



Ring-fenced bodies (RFBs) – Indirect participation in inter-bank payment systems

Notes to completing the application form

These notes should be read in conjunction with the 'Ring-fenced bodies (RFBs) – Indirect participation in inter-bank payment systems application form' - see www.bankofengland.co.uk/pru/Pages/authorisations/structuralreform/indirect.aspx. These notes are not designed to be overly prescriptive but to provide further information to applicants on considerations which the PRA deems relevant to the review and assessment of the application.

If there is insufficient space on any section of the application form, please continue on a separate sheet of paper and clearly identify the section and question to which the additional information relates.

Question Number	Notes
Section B: Inter-bank payment systems details	
3	<p>The applicant may use the same application form to apply for indirect access to more than one non-UK national retail inter-bank payment system (payment system) if applying for the same reason. Otherwise please use a separate application form for each application.</p> <p>Please provide details about the currency and nature of transactions that the payment system processes, for example, high value or low value payments, delayed settlement or instant settlement.</p>
4	<p>All amounts should be reported in absolute values rounded to the nearest whole number in reporting currency.</p>
5	<p>The PRA cannot grant permission unless the 'exceptional circumstances' criteria are satisfied and it will assess all applications against the group ring-fencing purposes in section 142H(4) of the Financial Services and Markets Act 2000 (the Act) and the likely impact on the PRA's general safety and soundness objective in relation to ring-fencing under the Act.</p> <p>Both matters noted require detailed explanation and substantive argument before the PRA can process the application. Unless there are satisfactory responses to these matters, the PRA may reject the application, or may need more information. The applicant should set out only the relevant arguments in support of these matters.</p>
5a	<p>Exceptional circumstances is defined as:</p> <ul style="list-style-type: none">• where being a direct participant in the system would result in a disproportionate level of cost, risk or other burden for the RFB, its customers or the system, having regard to the PRA's general safety and soundness objective in relation to ring-fencing under the Act; and• where an RFB is not a direct participant in the system and joining the system during a particular period would result in a level of cost, risk or other burden for the RFB, its customers or the inter-bank payment system significantly greater than would be the case if it becomes a direct participant at a later planned specified date and the PRA considers that granting permission is consistent with its general safety and soundness objective in relation to ring-fencing. <p>Please refer to Supervisory Statement 8/16 'Ring-fenced bodies' for a more</p>

	<p>detailed definition and examples of exceptional circumstances.</p> <p>Please include detailed figures showing the costs, risks or other burden to the firm, customers or the payment system of the RFB being a direct participant of the payments systems. Please also describe the likely impact on these parties should indirect participation not be permitted.</p> <p>Where there is a temporary excess burden, please provide information on the nature of the additional risk brought about by the particular business, strategic or operational change for the RFB.</p>
5b	<p>Please explain how indirect access would not pose risks to the RFB or adversely affect the PRA's safety and soundness objective in relation to ring-fencing under the Act by addressing any concerns around the following:</p> <ul style="list-style-type: none"> • operational dependence on non-RFBs (in the same group or third parties); • greater credit risk; or • greater liquidity risk. <p>If there are any potential direct or indirect risks to the RFB that would arise from indirect access, please address how the RFB would mitigate them.</p>
Section C: Proposed intermediary details	
If more than one intermediary will be proposed in this application, please use the supplementary pages in the appendix for each intermediary.	
9	<p>Please provide details such as the intermediary's credit rating and details of its information security and risk management systems.</p> <p>If available, please provide information about the value and volume of payments that the proposed intermediary processes for itself and for other indirect participants in this payment system.</p> <p>Please provide details of the due diligence performed by the applicant on the proposed intermediary. Please note the PRA may ask for further information if it deems it is appropriate.</p>
10	<p>Please provide details of all services that will be provided by the proposed intermediary, the rights the intermediary has under the contract and the obligations that the RFB owes under the contract.</p> <p>Please also provide confirmation that there is an:</p> <ol style="list-style-type: none"> a) appropriate arm's length and commercial contract that includes the fee structure and termination arrangements; and b) appropriate and comprehensive Service Level Agreement in place that details the roles and responsibilities of both parties, including service, incident, change management and contingency processes (if not detailed in the service contract).
11	Please confirm whether the contractual notice period would allow sufficient time to find alternative arrangements.
12	<p>Please provide details on the payment arrangements process including whether the applicant's account would need to be pre-funded or whether the proposed intermediary would provide intraday and/or overnight/term credit. For any provision of credit, please specify who would be the provider. Please confirm whether lodgement of collateral by the applicant would be required and if so, how much and what form this would take.</p> <p>If the credit facility is unsecured, please specify who would provide this; how much would it be for; and what would be the conditions. Information supplied should contain the total amount of loan; identity of the borrower(s) and lender(s); events of default clauses; early termination clauses; prepayment clauses; cross-default clauses; and guarantees.</p>

	Please confirm that any provision of credit or collateral is covered by a relevant agreement(s) that would give the applicant access to the collateral (if intermediary credit provision ceased) and please detail where the collateral would be held. For example, please specify in which jurisdiction; whether it is held in a segregated or omnibus account; in whose name the account is held; and with which institution.
13	Please explain what the applicant's contingency plan would be in the case of material disruption to the services provided by the intermediary, for example, whether the applicant has other intermediaries it would use to access the payment system indirectly and how this would work. Please note that the use of any intermediaries to indirectly access payment systems must be approved by the PRA.
Section D: Additional details	
14	There may be circumstances in which the firm wishes to impose time limitations or other conditions on the permission, which can be discussed with the PRA prior to submitting this application. Any requirements will be imposed under section 55M of the Act.
16	The PRA publishes permissions wherever possible. If the applicant believes that there are good grounds for not publishing, these must be supported by clear and substantive arguments.

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