

Frequently Asked Questions

The PSD's Scope

What is the Payment Services Directive?

The Payment Services Directive (or PSD for short) is a new European Directive. It is intended to harmonise the provision of payment services throughout the European Community and enhance competition, improve consumer choice through greater transparency, encourage greater efficiency and ultimately reduce transaction costs. The Directive is based on two pillars. The first establishes a comprehensive set of 'conduct of business' rules for payment services; and the second introduces a regulatory framework for a new category of payment service providers (so-called "payment institutions" or PIs), which in general terms are entities providing payments services that are not credit institutions (i.e. banks) with the aim of enhancing competition in the European payments market.

What is the PSD's scope?

The PSD applies to payment services provided within the 30 countries of the European Economic Area (EEA)¹.

Various types of payment services are covered by the PSD including cash deposits and withdrawals, direct debits, standing orders and credit transfers, transactions made through a payment card or initiated on a mobile device, card issuing and card merchant acquiring services and money remittance. While the PSD is principally concerned with electronic payments, there are some implications for cash receipts into payment accounts.

Payments in Euro or any other EEA Member State currency (e.g. Sterling) are in-scope; payments in non-EEA currencies such as US Dollar payments for example are out of scope.

When is the PSD due to come into force?

1 November 2009 is the date by which all Member States are meant to have introduced national legislation implementing the PSD. It is expected that the majority of Member States will be ready for this transposition date. A small number of EEA countries are currently predicting minor delays in their national implementations, which could result in a brief period where some inconsistencies of treatment may be experienced in respect of payments to/from such countries.

What does the PSD look to achieve and how?

The original objective behind the PSD was to provide legal support to the Single Euro Payments Area (SEPA). However, the final PSD goes much further than this and in addition to supporting SEPA has an impact on four key areas (1) introducing a licensing regime for non-credit institutions that will allow them to provide payment services as a PI (2) establishing minimum transparency and information standards for the benefit and protection of consumers (3) harmonising the core rights and obligations of users and providers and (4) promoting greater efficiencies in payment processing e.g. with standardised execution time maxima.

How does the PSD relate to SEPA?

The PSD imposes legal requirements aimed principally at the relationship between payment service provider and user and applies to all Member State currencies. The PSD is a regulatory initiative driven by the European Commission. By contrast SEPA is an initiative driven by the European payments industry itself and is focussed on inter-bank relationships and standards which apply to Euro denominated transactions only.

In order to support SEPA, the PSD provides for harmonised refund rules but it fails to alleviate the burden of Central Bank balance-of-payments reporting.

¹ The EEA comprises the 27 EU Member States as well as Norway, Iceland and Liechtenstein.

It is important for businesses to note that consumers will benefit from an eight week refund period for authorised direct debits under the SEPA Direct Debit Scheme (and existing national Direct Debit schemes) and for card transactions where the exact amount of the transaction is not specified at the time it was authorised. All client segments (corporate and consumer) will benefit from a thirteen month period in which to make claims in respect of unauthorised transactions unless a different time period is agreed with a corporate user.

What bodies will be regulated by the PSD?

The PSD regulates payment service providers (PSPs) within the 30 EEA countries. The main entities that fall under the regulatory scope of the PSD are credit institutions (banks) and e-money issuers. In addition, the PSD introduces a new category of payment service provider, Payment Institutions (PIs), which will bring regulation to a range of non-bank providers of payment services (such as non-bank card issuers, money remitters and mobile phone operators offering payment services). PIs will be able to provide payment services throughout the EEA on the basis of an authorisation obtained in one Member State.

How are PIs regulated from a prudential perspective?

The PSD introduces a regulatory framework for any entity or person, unregulated today, who provides or wishes to provide payment services within the EEA. This requirement is essentially aimed at supporting the fight against terrorist financing and money laundering at a global level, while at the same time stimulating further competition in the European payments market.

The PSD imposes new detailed requirements for initial and ongoing capital that need to be satisfied by payment institutions in accordance with their breadth of payment activities and volumes. It also imposes restrictions on other activities a payment institution can carry on and requires funds received for providing payment services to be ring-fenced and not to be used for other purposes.

Implications for Corporates and other Client Segments

What is the impact of the PSD on different customer segments?

As mentioned above, corporate clients that are users of payment services in the EEA will experience increased consistency of payment services offered within that region. Additionally, corporates operating in the EEA may need to become authorised or registered as a PI due to their core business activities (e.g. money remitters), or they may choose to do so as a “hybrid” payment service provider, adding those capabilities to their existing core business (e.g. mobile operators that want to offer payment services). Public authorities and consumers will benefit from increased payment service levels and transparency across the EEA. The harmonised liability regime of the PSD is aimed at increasing those customers’ willingness to obtain payment services from non-domestic providers, as they are for the first time protected by an EEA-wide legal framework in the field of payment services.

