

PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES (PFMI)

PUBLIC DISCLOSURE OF VISA EUROPE LIMITED'S (VEL) SELF-ASSESSMENT 2021

SELF-ASSESSMENT SUBMITTED TO THE BANK OF ENGLAND (as
authority overseeing Visa Europe) ON 17 SEPTEMBER 2021

Disclaimer

The information in this public disclosure of the Visa Europe Limited Self-Assessment against the Principles for Financial Market Infrastructures is to the best of the knowledge of Visa Europe Limited correct as of 30 June 2021. Visa Europe Limited has made all reasonable efforts to ensure that information contained in this Disclosure Document is accurate as of 30 June 2021 but accepts no liability to any person for any errors or omissions that may be contained herein.

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This disclosure can also be found at: [Visa in Europe | Visa](#)

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I | Executive Summary

Overview of Visa Europe Limited

VEL is a private limited company, incorporated in England and Wales, and is a wholly owned subsidiary of Visa International Holdings Limited (“VIHL”) and part of the Visa Inc. group. VEL is responsible for representing the Visa brand name and facilitating commerce across the Europe Region, which encompasses 38 countries including the United Kingdom (“UK”), the 27 countries of the EU, Turkey, Israel and the Baltic states.

Visa is one of the world’s leaders in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payments network - enabling individuals, businesses and economies to thrive. Visa globally facilitates digital payments across more than 200 countries and territories among a global set of consumers, merchants, financial institutions, businesses, strategic partners and government entities through innovative technologies.

Since Visa’s inception in 1958, Visa has been in the business of facilitating payments between consumers and businesses. With new ways to pay, Visa has evolved into a company that is a trusted engine of commerce, providing payment solutions for everyone, everywhere. To accomplish this, we are focused on extending, enhancing and investing in Visa's proprietary network, VisaNet, while seeking new ways to offer products and services and become a single connection point for initiating any payment transaction, both on the Visa network and beyond.

The Visa payment system (“Visa”) facilitates global commerce through the transfer of value and information among a global network of Customers, Merchants, financial institutions, businesses, strategic partners, and government entities. Visa enables authorisation, clearing, and settlement of payment Transactions and allows us to provide Members, as defined in the Visa Core Rules and Visa Product and Service Rules (“VCR/VPSR”), with a wide range of products, platforms, and value-added services. For the purposes of this self-assessment, the term Member can be interpreted as entities which receive services from VEL.

VEL is responsible for operating Visa within the Europe region. In this regard, VEL’s primary functions are to administer, operate, maintain, improve Visa and the programmes in which Visa Members in Europe participate. In addition, co-ordinate and oversee the participation of these Members in Visa.

In September 2018, VEL migrated its Authorisation service to the global Visa Inc. platform, the Visa Integrated Payments (VIP) platform. This followed the successful migration of VEL’s Visa Europe
Visa Confidential

Clearing and Settlement Service (VECSS) to the global Visa Inc. platform, Clearing and Settlement (CAS). The migrations enabled greater system redundancy, resilience and processing capacity to all Visa Members in Europe.

VEL operates in a highly competitive market comprising a wide and diverse range of traditional and new providers of digital payments (including, among others, MasterCard, American Express, PayPal, bank transfers and cash). This dynamic market continues to drive investment and continuous innovation, meeting the evolving needs of customers and other market shareholders.

Regulatory Framework

By a recognition order dated 19 March 2015, HM Treasury categorised Visa Europe as a recognised “payment system” for the purposes of Part 5 of the Banking Act 2009. As a result, the BoE has assumed oversight of VEL pursuant to its statutory responsibility for the oversight of designated payment systems and, more broadly, for monetary and financial stability of the UK. The BoE's supervisory regime in this regard follows the CPMI-IOSCO¹ Principles for Financial Market Infrastructures (PFMI) and includes securities settlement systems, central counterparties and recognised payment systems such as VEL. Of the 24 principles applicable to Financial Market Infrastructures, 17 are applicable to VEL.

