

## What You Should Know – CPEL

### Payment Services Directive 2

GENERAL BACKGROUND - PAYMENT SERVICES DIRECTIVE (PSD) AND PAYMENT SERVICES DIRECTIVE 2 (PSD2)	
<p>1. What is the PSD and what changes did it introduce in 2009?</p>	<p>The Payment Services Directive (PSD) is a key piece of payments related legislation in Europe which introduced new payment handling principles. It was the first time that a uniform regime for regulation of payment services was applied across the European Economic Area (EEA). In particular, it established an authorisation regime for payment institutions, and a set of conduct of business requirements governing how payment service providers (PSPs) deal with their customers. One of the goals of the PSD was to introduce more competition in the payment industry for the benefit of payment end users.</p> <p>While largely limited to transactions taking place entirely within the EEA and in an EEA currency, the PSD has been seen by many as a successful EEA single market initiative.</p>
<p>2. What changes will PSD2 introduce that may impact you?</p>	<p>PSD2 will enter into force on January 13<sup>th</sup>, 2018 making wide changes to the existing PSD regime seeking, amongst other matters, (i) to further standardise and make interoperable card, internet and mobile payments; (ii) to reduce barriers to entry, in particular for card and internet payments; (iii) to align charging and steering practices across the EEA; and (iv) to bring emerging types of payment services within the existing payment regulatory framework.</p> <p>PSD2 will replace the PSD and will introduce among others, the following changes:</p> <ol style="list-style-type: none"> <li>1. Expansion of the scope of payment transactions covered by the directive, to include: <ul style="list-style-type: none"> <li>• Intra-EEA Payments (payments made between PSPs located in the EEA) in any currency, not just EEA currencies; and</li> <li>• One Leg Out (OLO) transactions from or into the EEA in any currency (where one of the PSPs is located inside the EEA and the other PSP is located outside the EEA).</li> </ul> </li> <li>2. Enhanced customer protection and security for online payment services by defining Strong Customer Authentication (SCA) requirements and technical standards (defined in the Regulatory Technical Standards or RTS) for third party access.</li> <li>3. Addition of new types of payment services into scope by creating new third party provider (TPPs) access rules enabling non-bank organisations to provide payment initiation and account information services.</li> <li>4. Introduction of defined complaint resolution timescales for all in-scope</li> </ol>

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	<p>payments of 15 business days following the day of receipt of the complaint (or 35 days in exceptional circumstances) for all client types.</p>
<p>3. When does PSD2 come into effect?</p>	<p>EEA countries are required to implement the PSD2 into local law by no later than January 13<sup>th</sup>, 2018.</p> <p>It is however anticipated that some countries are unlikely to meet this transposition deadline.</p> <p>J.P. Morgan continues to monitor the progress and decisions made in each EEA country where we operate so that we are able to enact the correct changes at the appropriate time.</p> <p>Updates on national transposition dates can be obtained via respective online resources including national regulatory bodies. We include links to these on our website: <a href="http://www.jpmorgan.com/visit/psd2">www.jpmorgan.com/visit/psd2</a>.</p> <p>Please note that the RTS on SCA and common and secure communication under PSD2 will not come into force on January 13<sup>th</sup>, 2018. The RTS will not apply until 18 months after publication in the Official Journal. We currently estimate that the RTS will come into force in Q2 or Q3 2019, although the timing is still uncertain.</p>
<p><b>SCOPE</b></p>	
<p>4. Which countries are in the EEA?</p>	<p>The PSD2 applies to all EEA countries.</p> <p>The country scope of the PSD2 is based on the country location of the servicing PSP.</p> <p>The current list of EEA countries is:</p> <p>Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Iceland; Italy; Latvia; Liechtenstein; Lithuania; Luxembourg; Malta; Norway; Poland; Portugal; Republic of Ireland; Romania; Slovakia; Slovenia; Spain; Sweden; The Netherlands and United Kingdom.</p>
<p>5. What are the EEA currencies?</p>	<p>The current list of EEA currencies is:</p> <p>BGN, CHF*, CZK, DKK, EUR, GBP, HUF, HRK, ISK, NOK, PLN, RON, SEK</p> <p>* Liechtenstein uses CHF, therefore this currency qualifies as an EEA currency even though Switzerland is not an EEA country.</p>
<p><b>STRONG CUSTOMER AUTHENTICATION</b></p>	
<p>6. What are the details of PSD2 in relation to SCA?</p>	<p>Under the PSD2, PSPs must apply SCA where customers access their payment accounts online, initiate electronic payment transactions, or carry out any action through a remote channel which may imply a risk of payment fraud or other abuses. RTS in respect of SCA are being developed by the European Banking Authority (EBA) which will supplement the basic requirements set out in the PSD2.</p>

