PSR regulatory fees 2018/19
Consultation on 2018/19 PSR regulatory fees for the funding of the PSR’s FSBRA, IFR and PSD2 functions

August 2017
In this consultation we set out a number of proposals for collecting, allocating and calculating the regulatory fees for the Payment Systems Regulator (PSR). The fees are used to fund the PSR’s functions under the Financial Services (Banking Reform) Act 2013, Payment Card Interchange Fee Regulations 2015, and the Payment Services Regulations 2017. The proposals will affect the 2018/19 PSR fees and PSR fees in future years.

Please consider our proposals and send us your comments on the questions in this consultation paper by **5pm on 28 September 2017**.

You can email us at PSRfees@psr.org.uk or write to us at the following address:

Payment Systems Regulator
Fees team
25 The North Colonnade
Canary Wharf
London E14 5HS
Email: PSRfees@psr.org.uk

You can download this consultation from our website: https://www.psr.org.uk/psr-publications/consultations/cp-17-30-psr-fees-2018-19
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1. Overview

Introduction

1.1 In this consultation, we are considering whether and how to review our approach to allocating and collecting regulatory fees for the Payment Systems Regulator (PSR).

1.2 Every year, the PSR receives regulatory fees (‘PSR fees’) from its fee payers. The fees are levied to fund the PSR’s operations to perform the functions it has under its powers. These include functions under and as a result of the Financial Services (Banking Reform) Act 2013 (FSBRA), in relation to the EU Interchange Fee Regulation (IFR)\(^1\) and, from 2018, in relation to the second EU Payment Services Directive (PSD2).\(^2\)

1.3 The current approach to allocating fee liability and collecting fees was largely developed by the Financial Conduct Authority (FCA) and the PSR to fund the PSR’s activities in its first years of operations. We have since continued with the same methodology, adapting it to accommodate new functions. We said that we would review the current methodology for the 2018/19 fees cycle in response to concerns raised by stakeholders with our existing approach, particularly in relation to the way we collect PSR fees.\(^3\)

1.4 We also want to make sure that our approach to fees will be fit for purpose in light of a number of anticipated developments in the payment systems industry and regulatory framework in the coming years. They include, for example, the Payment Services Regulations 2017 coming into force (as a result of PSD2), the consolidation of three payment systems operators into the New Payment Systems Operator (NPSO)\(^4\), and the implementation of ring-fencing by a number of banks.\(^5\)

1.5 We consider that now is the right time for us to take stock and assess whether our current approach to allocation and collection of PSR fees is the most appropriate one, and what changes we might need to make. We will do this through a series of consultations. Following this consultation in August 2017, we will consult again in November 2017 and March 2018 in relation to the PSR fees in 2018/19 and in subsequent years. More details on our consultation plan can be found in Chapter 2.

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2 The Payment Services Regulations 2017 (PSRs 2017) will replace the Payment Services Regulations 2009 as the Treasury transposes the second EU Payment Services Directive (PSD2) into UK legislation. We published a consultation in April 2017 referring to the PSRs role: www.psr.org.uk/psr-publications/consultations/Payment-Services-Reggs-2017-draft-approach


4 See the report produced by the Payment System Operator Delivery Group for more details on the NPSO: www.psr.org.uk/psr-publications/news-announcements/PSODG-report-new-payment-system-operator

5 See the Prudential Regulation Authority’s website for more information on the implementation of ring-fencing: www.bankofengland.co.uk/pra/Page/supervision/structuralreform/default.aspx
1.6 We are consulting on the following areas in this August consultation:

a. **Collection of PSR fees from fee payers:** We propose to end the current method of indirect fees collection where payment system operators issue invoices to, and collect PSR fees from, their members on our behalf. Instead, we propose that the FCA collects regulatory fees directly from fee payers on the PSR's behalf. Subject to the comments we receive, if we proceed with this proposal we would publish the amended rules on the collection method in November this year. This would give the FCA and operators sufficient time to make this change for on-account fees collection due by 1 April 2018. We set out this proposal in Chapter 3.

b. **Allocation of PSR fees to fee payers:** We are consulting on whether we should also update our fees allocation methodology. Currently, we broadly allocate our budget equally across the regulated payment systems and use transaction volumes to determine the fee that each payment service provider (PSP) will pay. We are consulting on whether we should revise our approach and use each fee payer's transaction volumes and values to allocate fee liability.

In this consultation we are consulting on the broad principles and high-level options as set out in Chapters 4 and 5. We will consult on any potential rule changes in our second consultation in November once we have received initial feedback from our stakeholders. We intend to reach a decision on this in March 2018. We intend to consult on the final fee rates for 2018/19 at the same time and confirm them in July 2018.

c. **Other issues:** We are also consulting on how we will allocate fees in 2018/19 and in subsequent years to respond to a number of changes that will take place in 2018. These include, for example, how we intend to treat payment service providers (PSPs) that are implementing ring-fencing and how we intend to allocate fees in relation to PSD2. We set these out in Chapter 6.

1.7 We have done some initial analysis of potential options in relation to the allocation of PSR fees to fee payers. However, we wish to have more information to refine our assessment of the suitability and implications for our fee payers of these options. Therefore, in parallel to this consultation, we will contact payment system operators around mid-August to gather the data we consider useful for such assessments. We would expect to receive the data from the operators by mid-September.

1.8 Depending on the outcome of the consultation, we may need to make other necessary changes to deliver our final approach to PSR regulatory fees. They include, but are not limited to, our approach to returning any underspend, the collection of on-account fees, minimum thresholds and publication of operator transaction volumes. We will provide more information when we consult on our proposals in November.

1.9 Following this series of consultations, we expect to be able to decide on an approach to allocating and collecting PSR fees that will be sustainable and provide greater predictability to fee payers. Our intention is that we would not consult again in future years unless we propose material changes to our approach.

1.10 For convenience, when this document refers to ‘we’ or ‘us’, this means the FCA and the PSR jointly, although the final decision and fees rules are made by the FCA.

1.11 The consultation period for this consultation closes on **28 September 2017.**
Background to the PSR’s powers and funding

1.12 When money moves between individuals, businesses and the government – for example, when buying goods and services, receiving income or paying taxes – the transfers of funds are made through payment systems. Payment systems in the UK handle around 20 billion transactions worth over £74 trillion annually.

1.13 The PSR was incorporated on 1 April 2014 as an independent subsidiary of the FCA, and became fully operational on 1 April 2015. Its function is to regulate designated payment systems operating in the UK; it has a range of regulatory powers under FSBRA, as well as concurrent competition powers under the Competition Act 1998 and the Enterprise Act 2002. The PSR has statutory objectives under FSBRA to promote competition, innovation and the interests of service-users.

1.14 It has since acquired a number of other functions:

a. Since 9 December 2015, the PSR has had functions under the IFR pursuant to the Payment Card Interchange Fee Regulations 2015 (the PCIFRs). 6

b. Since 18 September 2016, the PSR also has functions under the Payment Accounts Regulations 2015, which implement the Payment Accounts Directive 2015 (PAD). The PSR consulted separately on these functions, including the fees payable, and set out its decision in May 2016. 7

c. With effect from 13 January 2018, the PSR will be the competent authority for some parts of the Payment Services Regulations 2017 (the PSRs 2017).

FSBRA

1.15 The Treasury has designated eight payment systems for regulation by the PSR under FSBRA (with effect from 1 April 2015): Bacs, CHAPS, Cheque and Credit (C&C), Faster Payments Scheme (FPS), LINK, Northern Ireland Cheque Clearing (NICC), Mastercard, and Visa Europe (Visa) (collectively, the regulated payment systems). Under FSBRA, we have a range of powers over participants in these designated payment systems.

1.16 Currently, the PSR’s activities and functions under FSBRA are funded by the fees paid by certain of the participants in these payment systems. They include:

a. PSPs that are direct members 8 of Bacs, CHAPS, C&C 9, FPS, LINK or NICC

b. acquiring or card-issuing PSPs operating in the UK that are members of Mastercard or Visa

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6 SI 2015/1911.
8 The Bank of England is currently a direct member in Bacs, CHAPS and C&C. However, for the purposes of the PSR’s regulatory remit, the Bank of England is excluded from consideration as a participant in payment systems under FSBRA.11. As a result, we do not allocate PSR regulatory fees to the Bank of England.
9 All the principles discussed in this consultation in relation to the relevant participants of C&C will apply to those of the new Image Clearing System in future in the same way, assuming it is covered by the same designation order as C&C.
IFR

1.17 The PSR is the competent authority in the UK for monitoring and enforcing compliance with the IFR’s requirements.

1.18 The IFR imposes obligations directly on card payment schemes/systems\(^\text{10}\) and their operators, acquirers and card issuers, processing entities, other technical service providers and, in limited circumstances, merchants.

1.19 Currently, the PSR’s activities and functions under, and by virtue of, IFR are funded by the fees paid by certain firms within this group. They include:

a. acquiring or card-issuing PSPs operating in the UK which are members of card payment systems subject to the IFR
b. the operators of card payment systems that also act as PSPs

PSD2

1.20 The PSR will be the competent authority in the UK for monitoring and enforcing compliance with certain of the requirements under the PSRs 2017 (the UK implementing legislation for PSD2).\(^\text{11}\)

1.21 The following participants are subject to PSRs 2017 requirements for which the PSR will be the competent authority:

- direct participants in interbank payment systems that are designated under the EU Settlement Finality Directive\(^\text{12}\), who provide indirect access to at least one other PSP
- independent ATM deployers
- three-party card systems with licensees
- four-party payment card systems\(^\text{13}\) and their participants
- credit institutions

1.22 There are two questions we would like to consult stakeholders on regarding our approach to fees in relation to the PSR’s PSD2 functions. More details can be found in Chapter 6.

The PSR’s annual funding requirement and the FCA’s fee-raising powers

The PSR’s annual funding requirement

1.23 Each year, the PSR projects an estimated cost of funding its operations for the upcoming financial year. The amount is called the annual funding requirement (AFR). The annual fee year begins on 1 April each calendar year and ends on 31 March the following calendar year.

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\(^\text{10}\) What FSBRA calls ‘systems’, the IFR calls ‘schemes’. For consistency, in this consultation paper we use the word ‘system’ to mean both a system within the meaning of FSBRA and a scheme within the meaning of the IFR.

\(^\text{11}\) The PSR is to be the competent authority in respect of Regulations 61, 103 and 104 of the PSRs 2017. The PSR will be jointly competent with the FCA in respect of Regulation 105, PSRs 2017.

\(^\text{12}\) Bacs, CHAPS and FPS.

\(^\text{13}\) What FSBRA calls ‘systems’, PSD2 calls ‘schemes’. For consistency, in this consultation paper we use the word ‘system’ to mean both a system within the meaning of FSBRA and a scheme within the meaning of PSD2.
1.24 For the year 2017/18, the PSR had a reduced AFR (compared to 2016/17) covering its ongoing regulatory activities and amounting to approximately £12 million. This was split between the PSR’s FSBRA and IFR functions, as follows:

- £11.4 million for the FSBRA AFR
- £0.6 million for the IFR AFR

1.25 The PSR will release its AFR for 2018/19 in early 2018.

The FCA’s fee-raising powers

1.26 FSBRA enables the FCA to raise fees to fund the PSR’s functions, including those under FSBRA, the PCIFRs and the PSRs 2017 (as a result of PSD2).