In addition to the BoE, VEL's activities are also subject to various laws and regulations, and regulatory oversight, in the EU, as well as in different countries within the Visa Europe region. Particularly relevant for VEL's activities are the Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on Interchange Fees for Card Based Payment Transactions (the Interchange Fee Regulation (IFR)); the revised Payment Services Directive (PSD2); oversight by the UK Payment Systems Regulator (PSR); and oversight by the European Central Bank (ECB) and Eurosystem of National Central Banks against the Oversight Framework for Card Payment Schemes – Standards (2008). VEL is also subject to oversight by the Narodowy Bank Polski, and on 26 May 2021, VEL was authorised in the Netherlands as a Payments Processing Service Provider (PPSP), making it subject to oversight by De Nederlandsche Bank.

Building and maintaining constructive and collaborative relationships with regulators is of key importance for VEL. VEL is committed to working with regulators to connect the world through the most innovative, reliable and secure digital payment network that enables individuals, businesses and economies to thrive.

Europe benefits from the fact that the provision of payment and ancillary services is subject to a harmonised legal framework at EU and EEA levels. The equivalent legal framework, specifically PSD2 and IFR, has been retained in the UK as national legislation following the UK's withdrawal from the EU. This also contributes to the consistency of the legal framework applicable to VEL's activities.

¹ Committee on Payments and Market Infrastructure (previously known as Committee on Payment and Settlement Systems (CPSS)) and Technical Committee of the International Organization of Securities Commissions (IOSCO) published the Principles for Financial Market Infrastructures (PFMI). As noted in the PFMI, the main public policy objectives of the CPMI and IOSCO in setting forth the principles were “to enhance safety and efficiency in payment, Clearing, settlement, and recording arrangements, and more broadly, to limit systemic risk and foster transparency and financial stability.”

II | Introduction

Objective of the self-assessment

The objective of the self-assessment is to provide an overview of VEL's observance of the PFMI and to identify appropriate remediation activity where any of the principles are identified as not observed, partly observed or broadly observed. It is reflective of the policies, processes and procedures VEL has in place.

The self-assessment report will be shared with the VEL Board of Directors ("the Board"), and with VEL's relevant supervisory bodies, to demonstrate how VEL ensures observance of the PFMI.

Methodology

This self-assessment report has been compiled by Subject Matter Experts ("SME's) from within VEL's first line of defence (FLoD). Robust assurance and challenge have then been provided by Risk Europe as the second line of defence (SLoD).

The process included consideration of each of the Principles, their underlying Key Considerations and the questions set out in the PFMI: Disclosure Framework and Assessment Methodology (the "Disclosure and Assessment Methodology") with the response for each developed accordingly.

There has been a robust governance process used to challenge, review and confirm the responses.

- The VEL Chief Executive Officer ("CEO") is accountable for the overall self-assessment against the PFMI and has approved the entire response.
- The Executive from VEL's Control functions (i.e. General Counsel, Chief Financial Officer, and Chief Risk Officer) have reviewed and challenged the self-assessment.
- Each Principle has been assigned to an accountable member of VEL's Full Business Committee (FBC), ensuring that each specific Principle self-assessment has been approved by the appropriate FBC member.
- VEL's Legal, Regulatory and Compliance function, has been consulted during the review process.
- Relevant SMEs from VEL teams (e.g. Technology, Client Services, Finance, Risk) and Visa Inc.'s global teams have been consulted during the review process.
- The Regulatory Risk second line of defence team has coordinated and provided challenge throughout the compilation of the self-assessment.

Scope

The self-assessment has been conducted over VEL's operation of Visa. This includes the capabilities to administer, operate, maintain and improve Visa and the programmes in which Visa Members in Europe participate, and to co-ordinate and oversee the participation of these Members in the Visa payment ecosystem.

