

## What You Should Know

### Payment Services Directive 2

#### GENERAL BACKGROUND - PAYMENT SERVICES DIRECTIVE (PSD) AND PAYMENT SERVICES DIRECTIVE 2 (PSD2)

1. What is the PSD and what changes did it introduce in 2009?

The Payment Services Directive (PSD) is a key piece of payments related legislation in Europe which introduced new payment handling principles which were transposed into law within each European Economic Area (EEA) country.

The PSD currently only applies to payments in EEA currencies between accounts located within the EEA (intra-EEA).

#### Payment Handling Principles:

The PSD introduced the below principles that have to be adhered to by Payment Service Providers (PSPs) located within the EEA for in-scope payments:

- **Charges Applicable:** The payer pays the charges levied by his Payment Services Provider (payer PSP), and the payee pays the charges levied by his PSP (payee PSP). The idea is that payment charges are therefore shared by the payer and payee.
- **Amounts Transferred & Amounts Received:** The payer PSP, any Intermediary, and payee PSP must transfer the full amount of the payment transaction and refrain from deducting charges from the amount transferred. An exception is allowed where the payee PSP and the payee agree to allow a (credit bene d) deduction before crediting the payee account.
- **Value Dating & Availability of Funds:** The payer PSP may not debit funds from an account prior to the specified value date. The payee PSP must apply the credit on the value date on which the amount of the payment transaction is received, and make funds available at the payee's disposal immediately after receipt.
- **Execution Time:** Reduction in the total execution time for electronic payments to a maximum of D+1 (i.e. completion by COB the next business day). Obligation is on the payer PSP.

2. What changes will PSD2 introduce that may impact you?

PSD2 will supersede the PSD and will introduce the following updates:

1. Expand the payments covered by the directive, to include:
  - Intra-EEA Payments (payments made between PSPs located in the EEA) in any currency, not just EEA currencies; and
  - 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).

Note: not all of the above Payment Handling Principles will apply to the above payments.

	<p>2. Enhance customer protection and security for on-line payment services by defining strong customer authentication requirements and technical standards (defined in the Regulatory Technical Standards or RTS) for third party access.</p> <p>3. Add new types of payment services into scope by creating new third party access rules enabling non-bank organizations to provide payment initiation and account information services (known as XS2A or Access to Accounts).</p>
<p>3. When does PSD2 come into effect?</p>	<p>European Economic Area (EEA) countries are required to implement PSD2 requirements into local law by no later than January 13, 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 countries where we have a booking center 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 Regulatory Technical Standards (RTS) on strong customer authentication and common and secure communication under PSD2 will not come into force on January 13, 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>
<h2>SCOPE</h2>	
<p>4. Which countries are in the EEA?</p>	<p>The directive applies to all EEA countries.</p> <p>The country scope of the directive 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; Lichtenstein; 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>*Lichtenstein uses CHF, therefore this currency qualifies as an EEA currency even though Switzerland is not an EEA country.</p>
<h2>PAYMENT TRANSACTIONS</h2>	

<p>6. Which of the Payment Handling Principles will become applicable to intra-EEA wire transactions in non EEA currencies?</p>	<p>The Charges Applicable and Value Dating &amp; Availability of Funds principles will become applicable to intra-EEA wire transactions made in non-EEA currencies.</p>
<p>7. Which PSD principles will become applicable to One Leg Out transactions?</p>	<p>The Value Dating &amp; Availability of Funds principle will become applicable to OLO payments in all currencies, for the leg of the payment processed by the EEA located PSP [(certain currency conversion pairs are excluded)].</p>
<p>8. What changes is J.P. Morgan introducing that may impact you?</p>	<p><u>Accounts held with J.P. Morgan in the EEA</u></p> <p>J.P. Morgan is implementing the following update to its processing centers located within the EEA e.g. JPMorgan Chase Bank N.A. London Branch:</p> <p>J.P. Morgan will send charges indicator “SHA” for intra-EEA MT103 payments in non-EEA currencies. If the originator requests charges indicator of “OUR” or “BEN” we will update this to “SHA” automatically. If a client wishes to override this processing for specific OUR payments, they should notify their Client Services Account manager to discuss the available options. This is consistent with how we currently process intra-EEA MT103 payments in EEA currencies.</p> <p>Please note J.P. Morgan may retain the OUR charges indicator for non-EEA currency payments using its knowledge of industry practice in order to deliver a better service for our clients. For example, where a non-EEA currency payment is routed through banks outside of the EEA that do not come under PSD2.</p> <p>These changes will be implemented within each J.P. Morgan processing center on the regulatory ‘go-live’ date, i.e. the date that the directive is officially transposed to law in that country.</p> <p>Any other changes will be advised directly to impacted clients.</p> <p><u>Accounts held with J.P. Morgan outside of the EEA</u></p> <p>J.P. Morgan is not implementing updates to its payment processing centers outside of the EEA, except by client request.</p>

## STRONG CUSTOMER AUTHENTICATION

<p>9. What are the details of PSD2 in relation to Strong Customer Authentication (SCA)?</p>	<p>Under 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.</p> <p>PSD2 introduces minimum standards on SCA which will impact electronic banking applications supplied by banks. Authentication measures will mean two out of three mandatory measures must be adopted. Regulatory Technical Standards (RTS) in respect of SCA are being developed by the European Banking Authority (EBA) which will supplement the basic requirements set out in PSD2.</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,</p>
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	<p>biometric, voice). For electronic remote payment an extra element will be added, a unique authentication code to link the transaction to a specific amount and a specific Payee.</p> <p>Pending finalization in these RTS of exemptions (like for trusted beneficiaries and corporate payments that use dedicated payment processes or protocols), these new PSD2 SCA requirements are being deferred.</p>
<h2>ACCESS TO ACCOUNTS</h2>	
<p>10. What are the details of PSD2 in relation to Access to Accounts (XS2A)?</p>	<p>XS2A concept provides the ability for third party providers (TPPs) to offer services to account holders 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> <p>The connection between AISPs/PISPs and banks is likely to be enabled using Application Programming Interface (APIs).</p>
<h2>CHANGES TO PSD PROVISIONS</h2>	
<p>11. What amendments have been made to the existing PSD provisions in my Country Addendum? Please refer also to the Second Payment Services Directive – Contact Communications.</p>	<p>Your existing PSD provisions are being (or will be) amended as follows:</p> <ol style="list-style-type: none"> <li>1. References to national legislation have been updated to refer to the national legislation implementing PSD2 into national law; References to certain optional provisions which have been disapplied pursuant to the corporate 'opt-out' have also been updated.</li> <li>2. A new section has been added introducing the new procedures for the settlement of complaints; and</li> <li>3. A new section has been added regarding the appointment of TPPs. References to TPPs have also been inserted into the existing PSD provisions where relevant, for example, in the section dealing with authorization for payment transactions.</li> </ol>

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 question 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. One particular RTS, on strong customer authentication and secure communication, is key to providing Access to i Accounts.
<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.
<b>XS2A</b>	Access to Accounts	New access options available to TPPs, enabling them to provide payment initiation and account information services to the account owner.