1.27 The FCA is responsible for funding the PSR’s 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 specified amounts, or amounts calculated in a specified way, to the FCA, in order to fund the PSR. Under the PSRs 2017, the FCA has power to make rules requiring ‘regulated persons’ to pay specified amounts or amounts calculated in a specified way to fund the PSR’s PSD2 functions.

1.28 The FCA works closely with the PSR on funding matters, particularly in determining the policies for allocating, calculating and collecting PSR fees. The PSR makes a recommendation to the FCA on the relevant policies and rules, and the FCA makes the decision and makes the fees rules to enact those policies.

1.29 The calculation and collection methodologies must be compatible with the FCA’s general duties (as it is the FCA that makes the fees rules). They must also take into account the PSR’s regulatory principles set out in FSBRA (as the methodologies are developed by and agreed with the PSR).

Reasons for this August consultation

1.30 This document does not form part of our regular annual cycle of fees consultation, which usually starts in November and completes in July the following year.

1.31 Due to the significant forthcoming changes in the payment systems landscape referred to above, we consider it appropriate to consult in August 2017 to offer stakeholders the opportunity to consider and contribute to the review of our approach to allocating and collecting PSR regulatory fees.

1.32 We will need to consult on different issues at different times. For example, we will need to reach a decision by November 2017 on potential changes to the way we bill and collect PSR fees from fee payers, as the result will affect the collection of on-account fees due by 1 April 2018.

1.33 There are a number of changes that could affect the payment systems industry from 2018 and hence our fees allocation methodology for 2018/19 and in subsequent years. They include:

- the consolidation of FPSL, BPSL and C&CCC with the new payment system operator (NPSO) in 2018
- the implementation of PSD2 in 2018
- the implementation of retail bank ring-fencing

14 See section 40 and paragraph 9, Schedule 4 FSBRA, as modified by Regulation 15 of the PCIFRs.
15 See Regulation 136(1) and (3)(d) of the PSRs 2017. Regulation 123 of the PSRs 2017 defines ‘regulated person’ as a person on whom a directive PSD2 requirement is imposed.
Structure of this consultation

1.34 This document is structured as follows:

- **Chapter 1** is this overview.
- **Chapter 2** describes our fees consultation plan and sets out the next steps (subject to the outcome of the consultation in Chapters 3 to 6).
- **Chapter 3** sets out our proposed approach to fees collection.
- **Chapter 4** sets out the guiding principles for determining our fees allocation methodology.
- **Chapter 5** sets out the high level policy options for fees allocation and calculation.
- **Chapter 6** sets out a number of relevant issues.
- The **Annexes** include the following:
  - Annex 1 lists our consultation questions.
  - Annex 2 is the draft fees instrument setting out the proposed amendments to the PSR fees rules in relation to fees collection (Chapter 3) in FEES 9 of the FCA Handbook.
  - Annex 3 sets out the compatibility assessment for our proposals.
  - Annex 4 is a glossary of terms.

Who should be interested in this consultation?

1.35 This consultation will be of interest to the following groups:

- participants in regulated payment systems under FSBRA
- IFR regulated persons
- PSD2 regulated persons

1.36 This consultation paper contains no material directly relevant to retail financial services consumers or consumer groups, although financial services consumers may pay for fees indirectly.

What do you need to do next?

1.37 Please consider our proposals and send us your comments on the questions in this consultation paper by **5pm on 28 September 2017**. You can email us at PSRfees@psr.org.uk or write to us at the following address:

Payment Systems Regulator Limited
Fees team
25 The North Colonnade
Canary Wharf
London E14 5HS
2. The fees consultation process and the 2018/19 PSR fees timeline

In this chapter, we describe the consultation process for PSR regulatory fees and the provisional timeline for the 2018/19 fees cycle.

The fees consultation process

2.1 The FCA’s usual fees cycle begins with a consultation paper published in November of each year. The PSR has followed a similar process in previous years.

2.2 In light of responses to our past consultations and developments in the industry, we have said we would revisit our approach to PSR regulatory fees in the 2018/19 fees cycle.

2.3 To enable us to fully consider the policy options and proposed rule changes, we have decided to begin the consultation for the 2018/19 fees cycle earlier and publish this CP in August 2017.

2.4 Following a review of the responses to this consultation, we expect to issue:

- a second consultation around November 2017
- a third consultation around March 2018
- a policy statement around July 2018

2.5 These will be published at approximately the same time as the FCA’s consultation on FCA fees for 2018/19 but in separate documents that are jointly published by the FCA and PSR.

2.6 Table 1 provides a brief overview of the fees consultation and payment timeline. This timeline is only indicative and will depend on the outcome of this consultation. We will publish further details if the timeline changes.
## Provisional PSR fees timeline

### Table 1: Fees timeline for the 2018/19 cycle

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td><strong>August 2017</strong></td>
<td><strong>First consultation paper published:</strong> This document which, includes:&lt;li&gt; Consultation on proposed (i) changes to the PSR’s approach to fees collection and (ii) relevant amendments to the PSR’s fees rules.     &lt;li&gt; Consultation on the guiding principles and high-level policy options on the PSR’s approach to fees allocation and calculation. &lt;li&gt; Consultation on related issues.</td>
</tr>
<tr>
<td><strong>September 2017</strong></td>
<td><strong>First consultation closes.</strong></td>
</tr>
<tr>
<td><strong>November 2017</strong></td>
<td><strong>Second consultation paper and policy statement published:</strong> Our response to stakeholder submissions to the August consultation. This is expected to include:&lt;li&gt; Decision on proposed changes to PSR fees collection.   &lt;li&gt; Consultation on (i) preferred policy option(s) on PSR fees allocation and calculation, and (ii) the corresponding amendments to the PSR’s fees rules. &lt;li&gt; Further consultation on related issues.</td>
</tr>
<tr>
<td><strong>January 2018</strong></td>
<td><strong>Second consultation closes.</strong></td>
</tr>
<tr>
<td><strong>March/April 2018</strong></td>
<td><strong>Payment of on-account fees</strong> for 2018/19.</td>
</tr>
<tr>
<td><strong>March 2018</strong></td>
<td><strong>Third consultation paper and policy statement published:</strong> Our response to stakeholder submissions to the November consultation. This is expected to include:&lt;li&gt; Decision on proposed changes to PSR fees allocation and calculation and on related issues. &lt;li&gt; Proposed PSR fee rates for 2018/19 based of our confirmed fees allocation and collection methodology.</td>
</tr>
<tr>
<td><strong>May 2018</strong></td>
<td><strong>Operators submit 2017 transaction data</strong> to the PSR for calculating or verifying fees to be paid by individual fee payers.</td>
</tr>
<tr>
<td><strong>May 2018</strong></td>
<td><strong>Third consultation closes.</strong></td>
</tr>
<tr>
<td><strong>July 2018</strong></td>
<td><strong>Policy statement published:</strong> Confirmation of PSR fee rates for 2018/19.</td>
</tr>
<tr>
<td><strong>July 2018</strong></td>
<td><strong>Invoice sent to fee payers</strong> for collection of remainder of the 2018/19 fees.</td>
</tr>
<tr>
<td><strong>September/October 2018</strong></td>
<td>The <strong>final 2018/19 PSR fees are due</strong> to be paid, after deducting any on-account payments made and, where relevant, rebate amounts from the previous fee year.</td>
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</table>

16 This applies if we decide that the FCA will collect PSR fees directly from PSPs in future, instead of indirectly collecting them through payment system operators. Our proposal is set out in Chapter 3. We will publish our decision in our second consultation. Also see footnote 17.

17 This applies if we keep the current approach to collecting PSR fees from fee-paying PSPs, i.e. indirect billing via operators. Our alternative proposal is set out in Chapter 3. We will publish our decision in our second consultation. Also see footnote 16.
3. Consultation on the collection of PSR regulatory fees 2018/19

In this chapter, we:

- Describe our proposal for a simpler and more efficient way of collecting PSR regulatory fees. We propose, from 2018/19 onwards, to end our current indirect billing method where operators collect PSR fees from fee payers on our behalf, and introduce a billing approach where the FCA would directly collect PSR fees from fee payers.

- Outline the expected impact of our proposal on operators, fee paying PSPs, the FCA and the PSR.

- Highlight our proposed amendments to the fees rules to reflect our proposal.

Annex 2 contains the fees instrument amending the fees rules, which reflect our policy proposal in this chapter.

Background

3.1 We currently collect PSR regulatory fees by billing fee payers indirectly. Operators are required to calculate and invoice the relevant participants for the appropriate fees and collect them on our behalf, according to the fee allocation and calculation methodology that we publish every year.

3.2 This results in administrative costs for industry participants, as each operator has to run its own process of determining and collecting fees from overlapping groups of fee payers. In our previous consultations, a number of operators have expressed their dissatisfaction with this process and the consequent administrative burden.

3.3 Some PSPs have also expressed dissatisfaction with the arrangement. Some of the participants receive multiple invoices from different operators. The sign-off process for each invoice can be long and cumbersome. A significant proportion of our fee payers also pay separate regulatory fees to the FCA.

3.4 Following these submissions, we indicated in CP17/9 that we would review our current methodology for calculating and collecting PSR fees and explore the benefits and downsides of altering our collection methodology for future years. In previous years we noted that it was not practicable to change our billing approach significantly as coordinating and setting up a new workable system would take significant time and effort.

3.5 The PSR has now had the opportunity to review its current methodology and has considered the benefits and downsides of switching to direct billing by the FCA. As discussed in this chapter, we consider that, overall, moving to the direct calculation, invoicing and collection of fees from payers by the FCA will be better for operators and participants.

3.6 We are therefore consulting on a proposed change in the way we collect fees from our fee payers.
Our proposed change: the FCA to collect PSR fees

3.7 We propose to move away from the current method of indirect billing fee payers via operators, and have the FCA calculate, invoice and collect the PSR fees as part of the annual FCA fees process.

3.8 Under this proposal, the FCA will calculate the PSR fees payable by each individual fee payer, using the data operators will provide to the PSR. The FCA will then invoice the relevant fee payers and collect the PSR fees. These proposed changes will include the collection of on-account fees (if applicable) as well as the remainder of PSR fees for each financial year.

3.9 The FCA's invoices will consolidate the separate fees arising from a fee paying PSP's participation in all payment systems regulated by the PSR. Operators will no longer be required to calculate the fees liability of their participants who are PSR fee-payers and will no longer be required to invoice or collect fees from them.

3.10 Operators will still have an essential role in the fees process, as we will still require them to provide us with the necessary data to ensure that the PSR fees can be correctly allocated, invoiced and collected. This could include, for example, providing us with a list of participants required to pay PSR fees and the relevant data for fees calculation and collection. They will also need to handle queries they receive from their members and verify the transaction data before it gets passed on to us for fees calculation.

3.11 Fee payers that are already authorised by the FCA will see an additional line in their FCA invoice from 2018/19 onwards detailing their PSR fees. Payments will be due at the same time as their FCA fees. Fee payers that are not authorised by the FCA will receive an invoice from the FCA showing the amount they are due to pay in respect of PSR fees and the payment date.

3.12 If we adopt this approach, the PSR fees timetable will align with the FCA's fees timetable. We do not expect any material change to the fees schedule as the timetables are already closely aligned. The relevant dates are set out in the proposed amendments to the fees rules in Annex 2.