Not all Principles are relevant for VEL. Given Visa is a payment system, the following principles were not assessed:²

- Principle 6: Margin;
- Principle 10: Physical deliveries;
- Principle 11: Central securities depositories;
- Principle 14: Segregation and portability;
- Principle 20: FMI links; and
- Principle 24: Disclosure of market data by trade repositories.

In addition, VEL does not operate a payment system that settles Transactions involving the Settlement of two linked obligations. As such, Principle 12: Exchange-of-value Settlement systems was not assessed.

All other Principles were assessed.³

It should be noted that the self-assessment is not intended to test the effectiveness of VEL's policies, processes, procedures and associated Controls. These are tested through alternative mechanisms by VEL's Risk and Internal Audit functions, and also by external independent parties where required.

Informational sources

VEL's internal documentation has been used as the main source of information. Such sources include relevant framework, policy, procedural and process documentation; internal governance material and management information; formal rules, standards and guidelines issued by VEL and the Visa Inc. group; and internally produced analysis and expertise held by VEL and Visa Inc. group employees. In addition, the assessment has considered external sources of information and expertise such as external audit reports, relevant regulatory and supervisory publications and industry guidance and standards.

² This is in alignment with the BoE's Supervisory Approach.

³ Although certain Key Considerations were omitted given their irrelevance to payment systems or Visa. The following key considerations are not applicable to payment systems:

- Principle 4 – Key Consideration 4, 5 and 6;
- Principle 7 – Key Consideration 4.

The following key considerations are not applicable to Visa:

- Principle 7 – Key Consideration 6 is not applicable because VEL does not supplement its qualifying liquid resources with other forms of liquid resources; and,

Principle 9 – Key Consideration 4 is not applicable because VEL does not conduct money settlements on its own books.

III | Summary of major changes

Summary of major changes since the 2019 self-assessment

Following VEL's formal self-assessment against the PFMI in 2019, and the 2020 update, this 2021 self-assessment has been updated to reflect changes associated with the following areas.

- Governance and corporate structure: including appointment of additional Independent Non-Executive Directors to the VEL Board.
- Risk Management and Controls: including a transformation programme for the risk function within VEL, upskilling the department and creating new and more senior roles with the technical knowledge, leadership skills, experience, and focus required to deliver the VEL Risk strategy.
- Settlement Finality: On 24 September 2020, the Visa Europe system, as contemplated by the Visa Europe rules, was granted designation under the terms of the Financial Markets and Insolvency Regulations 1999 (as amended), clarifying the point in a transaction cycle when a transaction may not be revoked.

IV | General background on the FMI

General description of the FMI and the market it serves

Overview

VEL is a private limited company, incorporated in England and Wales, and is a wholly owned subsidiary of VIHL, part of the Visa Inc. group.

VEL is responsible for operating the Visa payment system⁴ within the Europe region of the Visa Inc. group. Visa is a globally interoperable, secure and efficient proprietary network for facilitating payments between its Members and their customers (i.e. Cardholders and Merchants).

In this regard, VEL's primary functions are to administer, operate, maintain and improve Visa and the Visa programmes in which Visa Members⁵ participate, and to co-ordinate and regulate the participation of its Members within the system.

History and context

Visa was established in the United States in 1976 following the licensees of BankAmericard – the first credit card facilitating electronic payments – uniting as an independent entity under a common global brand: Visa.

In 2004, VEL was incorporated as a private limited liability company and a regional group Member of the Visa International group of companies.

Following the 2007 reorganisation of Visa Inc. in connection with its 2008 listing on the New York Stock Exchange, VEL became a licensee of Visa Inc. Although the two organisations became separate and independent, they were united by the common global brand. Visa Inc. and VEL, in partnership, ensured Visa's integrity, interoperability, reliability and the security of products and systems. At that time, VEL's shareholders were its Members. VEL is now a wholly owned subsidiary of VIHL and became part of the Visa Inc. group on 21 June 2016. Agreements are in place to govern the relationship between VEL and other members of the Visa Inc. group.