What are the implications of the PSD’s conduct of business regime for the relationships between banks and their larger corporate and public sector clients?

Although mainly aimed at protecting consumer users, the PSD also covers business users such as SMEs and corporates. For the larger corporate community, whose payments needs typically extend well beyond a single domestic environment, the standard PSD approach of ‘one-size’ operational rules and terms and conditions was never designed to correspond to their specific needs and requirements. Recognising that many of the PSD’s provisions would not make sense if applied within the corporate payments environment, the PSD permits payment service providers to agree with corporate users that the standard prescriptive set of information requirements and certain liability provisions do not apply. This will allow corporate users to continue benefiting from tailor-made solutions and most banks in this business area are expected to not significantly alter their services as a consequence of the PSD.

As Citi believes that complying with these requirements would not be appropriate for its services nor beneficial overall to its customers, it will not be applying these consumer relevant provisions in order to be able to continue providing its transaction services solutions to corporate and public sector clients on the same basis as before.

What potential opportunities does the PSD offer to corporates?

There are a number of positive changes for corporate customers in relation to payments processing as a consequence of the PSD’s promotion of efficient, prompt straight-through processing, including:

- Defined maximum execution times
- Use of the SHA charge code
- Principle of ‘no deductions’ and
- Removal of float on incoming payments

How will charging for intermediary services change? (FI customers only)

When Citi is acting as an intermediary service provider for payments in EEA currencies travelling to another EEA based BIC our fees for these payments will always be billed separately. These fee charging arrangements are in compliance with the PSD requirement that intermediaries should ensure that the full amount of the payment is being transferred and abstain from applying any deductions from the full amount. Furthermore, we will not alter the charge code when acting as an intermediary unless a specific agreement to do so on behalf of the initiating bank is in place.

Operational Implications

What impact will the PSD have on Inter-bank Charging?

The PSD also defines clear charging principles for all EEA currency payments circulating entirely within the EEA. Presently, various charge codes are applied - the three key charge codes are: SHA, OUR and BEN. However, the PSD mandates the 'sharing' principle whereby the payer and the payee pay their own provider's costs. In response to this and in line with the EU Commission position, the industry has developed best practice guidance, which states that BEN and OUR options should no longer be used for in-scope transactions.

Under the PSD, only the beneficiary bank is allowed to take its fee by way of deduction, and only where this has been agreed with the beneficiary. Accordingly, using the SHA charge code when combined with the principle of 'no deductions' outlined in the PSD should result in the full payment amount being transmitted to the beneficiary's bank without deduction.

In response to these developments and to minimise the impact of changes to our customers, Citi has decided to apply SHA to all funds transfers in EEA currencies circulating within the EEA including those where a currency conversion is effected by the payer's payment service provider. This will be done automatically by Citi's systems from 1st November 2009 and in line with national legislation being implemented, irrespective of whether OUR, BEN or SHA charge codes is quoted in the customer's original instruction. Citi nevertheless encourages customers to adopt SHA within their payment instruction as the standard for intra-EEA payments in EEA currencies once the PSD is in force.

Citi believes that the move to SHA is a very positive development for Citi and its clients. The removal of BEN and OUR will lead to greater transparency in charging practices across the industry, elimination of the uncertainty surrounding deductions and a reduction in the overall cost to our customers of making payments.

Current charging practices will remain in place for transactions not falling within the scope of the PSD.

The PSD requires that all payments in Euro and domestic payments in other Member State currencies (such as a Sterling payment within the UK) reach the beneficiary in a maximum timescale of D+1 (i.e. the day of receipt of the payment instruction plus 1 further business day).

Until 1 January 2012 up to D+3 is allowed as long as this is agreed with the client. An additional day is allowed in all cases where the payment instruction is in paper form. The same maxima apply to intra-EEA payments involving only one currency conversion between the Euro and a non-Euro EEA currency which takes place outside the Euro zone, so that the cross-border transfer takes place in Euro.

Many banks, including Citi, rely on local payment infrastructures to deliver payment services, many of which still operate on a cycle time of several days. Therefore Citi will continue to work within the maximum D+3 cycle time afforded under the PSD until 2012, during which time Citi expects these national infrastructures to move towards the end goal of D+1. There will be no deterioration in terms of current cycle times and where local PSD legislation requires purely domestic payments to be executed within shorter time cycles than D+3 Citi will comply with these additional local legal requirement. Citi will continue to communicate these ongoing improvements to clearing cycles, and Citi's revised cut-off times, as they occur.

What impact will the PSD have on payment execution times?

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