3.13 We expect the initial one-off set-up cost of this system will be around £100,000, which we will recover in year 1. We do not anticipate a significant change in the annual ongoing running costs for the PSR and FCA in collecting PSR fees. We expect, however, that the industry will benefit from simpler processes as a result of the move. This is explained in the next section.

3.14 If we adopt this approach, PSR fees will remain outside the scope of VAT.

Impact of the proposed change

Impact on operators

3.15 In the light of the stakeholder comments we have received, we consider that a move to direct invoicing and collection would simplify the fees process and reduce the administrative costs and burden for individual operators.

3.16 We also believe the proposed approach will be more efficient overall. The process of billing and collecting fees from an overlapping group of individual PSPs twice a year will not be replicated by every operator. Instead, a centralised collection and billing process in the FCA will bill and collect PSR fees from PSPs directly, which should bring about economies of scale that will benefit all operators.
3.17 Operators will no longer need to invoice and collect PSR regulatory fees from their participants on behalf of the PSR. They will, however, need to continue to provide the PSR and the FCA with the data they need to allocate and collect PSR fees correctly. This could include, for example, providing to PSR a list of participants required to pay PSR fees and their transaction data, verifying the data with their members before submitting to the PSR, handling related queries etc.

3.18 To align with the FCA’s fee’s process and timetable, fee paying operators (i.e. those without direct members) will see minor changes to the dates when they are due to pay on-account fees (if applicable) and the remainder of the PSR’s fees. This is explained in the next section.

Impact on fee-paying PSPs

3.19 We believe that a move to direct billing would simplify the fees process and reduce the administrative costs for individual fee payers, based on stakeholder feedback we have received.

3.20 The change should make PSR fees and the fees process simpler and easier to understand. PSPs regulated by both the FCA and the PSR would receive one invoice rather than two or more invoices (depending on the number of payment systems of which a PSP is a member). PSPs will continue to see separate lines on their FCA-issued invoices for PSR and FCA fees.

3.21 As operators also incur costs by collecting PSR fees, PSPs may benefit from the operators’ savings from a move to direct billing. Those that could benefit include direct members of multiple systems and smaller PSPs that want to become direct participants of more systems.

3.22 Not all of the PSR’s current and potential fee payers pay FCA fees. Fee payers that fall into this category will need to be set up on the FCA fees systems and processes. We think this is unlikely to be a significant burden for our fee payers. Our estimates of the initial set-up and ongoing FCA costs include the administrative cost of adding new fee payers to the FCA system.

3.23 To align with the FCA’s fee’s process and timetable, fee payers will see minor changes to the dates when they are due to pay on-account fees (if applicable) and the remainder of the PSR’s fees.

Impact on the PSR and the FCA

3.24 This option utilises the FCA’s existing processes and should minimise the overall regulatory burden as far as possible. By taking on the responsibility for calculating, invoicing and collecting PSR fees from operators, the PSR and FCA will incur a one-off set-up and running cost of around £100,000. This includes the cost of implementing changes to the FCA’s billing systems to accommodate PSR fees within the invoicing process. Once spread across the total number of PSR fee payers, we do not consider this one-off cost to be significant. We intend to recover the cost in the first year of adopting the new approach.

3.25 We expect that the changes will be broadly cost neutral for the PSR and the FCA from year 2 onwards. Currently, we incur considerable operating costs in terms of staff hours invested in administering the PSR fees process. The FCA costs for administering the process, which would be paid for by the PSR, are likely to increase but by a smaller amount than the reduction in the PSR’s operating costs because this can benefit from the economy of scale of the FCA’s existing fees collection processes. Our initial calculations indicate that it would be less resource intensive for the PSR to work with the FCA’s fees collection team than it is to liaise with individual operators (as is currently the case).

19 This is compared to staff hours worked on other PSR projects.
Proposed amendments to fees rules

3.26 If, following this consultation, we decide to move to direct billing by the FCA, we will need to make changes to the current PSR fees rules. The current PSR fees rules (FEES 9) are available in the FCA Handbook.20

3.27 The new proposed draft fees rules to implement the proposed changes in invoicing and collection are set out in Annex 2.

3.28 If we adopt our proposed approach, we will apply the proposed rule changes for the invoicing and collection of 2018/19 PSR fees. We will have to finalise the rule changes by January 2018 in order to ensure that the right systems can be put in place in time for us to collect ‘on-account’ fees by April 2018. Once this change has been implemented, operators will not be required to collect ‘on-account’ fees from fee payers from 2018/19, as these will be collected by the FCA.

3.29 We would like to highlight the following proposed rule changes:

a. Minor changes in the deadlines for fee payers to pay on-account (if applicable) and final PSR fees. These will be changed to align with FCA deadlines and will be due on 1 April and 1 September respectively. (See draft FEES 9.2.2R, 9.2.2BR, 9.2.3R and 9.2.3BR in Annex 2.)

b. PSR fee payers will be required to pay their on-account fees (if these are payable under the rules) and final PSR fees to the FCA. (See draft FEES 9.2.4AR.)

c. Operators of a regulated payment system or IFR card payment system will be required to provide the relevant data to the FCA and the PSR on a specified date. (See draft FEES 9.2.4D.)

3.30 The proposed rule changes assume no changes to our allocation and calculation methodology proposed in Chapter 5 of this consultation. Depending on the responses we receive to that part of the consultation, we will consult on any necessary changes to implement the allocation methodology in November 2017.

3.31 Overall, we believe that moving to the direct calculation, invoicing and collection of our fees by the FCA will be more economic, efficient and effective for collecting PSR fees.

Consultation question

3.32 We invite your views on the following question:

Question 1: Do you agree with our proposal to replace the current indirect billing by operators with the direct calculation, invoicing and collection of PSR fees by the FCA, as set out in the proposed fees rules in Annex 2? Please explain your response.

20  www.handbook.fca.org.uk/handbook/FEES/9/1.html
4. Guiding principles for reviewing the allocation methodology

Having listened to stakeholder feedback and in the light of imminent regulatory and industry changes, we have decided to re-examine our current approach to allocating PSR regulatory fees to individual fee payers.

In this chapter, we set out our guiding principles to support our assessment of the different options set out in Chapter 5.

The key principles that we consider relevant are:

- proportionality
- simplicity and efficiency
- sustainability and long-term stability
- impact on competition

We invite stakeholders to provide comments on our guiding principles and suggest any further ones that we should take into account.

Introduction

4.1 The PSR's vision for an improved fees allocation and calculation methodology is organised around a number of key guiding principles.

4.2 We have developed these guiding principles to support our assessment of the different options for how we allocate PSR fees to individual fee payers. They have been developed with reference to the regulatory principles applicable to the PSR under section 53 FSBRA.

4.3 These principles are only intended as factors to consider in deciding on which allocation method to pursue. We do not intend to use them as criteria to score or rank options in any way.

4.4 We set out these principles in greater detail in this chapter. They include: proportionality, simplicity and efficiency, sustainability and impact on competition.

4.5 We invite your views on the principles we have identified in this chapter. Stakeholders are invited to suggest and comment on any other principles that they consider relevant.

4.6 A separate assessment of this consultation’s compatibility with FCA duties and PSR regulatory principles is included in Annex 3.

Principle 1: Proportionality

4.7 We recognise the differences in the size and nature of the businesses carried out by different persons we regulate. We believe that the allocation of PSR fees to individual fee payers needs to be proportionate and we acknowledge the need to take these considerations into account when we decide on whom we impose regulatory fees and by how much.
4.8 Proportionality can be measured along several dimensions:

4.9 **Frequency in using payment systems:** We believe PSPs that use payment systems more frequently benefit more from well-functioning payment systems, and should proportionately pay more in terms of PSR fees than less active users. In practice, this means that PSPs with greater transaction volumes across the PSR-regulated payment systems would need to pay more than PSPs with smaller transaction volumes.

4.10 **Economic benefit from using payment systems:** PSPs that send or receive high-value payments are likely to benefit more from well-functioning payment systems than those with lower transaction values. For example, a PSP is likely to derive greater value from a payment for a home purchase than from a contactless payment made at a grocery store. Therefore, PSPs that process payments of higher transaction value should contribute more to PSR fees relative to PSPs that process payments of lower transaction value.

4.11 **Size of the fee payer:** We believe that, broadly speaking, larger participants in payment systems (for example, with reference to the number of their customers or revenue) should be expected to pay more in PSR fees than smaller participants. However, we recognise the difficulty in identifying the relevant part of the business in relation to payments and comparing the businesses of different firms.

4.12 **Benefit of the PSR’s regulatory activity:** Some stakeholders have suggested that PSPs that benefit more from PSR activities should pay a higher proportion of PSR fees. However, we do not think a strictly activity-based measure based on time spent on particular projects would be appropriate. As set out in our previous statements, the PSR has a broad focus across all of the regulated payment systems. While the PSR’s work is directed by its forward work programme, this does not create an absolute boundary for its activities. The PSR must remain flexible to be able to deal with issues that might arise at any time. Therefore, it would be inappropriate to allocate its AFR on the basis of a static work programme which, by its nature, cannot fully reflect its workload during the full course of any year.

**Principle 2: Simplicity and efficiency**

4.13 We believe that the allocation method needs to be easy to administer and understand. This will ensure our approach is relatively efficient and transparent.

4.14 A more complex methodology would increase the total cost of administering and complying with the PSR fees calculation and collection process and would not lead to efficient outcomes. This is especially the case given that the amount of PSR regulatory fees is not particularly large.

4.15 Furthermore, more complex ways of allocating PSR fees that try to take into account more factors are not necessarily better, and any benefit from the added complexity is unlikely to be proportionate to the cost involved.

4.16 The methodology needs to be simple to understand for fee payers and other stakeholders. Fee payers will need to be able to calculate and independently verify their own liability for PSR regulatory fees. This is in line with our regulatory principle of exercising our functions as transparently as possible.

**Principle 3: Sustainability and long-term stability**

4.17 We want to ensure that the way we allocate PSR fees is sustainable and predictable. We want to identify a methodology that is not subject to frequent changes, and will provide our fee payers with greater stability. This will allow fee payers to budget their regulatory spend to a greater degree, which is particularly important for smaller fee payers.

4.18 The methodology would need to be flexible enough to sustain changes we may see in the industry, without needing additional consultation processes to take into account particular industry changes.
4.19 Furthermore, consulting every year on potential changes to the way we allocate and calculate fees is costly and inefficient for the PSR and operators as well as PSPs. An allocation methodology that is sustainable will enable us and our fee payers to use our resources in more efficient and economical way.

**Principle 4: Impact on competition**

4.20 In line with the PSR's duty to promote competition, we want the way we allocate and calculate PSR fees to have a minimal impact on competition.

4.21 This includes competition between payment systems as well as competition further downstream, including between individual PSPs that are participants in payment schemes.

4.22 For example, we would not want to inadvertently discourage PSPs that provide indirect access to payment systems by requiring them to pay higher fees than PSPs that do not provide indirect access, all else being equal.

**Consultation question**

4.23 We invite your views on the following question:

**Question 2:** Do you agree with our guiding principles, and are there other relevant principles that we need to consider? Please provide supporting evidence to explain your views.
5. **Review of the allocation and calculation methodology for the PSR regulatory fees**

In this chapter, we present a number of options for determining the PSR regulatory fee liability of individual fee payers. We have included an assessment of each option based on how well it satisfies the guiding principles we propose in Chapter 4.