Services offered

Visa's mission is to connect the world through the most innovative, reliable and secure digital payment network that enables individuals, businesses and economies to thrive. The services provided by VEL therefore enable Acquiring and Issuing entities to connect in a secure, efficient and reliable way so that they can authorise, clear and settle electronic payments made by customers at Merchants.

Through Visa, individuals and businesses are able to purchase goods and services using an array of payment instruments bearing the Visa Trademarks; selling Merchants are able to receive confirmation that their customers have sufficient funds on deposit or credit to make their purchases (Authorisation);

⁴ The term "Visa payment system" includes all services provided by VEL.

⁵ The term Member is used to define acquiring and issuing entities which receive any service provided by VEL and therefore includes recipients of both Scheme and/or Processing services. Where this is not applicable, specific reference will be made. It should be noted that recipients of Scheme services are free to choose entities other than VEL for Processing services.

and, accounts are settled among the Members that issue the payment instruments to customers and make the payments to Merchants (Clearing and Settlement).

VEL itself does not issue payment Cards to customers or provide any banking-related services to Cardholders or Merchants, nor does VEL control the type of financial services offered by Visa Members or the terms on which services are provided (e.g. initial or annual subscription charges, interest or charges for credit, etc.).

Pursuant to EU Regulation 751/2015 on interchange fees for card-based payment Transactions, since 9 June 2016, also applicable in the UK and retained after withdrawal from the EU, VEL has operated separate scheme and processing services, whereby recipients of scheme services are free to choose entities other than VEL for processing services.

VEL's Client Services function issues Visa licenses to Issuers and Acquirers and it separately provides Member's access to the processing capability of Visa. It develops and ensures adherence to the Visa Core Rules and the Visa Products and Services Rules (VCR/VPSR), which set the specifications and standards for payment Transactions, which preserve the integrity of, and confidence in, the Visa payment ecosystem and the Visa brand. Members utilising Visa's processing services are required to comply with the core system technical specifications, which cover the following capabilities.

- Authorisation: process through which Visa sends the data from the instrument used for payment or cash withdrawal to the Cardholder's Issuer for verification of available funds or credit.
- Clearing: process by which Visa calculates the multilateral net amount owed to an Acquirer, and the corresponding multilateral amount owed by the Issuer, taking into account all fees owed to Visa as well as the interchange fee owed by an Acquirer to the Issuer.
- Settlement: process of transferring funds to Members, using a settlement bank in accordance with the financial liabilities determined during the Clearing process.

Payment Instruments

Instrument	Description
Card	Facilitates payments of Transactions using a Visa Card.
Contactless	Facilitates face-to-face Transactions to be conducted over a wireless interface.
Mobile contactless	Facilitates the use of mobile devices to conduct contactless Transactions through secure tokenisation technology.
Visa personal payments	Facilitates Cardholders to transfer funds from their own account to another Cardholder's account.

Table 1 gives an overview of the Visa payment instruments.

In addition, Visa facilitates transactions made by various different products that Members can offer their customers in regards to payment services. Each product has associated and specific features that meet the needs of the end users. Such card products include: business cards; commercial cards; credit cards; debit cards; prepaid cards; V PAY cards; and virtual cards.

Training and consultancy

In addition to payment tools and products, VEL provides training and consultancy programmes⁶ to its Members in order to support their understanding of the industry, and to educate them in how to reduce risk by preventing fraud.

Due to the footprint of data it processes, VEL can provide Visa Members with statistical fraud models. These models can be used to power fraud detection services for Issuers by using fraud detection technologies. Other fraud services include a fraud reporting system, a web-based fraud bulletin service, and a Terminated Merchant database.

By offering a range of different payment products, tools and services that continue to be developed and improved, VEL offers Visa Members, large and small, the flexibility to choose from a variety of effective and innovative payment solutions and services appropriate to their business. This contributes to increasing the payment options available to customers and retailers, as well as improving the security and efficiency of payments.

