

# Appointment of the Competent Authority for the Interchange Fee Regulation

HM Treasury

RPC rating: **fit for purpose**

## Description of proposal

Interchange fees are paid from the retailer's or merchant's bank to the consumer's bank, as a percentage of each transaction made by the card-holder. The directly applicable regulation will cap interchange fees at 0.2% of the transaction value for debit cards and 0.3% for credit cards. The regulation also seeks to improve competition in the card market by removing barriers to entry and includes operational separation between payment card schemes and the processing of payments.

The UK is required to designate a competent authority and put in place arrangements for monitoring and enforcing compliance, penalties for non-compliance and dispute resolution procedures. These domestic changes are the focus of the IA.

## Impacts of proposal

### Directly applicable impacts of the proposal

HM Treasury expects that banks issuing debit / credit cards will see a reduction in revenue as a result of implementing the regulation as it caps the fees paid to issuing banks for processing card payments. However, they do not expect any aggregate costs to business as a whole because losses incurred by issuing banks will be matched by gains to retailers and other merchants. The IA explains that figures from the EU Commission's impact assessment suggest that this could be as much as £1 billion per annum in the UK. The British Retail Consortium has estimated that the price cap could benefit UK retailers by £480 million each year.

Member states have the option of going further than the directly applicable terms on interchange fee cap rates. HM Treasury does not propose to do this at the moment. In any case, they argue that there would be no aggregate cost as a result of the assumption that any change in cap rates would represent a one-to-one transfer from issuing banks to card-using merchants.

HM Treasury does intend to take advantage of the option to apply a transitional period of three years, during which time, schemes in which third parties license banks to issue domestic debit cards will not be subject to the cap, providing the market share of the scheme is less than 3% of the total value of annual card transactions in the UK. The option of applying a transitional period is considered a reasonable method of giving these smaller three-party schemes time to adjust their business models to allow for the introduction of the fee cap.

### Domestic changes required by the regulation

In addition to introducing a cap on interchange fees, the regulation requires the UK to designate a competent authority. HM Treasury's preferred option is to designate the Payment Systems Regulator (PSR) as the competent authority for the Interchange Fee Regulation. It estimates that supervision and enforcement will increase the cost of operating the PSR by £1.2 million, in net present value terms. As the regulator is funded by industry, these costs are considered to be a cost to business. HM Treasury confirms that these costs have already been accounted for when the PSR was set-up in April 2015. These costs were categorised as an 'IN' with 'zero net cost'. At final stage, HM Treasury will need to clarify the categorisation of the £1.2 million that relates to the Interchange Fee Regulation. The PSR is expected to undertake a market study, part of which will help inform government on the level(s) of interchange fee caps in future.

HM Treasury intends to consult on the following:

- the PSR's penalties regime;
- designation of the Financial Conduct Authority (FCA), where certain provisions of the regulation overlap with the FCA's remit; and
- an out-of-court redress procedure to assist in the settlement of business-to-business disputes.

### **Quality of submission**

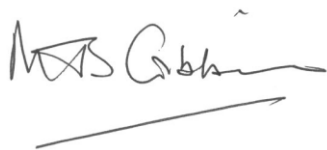
The impact assessment explains the rationale for the proposal, describes the options under consideration and gives an indication of the impacts of the proposal. HM Treasury should use its consultation to strengthen its evidence base for the final stage impact assessment. It will need to clarify whether the domestic changes required by the regulation will result in additional costs above the £1.2 million already identified, for example, whether compliant businesses will face additional costs as a result of the introduction of a penalties regime. HM Treasury should also consider using the consultation to strengthen its own estimates of the impacts of capping interchange fees in order to test the robustness of the EU estimates. This should include the extent to which reduced transaction costs for merchants are expected to be passed on to card users and the impact of cross-border trade where other jurisdictions have set interchange fees at a different level from those in the UK. At final stage, HM Treasury will need to show why setting a lower cap for interchange fees would not be demonstrably beneficial to business.

### **Initial departmental assessment**

Classification	Out of scope (EU)
----------------	-------------------

### **RPC assessment**

Classification	Out of scope (EU)
----------------	-------------------



**Michael Gibbons CBE, Chairman**