



<b>Consultation Paper title</b>	Market review of UK-EEA cross-border interchange fees
<b>Summary of intervention</b>	Assessment of the likely impacts of a potential stage 1 price-cap remedy for outbound UK-EEA XBIFs
<b>Feedback date of issue</b>	13/11/2024
<b>CBA Panel reference number</b>	CBAP-0002



## CBA Panel advice

This document sets out the CBA Panel's advice to the PSR on the draft CBA of "Market review of UK-EEA cross-border interchange fees". The CBA was referred to the Panel on 28 October in accordance with section 104G of the Financial Services (Banking Reform) Act 2013.

It should be noted that:

The CBA Panel's review is intended as a high-level, independent, expert review of the draft CBA. It does not replicate the PSR's analysis and does not verify data used in it.

The CBA Panel is not responsible for the content of the PSR's CBAs or for certifying that they meet the PSR's statutory obligations.

The CBA Panel's review focuses on evaluating the evidence, analysis and methodology within the CBA rather than the underlying policy itself.

The PSR consulted the Panel informally during the early stages of developing the CBA, and took into account a number of the Panel's comments in the revised version that has been submitted for formal review.

The PSR did not submit the draft Consultation Paper to the CBA Panel alongside the draft CBA - so the Panel was not able to evaluate important aspects of the CBA (for example, its conclusions regarding the lack of competition in the market, and the effect this has on pricing).

### Main recommendations

This CBA is intended to support the first stage of a proposed two-stage General Direction. As such, it is explicit that it is currently based on limited evidence and analysis, and that the choices of both (i) a fee cap as the proposed remedy and (ii) the particular fee cap levels, are grounded in general market analysis in the draft Consultation Paper and comparative precedent, as much as by the current CBA.

The Panel's view is that the current CBA therefore establishes a reasonable framework for analysis - but that it will indeed be important to gather better data and undertake more thorough analysis for the CBA properly to inform the choice of the remedy for the proposed General Direction's second stage.

The Panel recommends that in the second stage particular focus is placed on:

- **Options analysis.** More detailed analysis of the proposed remedy and price cap levels against alternative options (e.g. clearer analysis of how the chosen option approximates a competitive outcome).
- **Evidence.** More detailed evidence of the costs and benefits generated by the proposed remedy, and any alternatives analysed (e.g. the conclusions of the current CBA depend largely on a single estimate of £150-200mn of economic value transferred).
- **Distributional analysis.** A more granular analysis of the distribution of costs and benefits between different affected parties (e.g. between merchants and acquirers; between different sizes and types of merchants; and between merchants and consumers).



## CBA Summary

Category	CBA Panel comments
<b>The market</b>	The case for intervention was clearly explained and set out well with reference to the market failures generally. Additional detail on the business models of the merchants would be useful in setting the context.
<b>Baseline and counterfactual</b>	The establishment of the counterfactual is generally clear however it could provide more detail. For example, it would be useful to also compare rates in countries outside of the EU. The interim and final stages seem to be based on an interim level of fees which are arbitrary and costed accordingly, with a second stage that will develop a methodology to arrive at a more accurately reasoned level of fees. It isn't clear why this is necessary rather than waiting until the full analysis is done to introduce the policy without an interim.
<b>Evidence and data</b>	The Panel notes the PSR has received limited evidence from stakeholders to date however the CBA could benefit from more analytical information.
<b>Assumptions</b>	The assumptions are generally clear and explained where appropriate, for example the explanation of the trends in transaction volumes appear to be driven by economic factors and not dependent on the interchange fees.
<b>Uncertainty</b>	The Panel noted that the data underpinning the proposed first stage of the General Direction is limited, and that the PSR should therefore focus on obtaining better data to inform the assessment; this results in a high level of residual uncertainty currently. There could also be a greater use of sensitivity analysis to demonstrate this uncertainty.
<b>Assessment of costs and benefits</b>	There should be greater granularity around the quantified impact of £150-200mn as most of the analysis is driven by this single figure. It could also be made clearer that this figure will be split by merchants and acquirers by showing a full profile of costs and benefits over the appraisal period. Further explanation could be provided of why the CBA uses lost revenue as opposed to lost net profit. There could be more detailed explanation of why certain options have been discounted e.g., the 0.0% price cap.