Markets served

Within the Europe region, VEL serves approximately 3,000 banks and Payment Service Providers across 38⁷ markets. The Europe region includes the EEA countries and UK, Israel, Switzerland and Turkey with each country forming part of one of seven clusters.⁸

Although each market will have a unique set of requirements, VEL works closely with each Visa Member to understand their needs and to support them in adopting and implementing the products, tools and platforms suitable to help them achieve their requirements and business objectives. Members thereby benefit from the services, expertise and infrastructure that VEL has acquired over the years.

Basic data and performance statistics

Table 2 provides the Availability and Transaction Quality metrics for the Authorisations and Clearing and Settlement services for the year-to-date 30 June 2021, including the continuous 100% availability of Authorisations (170 months). These metrics are tracked in accordance with VEL's Board approved Risk Appetite Framework (RAF).

⁶ Consultancy programmes cover the fundamentals of the payment business: Transaction processing; fraud prevention; and, risk management.

⁷ The 38 markets are as follows: Andorra, Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark (including Faeroe Islands and Greenland), Estonia, Finland, France (including DOM-TOMs), Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Liechtenstein, Latvia, Lithuania, Luxembourg, Malta, Monaco, Netherlands, Norway (including Bear Island), Poland, Portugal, Romania, San Marino, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom (including the Channel Islands, Gibraltar and the Isle of Man), Vatican City State

⁸ The clusters are as follows: UK & Ireland; Central Europe; Central Eastern Europe; France, Belgium & Luxembourg; Southern Europe; South Eastern Europe; and, the Nordics & Baltics.

1 July 20 to 30 June 21	Availability	Transaction Quality (TQ)
Authorisations	100.00%	99.9999%
Clearing and Settlement	100.00%	99.9970%

Table 2: Authorisations, Clearing and Settlement Availability and Transaction Quality performance

General organisation of the FMI

Company Structure

Whilst part of the wider Visa Inc. group, VEL is supported by a number of subsidiaries, branch and representative offices, all of which provide a range of Member liaison, business development and general support services to VEL throughout the region. VEL, however, is the principal contracting entity for the operation of Visa within the Europe region.

Governance

As an indirect wholly owned subsidiary of Visa Inc., VEL has implemented a governance structure that benefits from the support and expertise of a global organisation but has strong local empowerment within the Europe region, supporting stakeholder stability objectives for local economies. VEL maintains clear and transparent governance arrangements and objectives based on an autonomous and effective governance structure comprising board level and internal governance.

Board level governance

The Board is VEL’s most senior governance body and retains decision-making authority with respect to VEL matters.

The CEO is responsible and accountable to the Board for the day-to-day management of VEL. Responsibilities related to systemic risk management are delegated from the Board to the CEO and have also been assigned to relevant members of the Broader Leadership Team (BLT).

VEL’s Board level governance arrangements are clearly documented in the Articles of Association of VEL, Schedule of Matters Reserved to the Board and the Terms of Reference for the Board’s Risk Committee, Audit Committee, Remuneration Committee and Nominations Committee (the “Board Committees”).

Subject to the terms of VEL’s Articles of Association, the Board has ultimate responsibility and control of the management of the business. This power is exercised directly and through delegation through the following:

- Board Risk Committee;
- Audit Committee;
- Nominations Committee;
- Remuneration Committee; and
- The CEO.

Internal governance

The internal system of governance has been designed to align the interests of the organisation by providing a structure in which the objectives of VEL are set out to support the forums in which decisions are advised upon, made, and enacted. As a result, VEL has various separate internal committees and sub-committees that reflect the needs of the business.

Organisation

As of 9 June 2016, the mandate to separate the scheme from the processing services became a legal requirement for all payment systems active in the EU, including VEL, pursuant to the IFR. Client Licensing within the Client Services function enables access to the Visa brand, scheme rules and standards pertaining to the scheme services available. Client Services issues licenses to new Members, establishes and maintains the rules underpinning the service and arbitrates disputes between Members. Client Services separately provides Members with access to the processing capability of Visa, managing the switching of payment instructions between Issuers and Acquirers with Authorisations and payment Clearing and Settlement across Visa, and enables domestic and regional cross-border Transactions of payments.

