

PSD2 Factsheet and FAQ for Cardnet

You may be aware that updated Payment Services Regulations (the 'Regulations') will apply from the 13th January 2018. There will be no significant change to the way in which Cardnet conducts its business with you; however there are some changes we would like to highlight. We provide here a summary of the key changes that may impact you in addition to some FAQs in order to support you.

What is PSD2?

The European Commission revised the original Payment Services Directive ('PSD1'), creating the Payment Services Directive II (also known as 'PSD2'), which will be implemented in the UK through the updated Regulations. All member states within the EEA will be required to comply, and the enforcement and supervision of the Regulations will be down to each competent authority. The competent authorities in the UK are the Financial Conduct Authority ('FCA') and the Payment Systems Regulator ('PSR').

Why is the Payment Services Directive being updated?

Since PSD1, financial services have evolved, with many new providers from outside the traditional financial services sector entering the market. The remit of PSD2 covers these new entrants and its objective is to enhance consumer protection, encourage innovation and improve the security of payment services across the European Union.

When are the new Regulations effective?

The new Regulations will apply from 13 January 2018.

What changes should I expect?

The key changes that our Cardnet customers can expect to see are:

- **Minor terms and conditions changes**
We have made some minor updates to our standard Cardnet Merchant Agreement/Terms & Conditions. A notice of variation has been sent to you. This letter contains a link to your updated Cardnet Merchant Agreement.
- **Prohibition on surcharging for consumer cards**
A ban on surcharging by merchants for transactions made with payment instruments issued in the EEA, except commercial cards and other commercial payment instruments. Where surcharging is permitted, it must not exceed the actual cost to the merchant
- **Customer consent for reservation of funds**
If you want to earmark funds on a card account in anticipation of a future transaction, you must get the cardholder's consent to the exact amount that you want to reserve.
- **Introduction of PISPs and AISPs**
PSD2 allows third parties to access customer account information and make payments, with appropriate permissions

➤ **Implementation of Strong Customer Authentication**

Enhanced customer authentication on transactions will be required. This will apply at a later date

Should you have any additional questions which have not been answered below, please feel free to ask (via BAU route).

Q1 What do the changes to the Cardnet Agreement/Terms & Conditions mean for me?

As an existing merchant the notice of variation lets you know how your Cardnet Merchant Agreement/Terms & Conditions has changed. We would advise you to read this and get in touch with us if you have any questions.

The communication we sent to you includes the following link to the updated Cardnet Merchant Agreement/Terms & Conditions on the Cardnet website:

lloydsbankcardnet.com/terms

What are the Cardnet Agreement/Terms & Conditions changes specific to me as outlined in the Notice of Variation?

As outlined in the Notice of Variation the following changes will be made.

Information Specific Changes

- A statement will be provided or made available to you once a month as a minimum;
- You can ask us for a copy of your agreement at any time;
- If there is a suspected fraud, security threat or there has been a major operational or security incident which may affect you as our customer, a notification will be sent to you.

Ending your agreement

- Your Agreement will continue until either the bank or you, the customer, terminates it;
- An Early Termination Fee (as defined within the Agreement) will be payable up to 6 months after the start date – this used to be one year.

Other PSRs changes

- You consent and you have obtained the consent of any individual whose personal data you provide to us, to us accessing, processing and retaining personal information for the purposes of providing payment services;
- We have added a definition of a Regulated Card and made clear when you must accept these and that you can't charge an additional fee to accept Regulated Cards.

Additional update to your Cardnet merchant agreement

Fee change

We are updating your agreement with the right for us to charge new fees relating to non-compliance with Final

Authorisation as defined in the MasterCard Rules. We will contact you if this fee is to be applied to you from 13 January 2018. If this fee applies to you after 13 January 2018 we will provide you with at least 2 months' notice.

Q2 What does the prohibition on surcharging for consumer cards mean?

PSD2 prohibits the levying of surcharges based on use of a particular payment instrument (for example you cannot apply a surcharge for using a credit card).

Key points:

- The prohibition does not apply to cards issued outside the EEA (for example in the USA) but you must not charge more than your actual cost for that transaction. This means that you should not charge your customer more than the amount you pay us to process the transaction and that a fixed or minimum charge is not permitted.
- You may also apply a surcharge where the transaction is made using a commercial card as defined in the Interchange Fee Regulation (IFR) or another payment instrument that would be a commercial card if it were a card. Under the IFR, card issuers are required to visually identify all new issued cards to show which card type it is. You can also identify a card type by its BIN number (the first [six] digits of the card number). Your software provider may be able to assist you further with automatic BIN range identification.

This does not affect the services we provide to you, but is an important regulatory requirement you need to be aware of and with which you need to comply. The PSR and FCA are the competent authorities who will be monitoring the implementation of and compliance with the new Regulations.

Q3 What is changing regarding the reservation of funds?

If you need to earmark funds on a card account, PSD2 requires that the cardholder give consent to the exact amount you want to earmark. You will therefore need to ensure that you obtain the required consent from the cardholder.

Q4 How will Account Information Service Providers ('AISPs') and Payment Initiation Service Providers ('PISPs') affect my business?

What is an AISP?

An AISP is a third party which may obtain access to online account information with the account holder's permission. You should not be impacted by AISPs.

What is a PISP?

A PISP is a third party which may, with the account holder's permission, initiate an online credit transfer from a customer's account on their behalf. This does not affect how you do business with Cardnet.

Q5 What does the implementation of Strong Customer Authentication mean for me?

An enhanced customer authentication process for payments will be introduced as part of PSD2. Whilst this forms part of the Regulations, the process is subject to Regulatory Technical Standards (rules) that are still being finalised. They will not apply for at least another 18 months and as such there will be no impact from 13th January 2018. We will be in touch when the rules have been finalised to let you know what the impact will be.