



Electronic Money Association

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Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
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9 August 2016

Dear Mr Hammond

Re: Retention of passporting rights for the UK's payment services industry

The EMA is the EU trade body representing electronic money issuers and alternative payment service providers. Our members include leading payments and e-commerce businesses, providing online payments, card-based products, electronic vouchers, and mobile payment instruments. Most members operate across the European Union ("EU"), most frequently on a cross border basis. A list of current EMA members is provided at the end of this document.

We welcomed your comments at the BBA event on Tuesday 12 July, stating that you intend to ensure that the UK financial services industry can continue to passport into the EU after the Brexit negotiations have concluded.

We write to describe the specific circumstances of the payments industry, and to propose a means by which mutual recognition for UK firms may be promoted. We further describe some additional proposals for increasing the UK's competitive advantage.

Background to innovative payments in the UK

We would first however like to set out some background to the industry:

- The UK hosts in excess of 40% of all EEA electronic money and payment institutions
- The businesses represent some of the most innovative payment providers in the EU and globally including for example leading brick and mortar and online acquirers, e-commerce and social networking providers, developers of new payment models in the mobile, money remittance and Global currency conversion space as well as numerous card and voucher issuing businesses. Others focus on digital currencies and increasingly new businesses will compete in the recently regulated payment initiation and account information space.
- These firms are likely to be at the forefront of significant changes in the global payments industry, enabling e-commerce, financial inclusion, and facilitating innovation in underlying businesses that utilise these means of payment.
- The UK has worked hard over some 15 years to create an effective and supportive environment for these firms and subsequently successfully attracted founders originating from other EU member states or from the United States.
- The market for these firms is a European as well as a global one. A significant component of being based in the UK lies in these firms' ability to passport to other EU member states.

There is therefore a contingent requirement for mutual recognition to continue in order to retain the UK head quarters of many of these firms. Their presence brings know-how to the UK, innovation, and it attracts some of the brightest talent, creating employment and wealth.

Distinguishing payment services

We believe the arguments for the payment industry continuing to benefit from mutual recognition, can be distinguished from other financial service businesses in a number of ways:

- Payment provision is symmetric in its operation, in other words, both payment providers of the payer and payee act as senders and receivers of payments at all times. It follows that the benefit of executing each payment transaction accrues to both the payment provider of the sender and that of the recipient. There is therefore an advantage in the mutual recognition of payment service providers, for both the UK and for other EU member states.
- This is for example unlike the provision of insurance or investment services where the purpose is to sell the products to customers in other jurisdictions, and the service is more one sided – rather than collaborative - in nature.
- Payment services are a key infrastructure component that enables trade and commerce to take place. Efficiency in the provision of payment services decreases the cost of business for all participants.

- It makes no sense therefore to create a regime where EU payment service providers would have to seek authorisation and regulation in the UK, and UK providers in the EU. The cost of this additional regulation would simply be borne by business customers and by EU/UK citizens.

We believe this may facilitate a less protectionist approach by EU member states and would be consistent with the objectives of the European Commission and the European Central Bank.

Increasing the UK's competitiveness

Looking forward, we believe that if mutual recognition is achieved, the UK can continue to compete through the provision of a more supportive business environment.

There will, however, inevitably be a reduction in UK influence over the development of new EU legislation, and a consequent impact on its competitiveness. We believe this can be compensated for effectively by building bilateral mutual recognition arrangements with third countries outside of the EU. These would be countries that currently require payment providers based in the EU to seek local authorisation, and could for example include Australia, New Zealand and possibly India.

Bringing about such arrangements would create a compelling reason for payments firms to choose the UK as their primary point of presence and to continue to base their headquarters in the UK, as in addition to serving EU customers, it would save on the requirement to seek authorisation in these third countries. Such arrangements could compensate for the departure from the EU.

We have significant experience in comparative regulatory environments, as most of our firms offer their services globally, and we have built good relationships with regulators across the world. If it is helpful, we would be prepared to assist in identifying jurisdictions that are near equivalent or where the regulatory gap is small enough to contemplate mutual recognition arrangements.

Priority

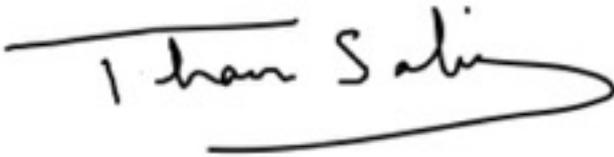
UK firms are currently serving customers across the EEA, and must ensure continuity of service during the period of negotiation. Once the Article 50 notification is triggered, firms will need to assume that there is a maximum period of 2 years during which mutual recognition continues, and must put in place contingency plans for authorisation at the latest within 6 months of Article 50 notification. This is because authorisation could take as much as 12-18 months to complete in some countries. In order to ensure continuity of service firms will need to begin initiate authorisation projects within the next 6-12 months, and for some this could happen earlier.

It is highly desirable therefore to seek clarity and certainty for payment services firms if at all possible at an early stage in the negotiation process.

Delay could likely result in firms seeking authorisation outside of the UK to serve EU customers, and this may result in a slow migration of service providers out of the UK, to the detriment of UK business.

I would be grateful if we can meet at your earliest convenience to discuss these matters, and to help reduce some of the current uncertainty. We are also available to provide any further information as needed.

Yours sincerely,



Dr Thaer Sabri
Chief Executive Officer
Electronic Money Association

List of EMA members as of July 2016:

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|-------------------------------------|------------------------------|
| Advanced Payment Solutions Ltd | One Money Mail Ltd |
| Airbnb Inc | Optimal Payments |
| Allegro Group | Optal |
| American Express | Park Card Services Limited |
| Azimo Limited | Payoneer |
| Bitstamp | PayPal Europe Ltd |
| Blackhawk Network Ltd | PayPoint Plc |
| Boku Inc | PPRO Financial Ltd |
| Citadel Commerce UK Ltd | Prepaid Services Company Ltd |
| ClickandBuy International Ltd | PrePay Technologies Ltd |
| Clydesdale Bank | R. Raphael & Sons plc |
| Corner Banca SA | Remitly |
| Euronet Worldwide Inc | Securiclick Limited |
| Facebook Payments International Ltd | Skrill Limited |
| First Rate Exchange Services | Stripe |
| Flex-e-card | Syspay Ltd |
| Google Payment Ltd | Transact Payments Limited |
| iCheque Network Limited | TransferWise Ltd |
| IDT Financial Services Limited | Valitor |
| Ixaris Systems Ltd | Wave Crest Holdings Ltd |
| Kalixa Pay Ltd | Wirecard AG |
| MarqMillions | Worldpay UK Limited |
| <u>Mercari Limited</u> | |