Business functions are each led by a Member of the FBC, with some functions having dual reporting lines into both the CEO and the global lead at Visa Inc. for that function.

Legal and Regulatory Framework

Legal Framework

VEL is incorporated in England under the Companies Act 2006.

Visa Members are Issuers and/or Acquirers. Typically, VEL does not have a direct relationship with any Cardholders or Merchants; it is the issuing and acquiring Members of Visa that have contractual relationships with Cardholders and Merchants.

The obligations and liabilities of Members towards VEL and other Members of Visa are set out in the Visa Europe Membership Regulations. There are two separate sets of rules and procedures that form part of a Visa Member's contractual agreement with VEL:

- The VCR/VPSR is a set of rules that set out the framework under which Members are required to operate with scheme services.
- The Visa Europe Operating Regulations – Processing (VEOR – Processing) sets out the framework under which Members are required to operate with processing services, should they opt to do so. They define the precise way in which Visa instruments must work, the manner in which payments should be processed, and the roles and responsibilities of each participant in a Transaction.

In executing a Membership Deed, Visa Members expressly agree to comply with the provisions of the VCR/VPSR and VEOR – Processing (if opting to use Visa's processing services).

A Member's adherence to the rules and procedures ensures system interoperability. It provides assurance to the four participants (Issuer, Acquirer, Cardholder and Merchant) that an electronic payment Transaction involving a Visa payment product, with wide acceptance globally and across different

Merchants, will be processed in compliance with appropriate security requirements and with a high degree of reliability; that the Transaction will be successfully completed; and, that funds will be appropriately transferred.

Regulatory Framework

VEL's activities and those of Visa Members are subject to specific European and national legislation, most notably:

- The Interchange Fee Regulation: Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment Transactions (the IFR) contains wide-ranging legislation, including capping cross-border interchange fees within Europe as of 9 December 2015, and required the separation of VEL's scheme and processing services from 9 June 2016. The provisions of the IFR have been incorporated into UK law.
- The Payment Services Directive ("PSD") and revised Payment Services Directive ("PSD2"): In December 2015, PSD2 was published and entered into force on 13 January 2016. As of January 2018, European Union Member states have implemented PSD2, replacing the PSD, though some of the more technical provisions, i.e. the Regulatory Technical Standards (RTS) on strong customer authentication, came into effect from September 2019 (although practical implementation varies across markets). The PSD2 changed, amongst other things, rules for the access to payments, surcharging, and how to authenticate payment transactions and Cardholders. PSD2 also amends several other regulations, notably the:
 - 2009/110/EC e-Money Directive;
 - 924/2009 Cross-border Payments Regulation; and,
 - 1781/2006 Information on the payer accompanying transfers of funds directive.
- The General Data Protection Regulation ("GDPR"): Regulation 2016/679 of the European Parliament and Council of 14 April 2016 came into force on 25 May 2018. The regulation addresses data protection and privacy for all individuals in the European Union and European Economic Area, including the export of personal data outside these jurisdictions. The provisions of the EU GDPR have been incorporated into UK law and the UK GDPR sits alongside the Data Protection Act 2018 to address data protection and privacy for all individuals in the United Kingdom.

VEL is also subject to regulatory oversight by European and national regulatory bodies. In addition to the BoE, this includes the ECB and the Eurosystem of national central banks, the PSR, the De Nederlandsche Bank NV and Narodowy Bank Polski.