The options are:

- keeping the current allocation and calculation method
- allocating fees based on individual fee payers’ transaction volumes across all PSR-regulated payment systems, with or without the use of weightings
- putting fee payers into fee bands based on their individual transaction volumes across all PSR-regulated payment systems
- allocating fees based on the fee payers’ transaction volumes and values

We also outline a number of variables that we have considered and decided not to use as direct inputs for allocating and calculating the PSR fees for individual fee payers.

Stakeholders are invited to provide their views on the proposed options.

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### Overview

5.1 In previous consultations, we received a number of submissions that called for a change to the way we allocate the PSR’s AFR and calculate the liability of individual fee payers’ PSR regulatory fees.

5.2 We have said that we would revisit our approach to collecting PSR fees for the 2018/19 fees cycle and beyond. The potential change to our fees collection method is a good opportunity to check if our allocation method is still fit-for-purpose.

5.3 We also note that there are certain forthcoming changes in the industry and the regulatory remit of the PSR that could affect the allocation and calculation of PSR fees. These include the consolidation of the operators of three designated payment systems, the PSR becoming the competent authority for a number of provisions under the revised EU Payment Services Directive (PSD2), once it is transposed into UK law, and the implementation of retail bank ring-fencing.

5.4 For these reasons, we believe now is a good time to take stock and review whether our current approach to allocation and calculation of the PSR fees remains the most appropriate. At this time, our thinking is in its early stages; however, we are keen to engage with our stakeholders to gather initial views.

5.5 Accordingly, we are now consulting on a number of high-level options on how we should allocate PSR fees in the future, beginning in the 2018/19 fee year.

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21 As described in Chapter 3.
5.6 We expect to issue a second consultation around November 2017, after reviewing responses to this consultation. This will set out a specific policy proposal for the 2018/19 PSR fees allocation and calculation (along with corresponding proposed changes to the PSR fees rules) based on the comments we receive on the questions in this chapter of this consultation. A fuller explanation of our fees consultation process is set out in Chapter 2.

5.7 We would encourage stakeholders to provide feedback in every consultation round to ensure that we can thoroughly consider your views in designing our fees framework.

5.8 In this chapter, we describe a number of possible options for allocating PSR regulatory fees at a high level. Where possible, we also include a description of how fee payers’ share of the overall PSR AFR could potentially be affected as a result of the move to a different allocation option. However, this is difficult to anticipate with precision because the individual fee payers’ and overall payment system transaction volumes and other relevant data change every year. The AFR also changes every year, which will also affect an individual fee payer’s PSR regulatory fees.

5.9 Certain policy issues that are independent of, but related to, the allocation methods are laid out in the next chapter.

5.10 The way we allocate fees is a separate policy question from whether we change the way we collect fees for our fee payers (Chapter 3). However, for practical reasons, we may not be able to consider some of the allocation options in this chapter if, following this consultation, we decide to keep the current method of indirect invoicing and collection by operators.

**Option 1: Keeping the current allocation and calculation method**

5.11 One possibility is to broadly continue with our current allocation method, but make certain adjustments to accommodate upcoming changes in the industry.

5.12 Under this approach, we will continue to allocate the PSR overall AFR into the ‘FSBRA AFR’ and ‘IFR AFR’ pots, which in the last year were set at 95% and 5% of the overall AFR respectively. This allocation is subject to change every year.

5.13 The FSBRA AFR will then be equally allocated to the designated payment systems under FSBRA. Within each payment system, individual direct participants will be allocated a share of the fees for that system. This is based on their own transaction volumes compared to the total volume within that system.

5.14 The IFR AFR will be allocated according to the bands each card payment system fits in. The bands are based on transaction volumes through those systems. The result is currently similar to an equal allocation method. Three card payment systems pay an equal share of approximately 95% of the IFR AFR, with the rest of the IFR AFR being paid by one card payment system. The fees assigned to those systems are then shared by their members, where applicable, with reference to their individual transaction volumes.

5.15 If we were to continue broadly with this method, we would need to consider what adjustments are appropriate in the light of the developments that we have mentioned. We have identified the following matters for consideration:

   a. Whether, and if so how, the overall AFR would be allocated according to our functions. This would include consideration of whether to retain the present approach of nominating proportions of the AFR to separate the FSBRA AFR and IFR AFR pots, and whether to nominate a separate pot for new functions (such as PSD2) or whether to recoup using one or both of these AFR pots.22

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22 See part B of the PSD2 section in Chapter 6.
b. Whether to continue with the present equal allocation approach within the FSBRA AFR pot if there are any changes to the number of designated payment systems\(^{23}\) in future, and how we would treat operators that operate more than one designated payment systems. As the number of designated payment systems is small\(^{24}\), even an addition or removal of one would have a significant impact on the share in value terms of the FSBRA AFR allocated to the other designated systems. We note, for example:

1. The imminent consolidation of BPSL, C&CCC and FPSL\(^{25}\) into the NPSO in 2018 will not change the number of designated payment systems even though they will be under one operator, and we propose to continue to allocate one-seventh of the FSBRA AFR to each of the three payment systems\(^{26}\) operated by the NPSO. This is because we currently allocate the FSBRA portion of our fees based on designated payment systems, the number of which is not going to change as a result of the consolidation of the three operators.

2. In the longer term, the three payment systems operated by the NPSO will be replaced by the New Payments Architecture (NPA) and will be phased out. Under equal allocation, when those three systems cease to exist, other existing payment systems would be allocated those systems’ share of the FSBRA AFR. The current allocation method, when it was developed, did not have this change in mind. If we retain option 1 following this consultation, we will consult our stakeholders again on how we will allocate fees once the NPA is implemented.

5.16 Based on the guiding principles in Chapter 4, we think this option would continue to be workable – but there are some disadvantages to it given the anticipated changes in the industry. We have identified the following strengths and weaknesses of this option:

a. **Proportionality:** This option uses transaction volumes of individual fee payers as the basis for allocating our regulatory fees within each payment system. This reflects how frequently PSPs use those payment systems and is broadly consistent with the economic benefits they derive from using them. Furthermore, the equal allocation element of this method takes into account the intrinsic characteristics of the payment systems because it results in the per-transaction PSR regulatory fee being different across the systems.

b. **Simplicity and efficiency:** Responses from the industry suggest that this option is one of the more complex methods of allocation. Additional changes in the industry or our regulatory remit will require added complexity, and we will need to spend additional resources on developing new proposals and consulting stakeholders. However, we recognise that some operators and fee payers may already be familiar with this allocation method.

c. **Sustainability and long-term stability:** Equal allocation introduces some stability in terms of the share of a payment system’s AFR, given that there is no change in the number of designated payment systems. However, it could create volatility in regulatory fees for fee payers if one or more payment systems become designated or de-designated or if they cease to exist.

We also do not think this option is sustainable, as we will need to consult stakeholders on how we will allocate our fees every time there is a significant change in the industry or our regulatory remit. For example, we will need to consider how we treat different groups of fee payers as a result of our PSD2 powers. We will need to consult stakeholders again once the NPA is introduced and the three payment systems operated by the NPSO are phased out.

d. **Impact on competition:** We do not think continuing with this option would materially affect competition in the industry.

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\(23\) The Treasury designates the payment systems that are regulated by the PSR under its FSBRA powers and the list of designated payment systems is reviewed every year.

\(24\) There are currently seven designated payment systems under FSBRA.

\(25\) BPSL denotes Bacs Payment Scheme Limited, C&CCC denotes Cheques and Credit Clearing Company, and FPSL denotes Faster Payments Scheme Limited.

\(26\) They include Bacs, Cheques and Credit Clearing and Faster Payments.
5.17 If we retain this option, fee payers will not experience a change in their share of the PSR AFR as a result of a policy change. However, their fees may still change due to a number of factors. These include changes to the transaction volumes of any of the relevant PSPs, potential changes in the number of designated payment systems and the changes in the proportions allocated to different AFR pots.

5.18 In the longer term, the equal allocation and AFR pot-splitting elements of the allocation methodology means that significant changes in the industry could affect the fees allocated to each payer:

a. If one or more payment systems become designated or de-designated, fee payers that are not direct members of those systems will see their share of PSR fees decreased or increased respectively.

b. Fee payers could see their shares of PSR fees increasing or decreasing depending on whether they fall in scope of changes in our legal powers.

**Option 2a: Allocation based on an individual fee payer’s transaction volumes across all payment systems**

5.19 In this option, we will calculate the fee liability of individual fee payers based only on their transaction volumes through PSR-regulated payment systems. These include the payment systems designated under FSBRA and the regulated card payment systems under the IFR.

5.20 We will not allocate the overall PSR AFR into pots, as we currently do. We will not make any distinction between the payment systems designated under FSBRA and the regulated card payment systems under IFR.

5.21 Furthermore, we will not equally allocate the AFR to the relevant payment systems. This is different from our current approach of equally allocating the FSBRA AFR to the designated payment systems and most of the IFR AFR to the three regulated card payment systems.

5.22 Instead, all eligible fee payers will be allocated an amount based on how many transactions they have sent or received through all of the payment systems regulated by the PSR. The PSR regulatory fee per transaction for each year (the ‘per-transaction fee rate’) is determined by dividing the PSR’s overall AFR by the total number of transactions across all regulated payment systems. A fee payer’s individual PSR fee will be determined by multiplying the per-transaction fee rate by the number of transactions it has carried out across all regulated payment systems.

5.23 Under our current proposal, we do not intend to change the scope of eligible fee payers. They will include:

- PSPs that are direct members of Bacs, CHAPS, C&C, FPS, LINK or NICC
- acquiring or card-issuing PSPs operating in the UK that are members of Mastercard or Visa, as well as other card payment systems subject to the IFR
- the operators of card payment systems that also act as PSPs

5.24 If we move to direct billing and collection by the FCA following this consultation\(^\text{27}\), operators would need to provide us with transaction volume data when we calculate the liability for each fee payer (e.g. by 1 March). If we keep the current indirect billing and collection method via the operators, operators would still need to provide us with the total transaction data within their payment systems for us to determine the total transaction volume tariff base and the per-transaction fee rate. We would then publish the per-transaction fee rate and use it to determine how much each operator needs to pay the PSR that year and, where relevant, collect from each of its members.

27 The proposal is set out in Chapter 3.
5.25 We would need to confirm the definition of eligible transactions that will be used to collect the total transaction volumes and to calculate the fee liability of each fee payer. This is because the definitions of transactions for FSBRA and IFR are different, and, unlike option 1, this option does not entail allocating the overall PSR AFR into separate ‘pots’.28 Under this option, we are considering using a wider definition that will capture all transactions, e.g. the FSBRA definition. We will consider what adjustments may be needed for systems that we do not regulate under FSBRA and for operators that act as PSPs within their systems.

