HM TREASURY INTERCHANGE FEE REGULATION CONSULTATION 28 AUGUST 2015
Response from Barclays

This is the text of a letter written to HM Treasury as a full response was not considered necessary

Interchange Fee Regulation (IFR) consultation

Thank you for providing the opportunity to comment on the Government's proposal for the structure of the regulatory regime for IFR and also on how it intends to exercise the national discretions afforded by the IFR.

We have provided input to the UK Cards Association response and wish to comment on one point directly.

We support HMT's proposal to allow PSPs to apply weighted average MIFs for Domestic Consumer Debit. We note that HMT has recognised that a decision to change UK debit rates to a fixed 0.2% would mean that a large number of merchants would end up paying higher interchange fees than they do today.

We are however concerned that the necessary steps to exercise the UK's discretion may not be completed before the 9th December implementation date. We understand that HMT must complete a full Impact Assessment before secondary legislation can be laid before Parliament. Whilst ordinarily we understand and support the requirements for a full Impact Assessment, on this occasion there is unfortunately insufficient time to give acquirers and merchants sufficient certainty. In addition, we accept that UK interchange fee arrangements are covered by the PSR's programme of work and, therefore, a full Impact Assessment can be completed during that process.

The impact of this risk being realised is that the UK would have to default to 0.2% for consumer domestic debit transactions on 9th December 2015. Not only would this lead to price increases for some of our merchant customers, it would also give them insufficient time to make systems and other changes necessary to put the changes into effect.

To move to a 0.2% cap (because either the Government runs out of time to lay secondary legislation or does not follow its currently proposed approach), would be a fundamental change to the current rate position for the industry and therefore we would have to start planning for it now. Due to the activities that are required to support a rate change, we require sufficient lead time to change our systems and help our merchant customers manage the impact to them. There are three levels of change:

1. Scheme level – i.e. the changes payments schemes would need to make.
2. Issuer and acquirer level – including

    a. our in-house technical changes, which become particularly challenging as we approach the end-of-year change freeze period, which enables us to maintain stability when our processing volumes peak; and
    b. providing merchant customers with adequate warning and support
3. (Merchant) customer level, i.e. assessing and responding to the changes.

Moving to a 0.2% cap would have a negative impact on some of our merchant customer base and we require, as per our contractual obligations, adequate time to communicate the impacts and provide the necessary support. Merchants will also need time to work through and respond to the changes. For example, some merchants – including those with high average transaction values - may wish to make changes to their business model to mitigate the impact, such as switching from taking debit cards to Direct Debit or Bank Transfer.

In summary, unless it were to be advised quickly of a move to a 0.2% cap, it would be very difficult for the industry to communicate with its customers or make the required system changes in time, nor would merchants have sufficient time to assess and respond to the changes. We therefore urge HMT to accelerate its process to allow the industry enough time to react and avoid driving the industry into a non-compliant position.