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	<p>PSD2 introduces minimum standards on SCA which will impact electronic payment processing services provided by PSPs. Authentication measures will mean two out of three mandatory measures must be adopted.</p> <p>The measures are: Knowledge, something only the user knows (password, PIN); Possession, something only the user possesses (token, code, key); Inherence, something the user is (fingerprint, biometric, voice). For electronic remote payments an extra element will be added, being a unique authentication code to link the transaction to a specific amount and a specific payee.</p> <p>These new PSD2 SCA requirements are being deferred pending finalisation of exemptions in the RTS (such as low value payment transactions).</p>
<p>7. Will merchants need to integrate to another third party to support SCA?</p>	<p>While the RTS do not mandate specific SCA for electronic card payments, the card payments industry is seeking to leverage 3D Secure 2.0 to provide SCA for cards in the eCommerce environment.</p> <p>J.P. Morgan is planning to provide 3D Secure 2.0 support to all its customers, which will provide two factor authentication.</p> <p>Some uncertainty remains as to when the RTS will apply and if they will match SCA needs. EMVCo* is currently reviewing the rules on SCA from PSD2.</p> <p>*EMVCo's six member organisations include American Express®, Discover, JCB, Mastercard®, UnionPay, and Visa®, and is supported by dozens of banks, merchants, processors, vendors and other industry stakeholders who participate as EMVCo Associates.</p>
<p><b>THIRD PARTY PROVIDERS</b></p>	
<p>8. How will PSD2 encourage new entrants to the eCommerce market?</p>	<p>PSD2 provides the ability for third party providers (TPPs) to offer services to payment users for providing account information and initiating payments from their bank account.</p> <p>The RTS being developed by the EBA will cover the communication standards for Account Information Services Providers (AISP) and Payment Initiation Services Providers (PISP) to interact with banks and other PSPs.</p>

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## CHANGES TO PROVISIONS

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| <p>9. What amendments have been made to the existing provisions in my Select Merchant Payment Processing Agreement with Chase Paymentech Europe Limited (“Agreement”)?</p> | <ol style="list-style-type: none"> <li>1. References to certain optional provisions which have been disapplied pursuant to the corporate ‘opt-out’ have been updated. The following provisions of Titles III and IV of PSD2 (as may from time to time be amended, restated or re-enacted) shall not apply to the Agreement:             <ol style="list-style-type: none"> <li>i. Title 3: Transparency of conditions and information requirements for payment services - Articles 38 – 60 (inclusive);</li> <li>ii. Charges Applicable – Article 62(1);</li> <li>iii. Consent and withdrawal of consent – Article 64(3);</li> <li>iv. Evidence on authentication and execution of payment transactions – Article 72;</li> <li>v. Payer’s liability for unauthorised payment transactions – Article 74;</li> <li>vi. Refunds for payment transactions initiated by or through a payee – Article 76;</li> <li>vii. Requests for refunds for payment transactions initiated by or through a payee – Article 77;</li> <li>viii. Irrevocability of a payment order – Article 80;</li> <li>ix. Payment service providers’ liability for non-execution, defective or late execution of payment transactions – Article 89.</li> </ol> </li> <br/> <li>2. For all other provisions, please refer to the PSD2 Modification Document enclosed in your PSD2 Cover Letter. With effect on and from January 13<sup>th</sup>, 2018, the existing PSD provisions in your Agreement shall be deleted in their entirety and the supplemental PSD2 provisions contained in the PSD2 Modification Document shall apply by way of amendment and supplement to your Agreement.</li> </ol> |
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GLOSSARY		
Abbreviation	Term	Definition
<b>AIS</b>	Account Information Services	An online service to provide consolidated information on one or more payment accounts of a PSU held at one or more PSP.
<b>AISP</b>	Account Information Service Provider	A provider of AIS.
<b>EBA</b>	European Banking Authority	<a href="http://www.eba.europa.eu/">http://www.eba.europa.eu/</a>
<b>EC</b>	European Council	The institution charged with defining the European Union's (EU) overall political direction and priorities.
<b>EEA</b>	European Economic Area	A list of EEA countries and currencies are shown in questions 4 and 5.
<b>OLO</b>	One Leg Out Payment	A payment where one leg of the transaction happens outside the EEA.
<b>PIS</b>	Payment Initiation Services	A service to initiate a payment order at a PSU's request with respect to a payment account held at another PSP.
<b>PISP</b>	Payment Initiation Service Provider	A provider of PIS.
<b>PSP</b>	Payment Service Provider	A provider of payment services such as a bank or payment or electronic money institution, where the payer or payee hold their account.
<b>PSU</b>	Payment Service User	An individual or corporate entity who has one or more accounts with a PSP.
<b>RTS</b>	Regulatory Technical Standards	A set of technical standards to be developed by EBA for implementation of PSD2.
<b>SCA</b>	Strong Customer Authentication	Customer authentication standards impacting electronic banking applications.
<b>TPPs</b>	Third Party Providers	TPPs are providers of AIS and PIS, regulated under PSD2.

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