5.26 Using our guiding principles in Chapter 4, we have identified the following strengths and weaknesses of this option:

a. **Proportionality:** Based on our initial analysis, we consider that this option is the least proportionate of the options, as it discounts the fact that payment systems can have different characteristics. It ignores the fact that PSPs can benefit more from high-value transactions and less from low-value transactions. On the other hand, payment systems with higher transaction volumes are given a higher share of the PSR AFR in this option, rather than an equal allocation as is the case in option 1.

b. **Simplicity and efficiency:** Based on our initial analysis, we consider that this is the simplest option. It does not require us to revisit our fees methodology to respond to changes in industry structure and in the market (for example, between the uses of different schemes).

c. **Sustainability and long-term stability:** As transaction volume is the only key determinant, this allocation method is likely to be sustainable and not require yearly changes. Without equal allocation and the AFR pots, fee payers will be less likely to experience fluctuations in their allocated fees due to structural changes in the payment systems industry. This option is likely to be more stable and transparent.

d. **Impact on competition:** We do not think this option would materially affect competition in the industry.

5.27 If we pursue this option, some fee payers may experience a sudden change in their share of the PSR AFR. We expect fee payers would be affected in the following ways:

a. PSPs with a high number of transactions concentrated in payment systems that have high total transaction volumes will be likely to see an increase in their share of total PSR AFR.

b. PSPs with a high number of transactions concentrated in payment systems that have lower transaction volumes will be likely to see a decrease in their share of total PSR AFR.

5.28 This will be caused primarily by the removal of the equal allocation among payment systems, with payment systems with lower transaction volumes seeing a drop in their allocated fees and those with higher transaction volumes seeing a rise in their fees.

**Option 2b: Allocation based on an individual PSP’s weighted transaction volumes across all payment systems**

5.29 We are also considering a variation of option 2a that takes into account the characteristics of the payment systems.

5.30 This is different from option 2a, where we would treat the transaction volumes across each system equally, without applying any weighting based on which payment systems the transactions are made through.

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28 Under the current allocation method, operators that are allocated PSR fees under both FSBRA and IFR pots provide us with two sets of transaction volume each year to calculate the liabilities of their fee payers within each pot; one based on the transactions relevant for FSBRA and one based on those relevant for IFR.
5.31 We will take into account the characteristics of the payment systems by one of two ways:

a. **Apply weightings based on the average or median transaction values to differentiate different payment systems:** We will apply weightings to differentiate the transactions through the payment systems such that the transaction volumes for each system are given different weights. The weightings can be determined with reference to the average or median transaction value through those systems.

b. **Apply other types of weightings to differentiate different payment systems:** We can also apply other weightings to differentiate the transactions through the payment systems. We note that equal allocation is already in a way a weighted transaction volume method, but with this option we can consider alternative weighting given to different payment systems.

5.32 If, following this consultation, we are in favour of this option, we intend to consult in November on what the weighting factors or variables should be and how frequently we should update them.

5.33 Like option 2a, we would need a single definition of eligible transactions that will be used to collect the total transaction volumes and to calculate the fee liability of each fee payer.

5.34 If we move to direct billing and collection by the FCA following this consultation\(^{29}\), operators would need to provide us with transaction volume data when we calculate the liability for each fee payer (e.g. by 1 March). If we keep the current indirect billing and collection method via the operators, operators would still need to provide us with the total transaction data within their payment systems for us to determine the total transaction volume base and the per-transaction fee rate. We would then publish the per-transaction fee rate and the weighting factor so each operator can determine how much it needs to pay the PSR that year and, where relevant, collect from each of its members.

5.35 Our initial assessment suggests that this weighted volume option may lead to a better outcome than the unweighted variant (**option 2a**):

a. **Proportionality:** We consider that this option is more proportionate than option 2a as it takes into account the different characteristics of the different payment systems.

b. **Simplicity and efficiency:** This option builds on option 2a but will be more complex to administer. It does not require us to revisit our fees methodology to respond to structural changes in the industry.

c. **Sustainability and long-term stability:** This allocation method will not require yearly changes, which could provide fee payers with some stability. As this method removes equal allocation and does not split the AFR into different pots, fee payers will be less likely to experience fluctuations in their allocated fees due to structural changes in the payment systems industry.

d. **Impact on competition:** We do not think this option would materially affect competition in the industry.

5.36 Similarly to option 2a, some fee payers may experience a substantial change in their share of the PSR AFR as a result of a policy change. This is described in paragraph 5.27. However, the impact is likely to be less pronounced than that of option 2a. It could vary considerably depending on the weighting on the transaction volumes given to each payment system.

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\(^{29}\) The proposal is set out in Chapter 3.
Option 3: Simple banding based on PSP transaction volumes

5.37 In this option, we will introduce a banding system based on the fee payers’ overall transaction volumes through all PSR-regulated payment systems. Each fee payer will be put within a fee band, and all fee payers within the same band will pay the same fee, which will be determined by us every year after the PSR’s AFR for that year has been confirmed.

5.38 The number of bands to be created and the boundaries for each band will need to be decided. We intend to consult on the bands in November if we decide to proceed with this option following the outcome of this consultation.

5.39 Based on an initial assessment of the distribution of PSPs in terms of their overall transaction volume, we propose to create the following bands:

- 4 billion transactions or more
- 1 billion to 4 billion transactions
- 150 million to 1 billion transactions
- 30 million to 150 million transactions
- 9 million to 30 million transactions
- 750,000 to 9 million transactions
- 1 to 750,000 transactions (PSPs within this band will not pay any PSR fees)

5.40 We will not allocate the PSR overall AFR into pots, as we currently do. We will not make any distinction between the payment systems designated under FSBRA and the regulated card payment systems under IFR. Further, we will not equally allocate any part of the AFR to the relevant payment systems, as we currently do with the FSBRA AFR.

5.41 We already use a banding system in our current allocation methodology when we allocate the IFR AFR to the relevant card payment systems. Card payment system operators are allocated a fixed fee based on one of the three tiers of transaction volumes they fall into. However, members of those systems are then allocated a portion of that amount based on their transaction volumes through those systems. This option will extend the existing banding system to all payment systems regulated by the PSR, rather than just the designated systems under FSBRA. It will also extend the banding method beyond the allocation at the level of payment systems to include allocation among PSPs.

5.42 If we keep the current indirect billing and collection method via the operators\(^{30}\), we will not consider this allocation option as it would create significant complexity in how the fixed fees are calculated and collected. We would need to collect data from operators to determine the correct band for each fee payer and the amount due, and then divide up that amount for each fee payer proportionately so they pay the correct portion of the fee for each system.

5.43 We will need a single definition of eligible transactions that will be used to collect the total transaction volumes and to calculate the fee liability of each fee payer. This is because operators currently use different definitions of transactions to calculate the fee rates for the FSBRA AFR and the IFR AFR.

\(^{30}\) The proposal is set out in Chapter 3.
5.44 Using our guiding principles in Chapter 4, we have identified the following strengths and weaknesses of this option:

a. **Proportionality:** This method takes transaction volume into account and therefore reflects a fee payer’s use of and benefit from the regulated payment systems. However, it does not recognise the intrinsic differences among the payment systems we regulate. Furthermore, how the bands are set will affect the overall proportionality of this option. Smaller bands may increase the proportionality of this option but would also increase the number of bands and reduce the usefulness of banding. In addition, banding creates cliff-edges for fee payers at the boundary of two bands where their transaction volumes might be very similar.

b. **Simplicity and efficiency:** Once the bands are set, this option produces a relatively straightforward way to determine the fee liability of each fee payer as the fee payers within each band pay the same fee. However, setting the boundaries for the bands and the amount of fees payable in each band could be difficult. The process of getting the right outcome for all fee payers would be complex.

c. **Sustainability and long-term stability:** This allocation method should not require yearly changes to the fees allocation methodology and should only require us to determine the fees payable at each band annually. However, fee payers could see year-on-year fluctuations in their fees if they are near the band boundaries.

d. **Impact on competition:** We do not think this option would materially affect competition in the industry.

5.45 If we pursue this option, some fee payers may experience a substantial change in their share of the PSR AFR. This could primarily be due to the removal of the equal allocation among payment systems and by the creation of bands.

5.46 Where there is no change in the transaction volumes, we expect fee payers would be affected in the following ways:

a. PSPs with a high number of transactions concentrated in payment systems with high total transaction volumes will be likely to see an increase in their share of total PSR AFR.

b. PSPs with a high number of transactions concentrated in payment systems with lower transaction volumes will be likely to see a decrease in their share of total PSR AFR.

**Option 4: Fee blocks based on transaction volumes and values**

5.47 In this option, we would use a combination of two sets of data: transaction volumes and values. Stakeholders have told us in the past that they wanted us to consider variables other than just transaction volume.

5.48 Similarly to option 2a, we would not allocate the PSR's overall AFR into pots, as we currently do. We would not make any distinction between the payment systems designated under FSBRA and the regulated card payment systems under IFR. Further, we would not allocate the AFR equally to the relevant payment systems.

5.49 Instead, we would assign the PSR overall AFR to two blocks: the **transaction volume block** and the **transaction value block**. The ratio of the two can be varied – for example, 50%-50%, 60%-40% etc. We will consult on the exact split in the November consultation.

5.50 Each fee payer will pay an amount in each of those two blocks. The method of determining the amounts payable in each block is described below.
5.51 The transaction volume block works like option 2a. All eligible fee payers will be allocated a fee based on how many transactions they have sent or received through any of the payment systems regulated by the PSR:

- The 'volume base' will be the sum total of the transaction volumes in a particular year across all PSR-regulated payment systems.
- The 'per-transaction fee rate' will be determined by dividing the AFR assigned to this block by the volume base.
- A fee payer's liability of PSR regulatory fees in this block will be determined by multiplying the per-transaction fee rate by the sum of a fee payer's transaction volumes across all regulated payment systems.

5.52 In the transaction value block, all eligible fee payers will be allocated a fee based on the total value of the transactions they have sent or received through any of the payment systems regulated by the PSR:

- The 'value base' will be the total of the transaction value in a particular year across all PSR-regulated payment systems.
- The 'per-unit fee rate' will be determined by dividing the AFR assigned to this block by the value base.
- A fee payer's liability of PSR regulatory fees will be determined by multiplying the per-unit fee rate by the sum of the values of a fee payer's transactions across all regulated payment systems.

5.53 If we move to direct billing and collection by the FCA following this consultation, operators would need to provide us with transaction volume and value data when we calculate the liability for each fee payer (e.g. by 1 March). If we keep the current indirect billing and collection method via the operators, operators would still need to provide us with the total transaction data within their payment systems for us to determine the total transaction volume and value bases and the per-transaction and per unit fee rates in both blocks. We would then publish these numbers so operators can use them to determine how much they need to collect from each PSP and pay the PSR that year.

5.54 As we are not allocating the overall PSR AFR into separate ‘pots’, we would need a single definition of eligible transactions that would be used to collect the total transaction volumes and to calculate the fee liability of each fee payer. This is because the definitions of transactions operators currently use to calculate the fee rates for the FSBRA AFR and the IFR AFR are different.

5.55 Using our guiding principles in Chapter 4, we have identified the following strengths and weaknesses of this option:

- **Proportionality**: This method takes two variables into account in simple way that is reflective of a fee payer's use of and benefit from the regulated payment systems. PSPs with higher transaction volumes or values are given a higher share of the PSR AFR. Also, the characteristics of the payment systems are taken into account.

- **Simplicity and efficiency**: This method is simpler than the use of bands or of equal allocation. It does not require us to revisit our fees methodology on an annual basis to respond to structural changes to the industry. However, this option would involve operators identifying and sending the PSR and the FCA the aggregate transaction value of each of their fee-paying participants every year, in addition to the transaction volume data they already collect and send.

