adjustments by the <i>operator</i> as set out in column 3 of Table C to reflect the relevant <i>transaction volumes</i>			

IFR card payment system (column 1)	Payment system allocation for 2017/18 (£) (column 2)	Calculation methodology for PSR fee payable by acquirers, card issuers and operators of IFR card payment systems (column 3)	Relevant time period (column 4)	Relevant IFR transaction volumes (column 5)	Payment system denominator (column 6) (rounded to the nearest '000)
		<p><i>card issuers operating in the United Kingdom, as set out in column 5 of Table C.</i></p> <p>Exception pursuant to <i>FEES 9.2.1DR</i> or <i>FEES 9.2.1ER</i>:</p> <p>Where the <i>operator</i> of an <i>IFR card payment system</i> is acting as an <i>acquirer</i>, as a <i>card issuer</i> or as both, the <i>PSR fee</i> is equal to the <i>payment system allocation</i> for that <i>IFR card payment system</i>.</p>			for that <i>IFR card payment system</i>)

