

Rt Hon Mel Stride MP  
Chair, Treasury Select Committee  
Committee Office  
House of Commons  
London  
SW1A 0AA

11<sup>th</sup> February 2022

Dear Mel

Thank you for your letter dated 25 January on scheme fees and interchange fees.

To recap on our letter of 17 December, our card acquiring review considered whether the supply of card acquiring services was working well for merchants, and ultimately consumers. As part of this review, we also examined how scheme fees changed over the period 2014 to 2018. We found that scheme fees (which are included in the fees that merchants pay in order to accept card payments) had increased significantly. Work is underway at the PSR to address the harms identified in our final report published last November and we have recently launched our consultation on remedies in relation to the card acquiring market.

We are also taking forward a separate piece of work to examine the basis for card scheme fees and cross-border interchange fees, more broadly. This work will consider the range of tools available to us to protect users and consider whether interim measures, such as caps for scheme fees or cross-border interchange fees, might be appropriate.

This new work builds on the card acquiring review. It examines not only scheme fees paid by merchants but also those paid by issuers. We understand that your questions relate to this piece of work and have set out responses to them below, as requested.

### **What are the obstacles to immediate action to cap scheme fees and cross-border interchange fees?**

The PSR has a variety of regulatory and competition tools at its disposal to address potential concerns (under the Financial Services (Banking Reform) Act 2013 and Payment Services Regulations 2017) and concurrent competition law powers (Competition Act 1998 and market studies under the Enterprise Act 2002).

In order to determine whether action is required, we need to gather the necessary evidence and conduct analysis to support any approach we take.

We have already made a start on this work, through initial information requests. These will help us better understand the factors that affect the level and structure of both scheme fees and cross-border interchange fees, and the reasons behind any changes in them.<sup>1</sup>

Any action requires robust evidence and analysis. Once we have received the information we have requested and considered further evidence, we will be able to identify how to proceed, including whether and what measures may be appropriate to protect users and address any concerns.

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<sup>1</sup> See also the recent announcement on our website in this regard: <https://www.psr.org.uk/news-updates/latest-news/news/the-psr-s-work-on-card-fees/>.



**How soon might the PSR be in a position to reduce the domestic interchange fees set by the UK Interchange Fee Regulation to alleviate the costs for businesses, if that was deemed necessary?**

As part of the government's Future Regulatory Framework Review, we are engaging with HM Treasury (HMT) on potential changes to the IFR. We are considering how the current IFR could be adapted to best serve the UK economy, including to reflect the UK's new position outside of the EU, and what powers the PSR needs to achieve this. Primary legislation would be required to make these changes and we are currently engaged in discussions with HMT on what is required and how this can be achieved.

Currently, the IFR sets the level of domestic interchange fees at 0.2% for regulated debit cards and 0.3% for regulated credit cards respectively. HMT has the power to make regulations that set a lower cap for these cards. The Government will need to develop and set out proposals and, we would expect, it would consult on these proposals.

I would like to thank the committee for its continued engagement on this important matter

Yours sincerely

A handwritten signature in blue ink that reads 'Chris Hemsley'. The signature is fluid and cursive, with a large, sweeping flourish at the end.

Chris Hemsley  
Managing Director