- **Sustainability and long-term stability**: This allocation method is likely to be sustainable and not require yearly changes. Without equal allocation and the AFR pots, fee payers will be less likely to experience fluctuations in their allocated fees due to structural changes in the payment systems industry. This option is likely to be more stable and transparent.

- **Impact on competition**: We do not think this option would materially affect competition in the industry.

31 The proposal is set out in Chapter 3.
32 Stakeholders have told us in the past that they wanted us to consider variables other than just transaction volume.
5.56 If we pursue this option, some fee payers may experience a change in their share of the PSR AFR. This will be caused primarily by the removal of the equal allocation among payment systems, but that may be alleviated with the introduction of transaction value as an input to our allocation methodology.

5.57 All other things being equal, we expect fee payers would be affected in the following ways:

a. PSPs with high total transaction volumes and values across all payment systems will be likely to see an increase in their share of total PSR AFR.

b. The impact on PSPs with lower total transaction volumes and values will be less uniform. Some may see a decrease in, or no change to, their share of the total PSR AFR, while others may see an increase in their share of the PSR fees.

Variables we are not proposing to use as direct inputs for fees allocation

5.58 We propose to continue to levy PSR regulatory fees on fee payers based on their transaction volume, transaction value or a combination of the two. That is reflected in all the high-level options above.

5.59 We are aware that, in addition to a fee payer’s transaction volume and transaction value, there are other variables that could reasonably form part of the allocation and calculation methodology for the PSR regulatory fees.

5.60 For the reasons set out below, we have concluded that it is not appropriate to use those variables as direct inputs to a fee payer’s allocation of the PSR AFR.

5.61 However, while we do not believe that it is appropriate to use these variables directly in our allocation methodology, we note that certain of these variables may feed indirectly into our assessment of the options considered above.

5.62 Variables we have considered and discounted as direct inputs for our fees allocation methodology include:

a. Relevant turnover of a fee payer: It is often difficult to isolate a PSP’s revenue relating to payments. It is also often difficult to ensure that comparable figures have been used consistently to measure revenue or profit for all PSPs.

b. Number of customers of a fee payer: The definition of a customer can be problematic, and the number of customers does not approximate how frequently payment systems are used.

c. Economic value a fee payer enjoys from being a participant of a particular payment system: Economic value is relatively difficult to calculate and there are many different ways of calculating it. The economic value of being a scheme member will generally vary according to the business models of the individual PSPs. We could potentially use this variable as a broad qualitative justification for certain aspects of our wider decisions around fee allocation – for example, in the use of weighting factors in option 2b or allocating the AFR to different blocks in option 4.

d. Time or resources the PSR spends on particular payment systems: This variable, on its own, is not necessarily cost-reflective. It could also lead to large, unpredictable swings. Furthermore, it may give operators an incentive to avoid actively engaging with the PSR. However, we think there are good reasons to use it as a broad, qualitative justification to support certain aspects of our wider decisions around fee allocation, as in point ‘c’ above.

e. Benefit a fee payer receives from the PSR’s regulating activity: Economic benefit is often hard to determine. We believe that the broad and cross-cutting work of the PSR benefits the
industry as a whole, even if the projects only directly relate to particular payment systems. Furthermore, even for the same ‘piece’ of PSR work, individual fee payers may benefit to varying extents depending on their sizes and existing places in the market. As above, we think there may be policy reasons to use it as a broad, qualitative policy justification to support some of our wider decisions around fee allocation.

f. **Number of payment system memberships:** As an input, the number of payment systems of which a PSP is a direct member is not likely to correlate to its use of those payment systems or how much it benefits from the PSR's work. It ignores the intrinsic differences of the membership of different PSPs as well as the features of the PSPs.

### Potential consideration for transitional measure

5.63 We recognise that some of the options we have considered may have more impact on certain fee payers than others.

5.64 If, following this consultation, we decide to pursue an allocation option that could significantly affect some fee payers, we may consider introducing transitional measures to phase in the change and to smooth any impact.

5.65 However, we note that transitional measures could be complex to administer. We also note that there will be winners and losers for any transitional measure introduced.

5.66 We are keen to hear views from stakeholders on whether they think it would be appropriate to consider introducing any transactional measure, and, if so, how they think the potential transitional measure could work.

### Consultation questions

5.67 On the face of our preliminary analysis, it appears that an allocation methodology that combines each fee payer's transaction volumes and values as direct inputs (e.g. option 4) would be the most appropriate judging by the principles listed in Chapter 4.

5.68 However, this is subject to our further assessments of the allocation options, including the responses to this consultation from stakeholders. As noted, we will run a parallel process of collecting data from operators around the same time as this consultation. We will refine the exact proposal for the allocation and calculation method and will consult on it in November 2017.

5.69 We invite your views on the following question:

**Question 3:** Do you agree that an allocation option combining each fee payer's transaction volume and value (e.g. option 4) best fits the guiding principles set out in Chapter 4?

**Question 4:** If not, which of the presented options provides a better fit against those principles set out in Chapter 4 and why?

**Question 5:** Are there variations to the options listed that you would like us to consider? Please explain why they might be preferable.

**Question 6:** Do you think it would be appropriate to consider introducing any transitional measure? If so, on what basis should the transitional measure be based?
6. Other policy questions relating to how we allocate PSR regulatory fees

In this chapter, we consider a number of other policy questions that are relevant to the way we allocate PSR regulatory fees.

These include:

- the fee liability of PSPs that are implementing ring-fencing
- the potential impact of ring-fencing on our on-account fees collection
- the implications of PSD2 on our fee allocation methodology

Fee liability of PSPs that are implementing ring-fencing

6.1 As a result of the implementation of ring-fencing policy by the Prudential Regulation Authority and the FCA, some banks will be restructured so that their retail banking activities are separated from other parts of the banking groups. Some PSR fee payers will be affected by this change.

6.2 In this section, we set out how we will allocate PSR fees to the fee payers that are implementing ring-fencing.

6.3 Currently, PSR fees are charged to direct members of payment systems on the basis of their transaction volumes in the previous year. For example, a fee payer’s PSR regulatory fee liability in 2018/19 (April 2018 to March 2019) is determined by its relevant transaction volumes in the PSR-regulated payment systems in 2017 (January to December).

6.4 Where there is a change in the circumstances of a fee payer, the liability for the relevant PSP is dependent on the circumstances:

   a. A PSP that joins a payment system as a direct member, either as a new participant or as a formerly indirect access participant, is only liable to pay us its allocated PSR fee in respect of that system in the next fee year or later. The fee amount liable is determined by the PSP’s transaction volume from the moment it becomes a direct member in the calendar year it joins the system.\(^{33, 34}\)

   b. Where a PSP that pays PSR fees acquires another fee-paying PSP, the former is treated as having acquired the latter’s transaction volumes in the payment systems, and is therefore liable to pay a PSR fee based on both PSPs’ transaction volumes in the previous year.\(^{35}\) This is to ensure that all PSR fees in respect of the acquired PSP are paid.

   c. Where a fee-paying PSP splits into a successor entity and one or more newly created entities, the successor entity that ‘continues’ the predecessor’s membership to those payment systems is liable for paying the entire PSR fee in respect of all transactions realised by its predecessor.

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\(^{34}\) For example, a PSP that joins a PSR-regulated payment system in October 2017 would need to begin paying its PSR fee in 2018/19, as the PSR fees that year are determined by 2017 transaction data. A PSP that joins the same system in February 2018 would need to begin paying its PSR fee in 2019/20, as the PSR fees that year are determined by 2018 transaction data. This is notwithstanding the fact that both PSPs joined the payment system in the same fee year (2017/18).

\(^{35}\) See FEES 9.2.1B(R).
A newly created entity that becomes a direct member of the same payment system will not pay any PSR fee for any of the transactions incurred by the predecessor. It is treated as a new participant and, as set out in paragraph 6.4a, it will begin to pay its own PSR fee in the next fee year based on the transactions it realises.

6.5 In the case of PSPs that are implementing ring-fencing, we will allocate their 2018/19 PSR fees among the successor and newly created entities through one of the following options:

a. **2018/19 fees to be paid by the successor entity only:** As set out in paragraph 6.4c, the business-as-usual scenario would mean that only the successor entity will be liable for the entire 2018/19 PSR fee in respect of all transactions realised by its predecessor in 2017. Newly created entities would not pay us any PSR fee that year. This is consistent with our current approach.

b. **The split of the 2018/19 fees to be determined by making an application to the PSR:** An alternative option would be for PSPs that are implementing ring-fencing to inform the PSR how they would like us to split their 2018/19 PSR fee liability in percentage terms among the successor and newly created entities. This would need to be determined on a case-by-case basis.

c. **Splitting their 2018/19 fees among the successor and newly created entities based on how the predecessors’ businesses will be rearranged:** Another option would be to allocate the 2018/19 PSR fees based on how the predecessor’s business units will be rearranged to meet their ring-fencing requirements. Using that information, we will approximate how many transactions the successor and new entities will independently ‘inherit’ in percentage terms. We will then use those percentages to allocate to the entities their 2018/19 fee liability in respect of their predecessor’s 2017 transactions.

   This would need to be determined on a case-by-case basis. We would need information from the relevant PSPs and operators, for example, on how the business units of the relevant PSPs will be rearranged, and on the estimated share of transaction volumes inherited by the entities.

6.6 Under any of the options above, in the following fee year (2019/20) the successor and newly created entities will pay for their own PSR fees based on any transaction volumes they individually realise in 2018, provided that they independently become PSR fee payers.

6.7 We expect this to be a transitional issue that will not reoccur in future years, and it only affects a small group of PSR fee payers. Therefore, we prefer an option that is likely to be the least disruptive to fee payers, operators, the FCA and the PSR. We propose to use the business-as-usual scenario (option a), where only the successor entity will be liable for the entire fee in 2018/19 based on its predecessor’s transactions in the previous year (2017).

**Potential impact of ring-fencing on our on-account fees collection**

6.8 The second issue is that ring-fencing reforms may create some uncertainty over on-account fees collection.

6.9 Currently, our rules state that last year’s fee payers would need to pay in March 50% of what they paid in the previous year. They would then pay the remainder of what they are liable to pay for that year in September. Where a payer’s on-account amount is more than the fee liability for that year, the payer would be given a refund of the difference around the same time. New fee payers would not need to pay on-account fees.
6.10 Our proposed option would be to keep the business-as-usual process:

a. If a PSP completes ring-fencing before the collection of on-account fees, the successor would pay on-account fees based on 50% of how much its predecessor paid in the previous fee year. Newly created entities would not need to pay any on-account fees.

b. If a PSP completes ring-fencing after on-account fees have been collected from the predecessor, the on-account amount paid stays with the successor entity and will be netted off against the remainder of its fee liability that year. Newly created entities would not receive any share of the on-account amount paid by their predecessors.

6.11 If we pursue options b or c in the previous section (where we discuss how we will split the overall 2018/19 PSR fee liability), we may also consider applying the same percentages to split the overall 2018/19 PSR fee liability and the on-account amounts among the successor and newly created entities. However, to enable us to collect on-account amounts in time, we would need the relevant information from PSPs and operators from as early as January 2018.

