Payment Services Directive 2
Frequently Asked Questions

Background

Since 2009, payment services carried out within the European Economic Area (EEA*) have been regulated by the Payment Services Directive (PSD1), which has been implemented into local law in each member state. PSD1 covers payment services offered to all types of clients, including wholesale clients.

These PSD1 rules were implemented by each of the various member states and countries within the EEA. Currently, PSD1 governs the way in which we provide payment services to you.

A second Payment Services Directive (PSD2) has been introduced to amend and replace PSD1. Each EEA member state is required to implement PSD2 on 13 January 2018.

*EEA includes all of the member states of the European Union as well as Iceland, Norway and Liechtenstein.

High Level Summary

The key areas of change that affect BNY Mellon’s services to its clients are:

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This will have two broad impacts for clients:

a) It will regulate activities and payment transactions that have not previously been regulated.

b) It introduces some new requirements that will have an impact on documentation and processes that certain clients use.
What activities does PSD2 regulate?

PSD2 covers:

- Services enabling cash to be placed and withdrawn on/from a payment account
- Execution of payment transactions
- Credit transfers, including standing orders
- Direct debits, including one-off direct debits
- Payment card transactions
- Issuing payment instruments
- Acquiring of payment transactions
- Money remittance
- Payment initiation services
- Account information services

PSD2 continues to focus only on those accounts whose main purpose is the execution of payment transactions.

As before, PSD2 does not apply to payment services associated with securities asset servicing or payment transactions carried out between payment service providers, or their agents or branches, for their own account.

Broadly, unless you are another payment service provider, PSD2 will impact the accounts you have with us that you use for banking purposes. It will not cover cash accounts provided by us where we also act as an asset servicer in respect of those accounts.

What is the effect of PSD2 on the services you currently provide to me?

PSD2 is introducing certain changes to the way payment service providers carry on their existing payments activity within the EEA.

However, as under PSD1, where a payment service provider delivers services to a corporate client, PSD2 permits that client to agree with their provider to "opt out" of most of these requirements. (This is known as the "corporate opt out").

We provide our payment services using the "corporate opt out." This means that much of PSD2 will still not be relevant to the way we provide services to you. (Although if you yourself provide payment services, it may be relevant to the services you provide to your underlying customers). However, certain changes will apply to the service we provide to you regardless of the use of the "corporate opt out" as referred to in these FAQs.

Will there be any changes to the way BNY Mellon makes international payments?

One of the key changes under PSD2 is that the rules apply to all currencies (with some limited exceptions). Under PSD1, they only applied to payments in euro, sterling and other EEA currencies (e.g., Swedish Krona).

Another key change under PSD2 is that the rules will apply to international payments sent from or to the EEA "in respect to those parts of the payment transaction which are carried out in the Union." Under PSD1, they only applied if both the payer and the payee used payment service providers within the EEA.

This means European payment regulations implementing the Directive will now apply to:
(a) Payments made in all currencies. (Currently only payments in pounds, euro or another currency of the EEA, such as Swedish Krona, are regulated by the regulations);
(b) Payments that are made within the EEA; and
(c) Payment to and from someone in a country outside the EEA.

Previously if someone in the UK sent USD to someone in Europe, most of the information and conduct of business provisions under PSD1 would not apply; now information and certain conduct requirements will apply.

Similarly, if someone in the UK sent GBP sterling to someone in Ghana most of the information and conduct of business provisions under PSD1 did not apply to the transaction. Now information and certain conduct provisions will apply to that part of transaction which occurs in the EEA.

Are execution times changing?

The execution times introduced under PSD1 (requiring us to ensure payments reached their recipient before the end of following business day), will not apply to international payments made to persons outside the EEA, or to transactions in non-EEA currencies.

They will, however, continue to apply to transactions in EEA currencies within the EEA.

Does PSD2 affect the way you charge for payment transactions?

Previously, in order to ensure that the beneficiary party received the full payment amount, clients may have elected to use charge code “OUR” or “BEN” on payments where it was possible to stipulate who pays the charges i.e. when using a SWIFT MT103, or one of the Bank’s proprietary systems such as Treasury Edge or Workbench. This may have resulted in additional charges imposed by the intermediary banks being passed back to them, or on to the recipient.

From 13 January 2018, clients may only use “SHA” for payments within the EEA. Where such payments are made in an EEA currency, PSD2 requires the full amount to be credited to the beneficiary’s bank account.

As a result, you will be defaulted to SHA charging for payments within the EEA.

Will my security arrangements change?

PSD2 will require us to use enhanced security measures when you access your account online, or to make electronic payments. This is known as “strong customer authentication” or “SCA”.

Strong customer authentication is a two-step verification process based on the use of two or more of the following elements:
• Knowledge (something only the user knows);
• Possession (something only the user possesses); and
• Inherence (something the user is).

Generally SCA will be required when a client accesses its payment account online or initiates an electronic payment transaction. We may also be required to use SCA when a client instructs us through a remote channel which may imply a risk of payment fraud or other abuses.
There is a transitional period before PSD2 requires payment service providers to start using SCA.

We may introduce changes to the security processes we ask you to use when you make payments or access your account online to comply with these new requirements.

**New payment services**

PSD2 is introducing two new regulated payment activities:

- **Payment initiation services** – broadly, this is where a PSD2 authorised third party accesses a payment account held with another payment service provider (like BNY Mellon), in order to make a payment;
- **Account information services** – broadly, this is where a PSD2 registered third party aggregates account information from payment accounts held with payment service providers (again, like BNY Mellon) and makes that information available to the client.

Where you have payment accounts with us, we are amending your terms and conditions to reflect the fact that you may be able to permit these third party providers to have access to your payment accounts in accordance with PSD2.

**If clients have any questions relating to PSD2 who should they direct them to?**

Questions regarding PSD2 should be directed to your relationship manager.