

# A new regulatory framework for UK payment systems

This factsheet summarises the PSR's Consultation Paper which outlines its proposed framework for the regulation of the UK payments industry.

## Background

Payment systems form a vital part of the UK's financial system. They enable funds to be transferred between people and institutions, for example large payments between banks; paying bills via direct debit; receiving your salary into your account; paying by cheque and transferring money to friends using your smartphone. Last year the payment systems processed some 21 billion transactions worth more than £75 trillion.

The way people spend and transfer money is evolving rapidly but concerns have been raised about the ability of the payments industry to innovate in the interests of service-users and to keep up with these changes. Existing ownership and control structures have raised concerns about competition and access to the payment systems.

## PSR Role

The Payment Systems Regulator (PSR) was set up by the Government through the Financial Services (Banking Reform) Act 2013. It was incorporated in April 2014 and will become fully operational in April 2015. The PSR has three statutory objectives:

- to promote **effective competition**
- to promote the development of **innovation**
- to ensure that payment systems are operated and developed in a way that considers and promotes the **interests of service-users**

The PSR has been given strong competition and regulatory powers to achieve these objectives.

## PSR Vision

Our vision is for the UK to have world class payment systems, to ensure payment systems operate in the best interests of service-users and the wider UK economy and promote rather than constrain innovation and competition.

## What does the Consultation Paper cover?

We have identified three core areas that we believe must change and are recommending:

- a new approach to **industry strategy development and setting**;
- changes to the **governance and control** of payment systems to ensure greater transparency and service-user representation in decision making; and
- making it easier for participants of all sizes to **access** payment systems – directly or indirectly.

We will also launch two **market studies** looking at indirect access, and the ownership and competitiveness of infrastructure provision.

Further detail around our proposals is outlined in the table below.

## Who will we regulate?

Before the PSR becomes fully operational HM Treasury will 'designate' the payment systems that the PSR will regulate. (*Designation of payment systems for regulation by the Payment Systems Regulator*)

## Next Steps

We welcome any comments on our proposals and answers to the questions set out in the Supporting Papers by **5pm, Monday 12<sup>th</sup> January 2015**.

## Our Policy proposals

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### 1. Industry strategy (Supporting Paper 2)

We will take control of the strategy development and setting process to enable the UK to have world class payment systems. We will set up a **new Payments Strategy Forum** with broad representation of industry and service-users.

We will launch a **market review into the competitiveness of infrastructure provision** commencing by April 2015.

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### 2. Ownership, governance and control of payment systems (Supporting Paper 3)

We will open up governance and control of payment systems by involving additional players in more transparent decision making:

- All Operators will be required to ensure **service-users** are appropriately represented in decision-making
  - **Conflicts of interest** will need to be addressed so that individuals are not simultaneously both a director of an Interbank Operator and of a Central Infrastructure Provider to that payment system
  - All Operators will be required to **publish board minutes** and votes
  - Operators will be required to **report to us** on compliance with our service user direction annually.
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### 3. Direct access to payment systems (Supporting Paper 4)

Operators (of Bacs, Cheque & Credit Clearing, CHAPS and Faster Payment Service) must provide access on objective, risk-based, and publicly disclosed **Access Requirements**, which permit fair and open access.

LINK, MasterCard and Visa, which are already subject to an access rule under Article 28 of the European Payment Services Directive, must **publicly disclose** their Access Requirements.

All Operators must report on compliance with their relevant access rule annually.

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### 4. Indirect access to interbank systems (Supporting Paper 4)

Sponsor Banks must **publish information** on the sponsor services they offer (including access criteria and processes).

Industry will develop a **PSR-approved Code of Conduct**.

We will launch a **market review into Indirect Access**, commencing by April 2015.

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### 5. Interchange fees (Supporting Paper 5)

We will engage with relevant authorities on the proposed **EU Interchange Regulation**. If implementation is delayed we will consider taking action in the UK.

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### 6. Regulatory Tools (Supporting Paper 6)

We will introduce **Principles** on our expectations of industry behaviour. Industry will work with us on a **'no surprises'** basis, discussing significant developments with us in advance and on an ongoing basis.

We will issue **Powers and Processes Guidance** setting out our enforcement and complaints procedures, **Guidance on our statutory objectives, Penalties Guidance** and our **Administrative Priority Framework**.

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