6.12 Similarly to our proposal in the previous section, we prefer the business-as-usual process as it would create less additional administrative work for fee payers, operators, the FCA and the PSR. This is especially the case since this is also a transitional issue that will not reoccur in future years and only affects a small group of fee payers.

**PSD2**

6.13 From January 2018, we will become the competent authority in the UK for a number of provisions in the second EU Payment Services Directive (PSD2). The Treasury has transposed PSD2 into UK legislation in the Payment Services Regulations 2017 (the PSRs 2017), which will replace the Payment Services Regulations 2009. In April 2017, we consulted on our approach to monitoring and enforcement of the regulations for which we have been appointed the competent authority. The relevant PSR regulations are:

- Regulation 61: Information on ATM withdrawal charges
- Regulation 103: Prohibition on restrictive rules on access to payment systems
- Regulation 104: Indirect access to designated payment systems
- Regulation 105: Access to bank accounts (the PSR and the FCA are both competent authorities for this Regulation)

6.14 Under the PSRs 2017, we will acquire new powers to charge certain PSD2 regulated persons in relation to our PSD2 functions and activities. The persons we can charge include:

- direct participants in Bacs, FPS and CHAPS who provide indirect access to payment systems to other PSPs
- independent ATM deployers
- three-party payment card systems (with licencees)
- four-party payment card systems (and their participants)
- credit institutions

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36 www.psr.org.uk/psr-publications/consultations/Payment-Services-Regu-2017-draft-approach
37 Regulation 136(3)(a) and (d) of the Draft PSRs 2017.
6.15 There are two questions we would like to consult stakeholders on:

(A) On those who are required to pay PSR fees:

6.16 We recognise that there are overlapping but different groups of constituents between those with obligations under PSD2 and those with obligations under FSBRA and IFR. However, we propose to keep the group of eligible PSR fee payers unchanged for the time being, regardless of which allocation methodology we decide to pursue\(^{38}\), and reassess this aspect in future if circumstances change. Those that will be affected by PSD2 and who presently pay fees would be:

a. PSPs that are direct members of Bacs, CHAPS, C&C, FPS, LINK or NICC
b. acquiring or card-issuing PSPs operating in the UK that are members of Mastercard, Visa, as well as other card payment systems subject to the IFR
c. the operators of card payment systems that also act as PSPs

6.17 This is consistent with our current approach, where we do not charge all the entities or persons that we regulate. For example, under FSBRA, we only levy PSR fees on direct members of designated payment systems, and not their indirect members or infrastructure providers, even though we have powers over these groups under the legislation.

(B) On how we will allocate fees in relation to our functions by virtue of PSD2:

6.18 Currently, we split the PSR AFR into two ‘pots’: the FSBRA pot and the IFR pot. This is with reference to our functions and activities under FSBRA and the IFR respectively.

6.19 Most of the allocation options we have considered in Chapter 5 (options 2a to 4) do not split the PSR overall AFR into separate pots based on the relevant legislations, for example – FSBRA or IFR. We would only take into account the eligible fee payers’ relevant transaction volumes and, in some cases, values. Therefore, if we pursue one of those allocation options, we would not need to consider how we would allocate the PSR AFR to the PSR’s PSD2-related activities alongside the existing FSBRA and IFR pots.

6.20 However, if we decide to keep the current allocation method (option 1), we would need to consider how PSD2 would be incorporated.

6.21 Under that scenario, our preliminary thinking is that we would fund PSR’s PSD2-related activities and functions with fees collected under the FSBRA pot. This is because there is a material overlap between our current PSD2 - related work and FSBRA - related activities. Some of the PSD2-related work for the PSR could potentially displace work we are currently doing under FSBRA.

6.22 However, we also recognise that there are different potential fee payers under FSBRA and PSD2, for example – not all card schemes subject to PSD2 are regulated systems under FSBRA. If, following this consultation, we decide to retain option 1, we would need to consider whether and how the option should be developed to take this into account.

\(^{38}\) See Chapter 5.
Consultation questions

We invite your views on the following questions:

**Question 7:** Do you agree with our proposed approach to PSR fee liability for PSPs that are implementing ring-fencing?

**Question 8:** Do you agree with our proposed approach to PSR on-account fee for PSPs that are implementing ring-fencing?

**Question 9:** Do you agree with our proposed approach to PSD2 in relation to the allocation of PSR fees, in terms of who should be included as eligible fee payers and in terms of how we intend to allocate fees among them?
Annex 1
Consultation questions

Question 1: Do you agree with our proposal to replace the current indirect billing by operators with the direct calculation, invoicing and collection of PSR fees by the FCA, as set out in the proposed fees rules in Annex 2? Please explain your response. (Chapter 3)

Question 2: Do you agree with our guiding principles, and are there other relevant principles that we need to consider? Please provide supporting evidence to explain your views. (Chapter 4)

Question 3: Do you agree that an allocation option combining each fee payer’s transaction volume and value (e.g. option 4) best fits the guiding principles set out in Chapter 4 and why? (Chapter 5)

Question 4: If not, which of the presented options provides a better fit against those principles set out in Chapter 4 and why? (Chapter 5)

Question 5: Are there variations to the options listed that you would like us to consider? Please explain why they might be preferable. (Chapter 5)

Question 6: Do you think it would be appropriate to consider introducing any transitional measure? If so, on what basis should the transitional measure be based? (Chapter 5)

Question 7: Do you agree with our proposed approach to PSR fee liability for PSPs that are implementing ring-fencing? (Chapter 6)

Question 8: Do you agree with our proposed approach to PSR on-account fee for PSPs that are implementing ring-fencing? (Chapter 6)

Question 9: Do you agree with our proposed approach to PSD2 in relation to the allocation of PSR fees, in terms of who should be included as eligible fee payers and in terms of how we intend to allocate fees among them? (Chapter 6)
Annex 2
Draft fees instrument making amendments to the PSR fees rules
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 [23 November 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 5) 2017.

By order of the Board
[9 November 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

9.2.2 R If the PSR fee paid by a direct payment service provider for the previous fee year for a particular regulated payment system or IFR card payment system was at least £20,000, that direct payment service provider must pay to the operator of that particular regulated payment system or IFR card payment system FCA:

(1) an amount equal to 50% of the PSR fee payable for the previous fee year, by 15 March at the end of the previous 1 April in the current fee year or, if later, within 30 days of the date of the invoice; and

(2) the balance of the PSR fee due by 1 September in the current fee year or, if later, within 30 days of the date of the invoice.

9.2.2A R The operator of each regulated payment system or IFR card payment system must pay the amounts collected (as collection agent for the FCA) under FEES 9.2.2R to the FCA by the following dates:

(1) 1 April in the current fee year;

(2) 1 October in the current fee year. [deleted]

9.2.2B 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 at least £20,000, that operator must pay to the FCA:

(1) an amount equal to 50% of the PSR fee payable for the previous fee year, by 15 March at the end of the previous 1 April in the current fee year or, if later, within 30 days of the date of the invoice; and

(2) the balance of the PSR fee due by 1 September in the current fee year or, if later, within 30 days of the date of the invoice.

[Note: Transitional provisions apply to FEES 9.2.2R to FEES 9.2.2BR inclusive: see FEES TP 12.4] [deleted]
9.2.3 R If the PSR fee paid by a direct payment service provider for a particular regulated payment system or IFR card payment system for the previous fee year was less than £20,000, the direct payment service provider must pay its PSR fee in full to the operator of that regulated payment system or IFR card payment system FCA:

(1) by 45 September in the current fee year; or

(2) if later, within 30 days of the date of the invoice.

9.2.3A R The operator of each regulated payment system and IFR card payment system must pay the amounts collected (as collection agent for the FCA) under FEES 9.2.3R to the FCA by the following date:

(1) 1 October in the current fee year; or

(2) if later, within 15 days of the date payment of an amount in respect of PSR fees is received by the operator from a direct payment service provider.

[deleted]

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 45 September in the current fee year; or

(2) if later, within 30 days of the date of the invoice.

Method of payment and invoicing

9.2.4 G A direct payment service provider or an operator of a regulated payment system or an IFR card payment system should pay its fees to the FCA by direct debit, electronic credit transfer, cheque, Maestro, Visa Debit or by credit card (Visa/MasterCard only) and should notify the FCA operator to whom it is paying the relevant PSR fee if it intends to pay in another way.

9.2.4A R A direct payment service provider or an operator of a regulated payment system or an IFR card payment system must pay its PSR fees to the FCA operator (acting as collection agent for the FCA) of the regulated payment system or IFR card payment system to which the fee relates.

9.2.4B R The operator of a regulated payment system or an IFR card payment system, acting as collection agent for the FCA, must pay to the FCA the amounts it receives from or on behalf of direct payment service providers under FEES 9.2.4AR. [deleted]
With respect to invoices for PSR fees:

(1) the operator of each regulated payment system or IFR card payment system must issue invoices to its direct payment service providers for the amount of the PSR fee relating to each direct payment service provider for their participation in that regulated payment system or IFR card payment system;

(2) invoices must be separate invoices which include only the amount of the PSR fee applicable to each direct payment service provider, and must include no other charges, fees, administrative or handling fees;

(3) invoices must be issued by the operator on a sufficiently timely basis to enable the direct payment service providers to pay PSR fees to the operator (acting as collection agent for the FCA) by the dates specified in FEES 9.2.2R and 9.2.3R; and

(4) the requirements of FEES 9.2.4CR(1), (2) and (3) also apply where the operator of a card payment system or IFR card payment system is liable to pay PSR fees itself under FEES 9.2.1DR or FEES 9.2.1ER. [deleted]

The operator of a regulated payment system or IFR card payment system must provide to the FCA and PSR, for each of its direct payment service providers (and for itself, where it is an operator acting as an acquirer or card issuer), a copy of:

(a) its calculations (as specified in column 3 of Tables A and C of FEES 9 Annex 1R); and

(b) the underlying data (as specified in column 5 of Tables A and C of FEES 9 Annex 1R) required to calculate the fees allocation of each fee payer.

The operator of a regulated payment system or IFR card payment system must:

(a) provide the information in (1) to the PSR and FCA as soon as possible practicable, but no later than 1 March each year once FEES 9 Annex 1R is updated for a fee year; and

(b) obtain the PSR’s agreement to provide such other data to the FCA and PSR on request to enable the individual PSR fees on a sufficiently timely basis to be able to issue invoices to direct payment service providers in accordance with FEES 9.2.4CR to be verified.

The operator of each regulated payment system and IFR card payment system must provide to the PSR an updated version of the information set out in FEES 9.2.4DR(1) by no later than two
working days after the dates set out in FEES 9.2.2R and FEES 9.2.3R, indicating which direct payment service providers have not paid, or not paid in full, their PSR fees. [deleted]

9.2.4E G An operator of a regulated payment system or an IFR card payment system should pay the amounts due to the FCA under FEES 9.2.2BR, FEES 9.2.3BR and FEES 9.2.4BR by electronic credit transfer and should notify the FCA if it intends to pay in another way. [deleted]

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. [deleted]
Annex 3

Compatibility statement

Assessment of compatibility with FCA duties and PSR regulatory principles

1 We set out below our reasons for concluding that our proposals in this consultation are compatible with the requirements under the Financial Services and Markets Act 2000 (FSMA), as amended by FSBRA. The FCA is not required to carry out a cost benefit analysis in relation to PSR fees rules.

2 When consulting on new rules, the FCA is required by section 138(2)(d) FSMA to explain why it believes making the proposed rules is compatible with the FCA's strategic objectives, advances one or more of its operational objectives and has regard to the regulatory principles in section 38 FSMA.

3 We set out below our view of how the proposed rules 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 our consumer protection and/or integrity objectives. We will include our assessment of the equality and diversity implications of these proposals in our November consultation.

4 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 FSBRA.

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

5 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 undertake in 2018/19 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

6 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.

7 The proposals in this consultation aim to set out a methodology for calculating and collecting fees 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.
In preparing the proposals set out in this consultation, the FCA must have regard to the regulatory principles set out in section 3B FSMA and the importance of taking action intended to minimise financial crime (s.1B(5)(b) FSMA). The most relevant regulatory principles are considered below. These are also broadly consistent with the PSR’s regulatory principles under section 53 FSBRA.

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

Our proposed 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 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.

(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

We are proposing a move away from the current method of indirect billing fee payers via operators. In its place we propose that the FCA calculate, invoice and collect the PSR fees as part of the annual FCA fees process. If this approach is adopted following the consultation, this should alleviate the burden on operators and fee payers as set out in Chapter 3.

(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

For all card payment systems in relation to both FSBRA and IFR, our proposals 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.

We propose to use guiding principles which will take account of an individual PSPs particular use and economic value of designated payment systems when assessing proportionality of our allocation and calculation method.

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

We believe this consultation clearly explains the way we propose to collect PSR fees. Our proposed approach is intended to minimise the regulatory burden and cost on industry participants, while ensuring a simple and transparent method.

This consultation also sets out, as clearly as possible, our proposed guiding principles for reviewing the options for the way we allocate and calculate PSR regulatory fees. Views are requested on whether these are the correct principles.

This consultation also sets out our proposed approach to a number of regulatory changes such as
ring fencing. We consider that all our proposals have been clearly spelled out and the reasoning for our suggestions has been well evidenced.

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

16 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.

17 Our proposed 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

18 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 will conduct an EIA for our 2018/19 fees consultation cycle in November 2017. We currently consider 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.

19 However, we would welcome comments on any equality and diversity issues you believe may arise from our proposals.

20 The funding for the PSR will enable it to progress its programme of work. This may in due course lead us 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.
# Annex 4
## Glossary

This table includes the glossary and abbreviations used for the purposes of this consultation paper. Expressions which are defined in the fees rules are italicised in the table (for example, ‘direct payment service provider’).

<table>
<thead>
<tr>
<th>Term or abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>acquirer (acquiring PSP)</td>
<td>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.</td>
</tr>
<tr>
<td>AFR</td>
<td>Annual funding requirement.</td>
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<tr>
<td>allocation</td>
<td>The methodology whereby the PSR AFR to be recovered is allocated across regulated payment systems and IFR card payment systems.</td>
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<tr>
<td>AmEx</td>
<td>The American Express IFR card payment system.</td>
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<tr>
<td>ATM (automated teller machine)</td>
<td>An electromechanical device that enables authorised users, typically using machine-readable plastic cards, to withdraw cash from their accounts and/or access other services (for example, to make balance enquiries, transfer funds or deposit money).</td>
</tr>
<tr>
<td>ATM deployer</td>
<td>A company which owns and operates ATMs.</td>
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<tr>
<td>Bacs</td>
<td>The Bacs regulated payment system designated by HM Treasury under section 43 of FSBRA. (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).)</td>
</tr>
<tr>
<td>C&amp;C (Cheque &amp; Credit)</td>
<td>The Cheque &amp; Credit regulated payment system designated by HM Treasury under section 43 of FSBRA. (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&amp;CCCL).)</td>
</tr>
<tr>
<td>calculation (fee calculation)</td>
<td>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).</td>
</tr>
<tr>
<td>card issuer (card-issuing PSP)</td>
<td>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.</td>
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<tr>
<td>Term or abbreviation</td>
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<tr>
<td>card payment system</td>
<td>A regulated payment system that enables a holder of a payment card to effect a payment.</td>
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<tr>
<td>CHAPS (Clearing House Automated Payment System)</td>
<td>The CHAPS regulated payment system designated by HM Treasury under section 43 of FSBRA. (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.).</td>
</tr>
<tr>
<td>collection (PSR fee collection)</td>
<td>The method through which PSR fees are collected, which involve operators, the FCA or any other person acting as collection agents for the PSR.</td>
</tr>
<tr>
<td>Diners Club</td>
<td>The Diners Club International IFR card payment system.</td>
</tr>
<tr>
<td>direct access</td>
<td>(a) Access to a regulated payment system to enable a payment service provider to provide services for the purposes of enabling the transfer of funds using the regulated payment system, as a result of arrangements made between that payment service provider and the operator (and other participants, as applicable).</td>
</tr>
<tr>
<td></td>
<td>(b) Access to an IFR card payment system to enable a payment service provider to provide services for the purposes of enabling the transfer of funds under the rules of that IFR card payment system.</td>
</tr>
<tr>
<td>direct payment service provider (also referred to as a ‘direct member’ of a regulated payment system)</td>
<td>(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.</td>
</tr>
<tr>
<td></td>
<td>(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.</td>
</tr>
<tr>
<td>FCA</td>
<td>Financial Conduct Authority.</td>
</tr>
<tr>
<td>fee payer</td>
<td>Any PSP, operator or person that is required to pay PSR fees.</td>
</tr>
<tr>
<td>FPS (Faster Payments Scheme)</td>
<td>The Faster Payments Scheme regulated payment system designated by HM Treasury under section 43 of FSBRA. (The regulated payment system that provides near real-time payments as well as standing orders. It is operated by Faster Payments Scheme Limited (FPSL).)</td>
</tr>
<tr>
<td>FSBRA</td>
<td>Financial Services (Banking Reform) Act 2013.</td>
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<tr>
<td>Term or abbreviation</td>
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<tr>
<td><strong>IFR card payment system</strong></td>
<td>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 or payment system that supports its operation, and includes any specific decision-making body, organisation or entity accountable for the functioning of the scheme</td>
</tr>
<tr>
<td><strong>IFR transactions by acquirers operating in the United Kingdom</strong></td>
<td>All transactions subject to the IFR acquired by:</td>
</tr>
<tr>
<td></td>
<td>(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;</td>
</tr>
<tr>
<td></td>
<td>(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</td>
</tr>
<tr>
<td></td>
<td>(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.</td>
</tr>
<tr>
<td><strong>IFR transactions by card issuers operating in the United Kingdom</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>independent ATM deployer (IAD)</strong></td>
<td>An ATM deployer which does not issue payment cards.</td>
</tr>
<tr>
<td><strong>indirect access</strong></td>
<td>Access to a regulated payment system through a contractual arrangement with a direct PSP to enable it to provide services (for the purposes of enabling the transfer of funds using that regulated payment system) to persons who are not participants in the system.</td>
</tr>
<tr>
<td><strong>‘indirect billing’ approach</strong></td>
<td>The approach to raising PSR fees whereby PSR fees are levied on direct members of Bacs, CHAPS, C&amp;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.</td>
</tr>
<tr>
<td><strong>JCB</strong></td>
<td>The JCB International IFR card payment system.</td>
</tr>
<tr>
<td><strong>LINK</strong></td>
<td>The LINK regulated payment system designated by HM Treasury under section 43 of FSBRA. (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.)</td>
</tr>
<tr>
<td>Term or abbreviation</td>
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<tr>
<td><strong>Mastercard</strong></td>
<td>The Mastercard regulated payment system designated by HM Treasury under section 43 of FSBRA and the Mastercard IFR card payment system.</td>
</tr>
<tr>
<td><strong>NICC (Northern Ireland Cheque Clearing)</strong></td>
<td>The Northern Ireland Cheque Clearing regulated payment system designated by HM Treasury under section 43 of FSBRA.</td>
</tr>
<tr>
<td></td>
<td>(The regulated payment system in Northern Ireland that processes cheques and other paper instruments. It is operated by Belfast Bankers’ Clearing Company Ltd).</td>
</tr>
<tr>
<td><strong>operator</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>participants</strong></td>
<td>(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.</td>
</tr>
<tr>
<td></td>
<td>(b) In relation to IFR card payment systems, any operator and payment system provider in to that IFR payment card scheme.</td>
</tr>
<tr>
<td><strong>payee</strong></td>
<td>A person who is the intended recipient of transferred funds.</td>
</tr>
<tr>
<td><strong>payer</strong></td>
<td>A person who holds a payment account and allows instructions to be given to transfer funds from that payment account, or who gives instructions to transfer funds.</td>
</tr>
<tr>
<td><strong>payment service provider (PSP)</strong></td>
<td>(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.</td>
</tr>
<tr>
<td></td>
<td>(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.</td>
</tr>
<tr>
<td><strong>payment system</strong></td>
<td>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.</td>
</tr>
<tr>
<td>Term or abbreviation</td>
<td>Description</td>
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</table>
| payment system allocation | (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.  
(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. |
| payment system denominator | (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.  
(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>| payment transaction | 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. |
| PCIFR | The Payment Card Interchange Fees Regulations 2015 (SI 2015/1911). |
| person | (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). |
| processing entity | 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. |
| PSR | The Payment Systems Regulator Limited, the body corporate established by the FCA under section 40(1) of FSBRA. |
| PSR fee (also referred to as PSR regulatory fee) | 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. |
| PSRs 2017 | Payment Services Regulations 2017. |</p>
<table>
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<tr>
<th>Term or abbreviation</th>
<th>Description</th>
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<tr>
<td>regulated payment system</td>
<td>Any payment systems designated by the Treasury in accordance with s.43 FSBRA. As of the date of publication this includes Bacs, C&amp;C, CHAPS, FPS, LINK, NICC, Mastercard and Visa.</td>
</tr>
<tr>
<td>regulated person</td>
<td>A person on whom an obligation, prohibition or restriction is imposed by any provision of the IFR, including participants in IFR card payment systems.</td>
</tr>
<tr>
<td>service-user</td>
<td>Those who use, or are likely to use, services provided by payment systems.</td>
</tr>
</tbody>
</table>
| transaction volumes | (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.  
(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. |
| transactions by acquirers operating in the UK | All transactions acquired by:  
(a) UK-based acquirers (or an operator acting as such an acquirer) resulting in payments to merchants located in the United Kingdom  
(b) UK-based acquirers (or an operator acting as such an acquirer) resulting in payments to merchants located outside the UK and  
(c) non-UK-based acquirers (or an operator acting as such acquirer) resulting in payments to merchants located in the UK. |
| transactions by card issuers operating in the UK | All transactions on cards issued by UK-based card issuers (or an operator acting as such a card issuer). |
| (the) Treasury | Her Majesty's Treasury. |
| Visa (Visa Europe) | The Visa Europe regulated payment system designated by HM Treasury under section 43 of FSBRA and the Visa Europe IFR card payment system.  
(The regulated payment system supporting payments made by cards and operated by Visa Europe and Visa UK Limited). |
| working days | Any day other than a Saturday, a Sunday, Christmas Day, Good Friday or a day which is a bank holiday under the Banking and Financial Dealings Act 1971 in any part of the United Kingdom. |