- BoE: upon Visa's designation as a recognised payment system on 19 March 2015, VEL is subject to the oversight of the BoE as the operator of a recognised payment system. As a recognised payment system operator, VEL must have regard to the CPMI-IOSCO PFMI, as required by the Banking Act 2009. The BoE's supervision looks to safeguard the financial stability of the UK's financial system.
- PSR: as of 1 April 2015, VEL is subject to the oversight of the PSR. The PSR is tasked with supervising payment systems to ensure that they are governed, operated and developed in a way that considers and promotes the interests of users and customers, as well as promoting effective competition and innovation.

- ECB, Eurosystem and National Oversight: as of 2008, VEL is subject to the oversight of the ECB and the Eurosystem of national central banks in accordance with the Oversight Framework for Card Payment Schemes – Standards (2008)⁹, and to which VEL has submitted self-assessments against previously. VEL is also subject to the ECB’s Revised Oversight Framework for Retail Payment Systems.
- De Nederlandsche Bank NV: VEL was granted an authorisation by De Nederlandsche Bank on 26 May 2021 to operate in the Netherlands as a payment processing service provider as referred to in Article 2:3.01 of the Financial Supervision Act (Wet op het financieel toezicht) and is accordingly supervised by it.
- Narodowy Bank Polski: upon VEL’s designation as a recognised payment scheme on 8 February 2017, VEL is subject to the oversight of the National Bank of Poland (Narodowy Bank Polski).

System design and operations

The four parties involved in the processing of a Visa payment are the Issuer, Acquirer, Cardholder and Merchant, with Visa facilitating the processing of the Transaction between the four parties.

The processing functions consist of: Authorisation; Clearing; and Settlement.

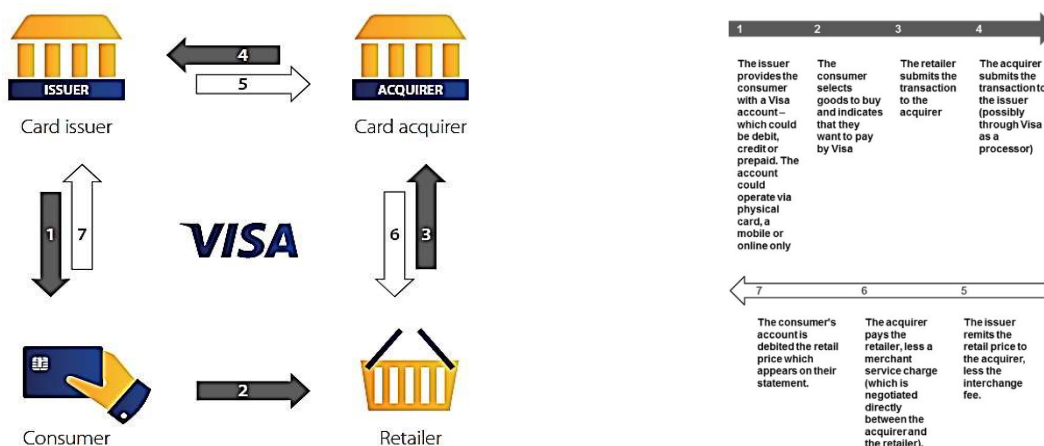


Figure 1: Overview of a typical Visa Transaction

Lifecycle of a Transaction

The lifecycle of a transaction is as follows:

- Authorisation: process through which Visa sends the data from the instrument used for payment or cash withdrawal to the Cardholder’s Issuer for verification of available funds or credit.

⁹ In February 2015, the ECB published the ‘Guide for the assessment of card payment schemes against the oversight standards’. This guide incorporated the ‘Recommendations for the security of internet payments’ and the ‘Assessment guide for the security of internet payments’ that were approved by the Governing Council in January 2013 and February 2014 respectively.

- Clearing: process by which Visa calculates the multilateral net amount owed to an Acquirer, and the corresponding multilateral amount owed by the Issuer, taking into account all fees owed to Visa as well as the interchange fee owed by an Acquirer to the Issuer.
- Settlement: process of transferring funds to Members, using a Settlement bank in accordance with the financial liabilities determined during the Clearing process. Visa also calculates the foreign exchange rate to be applied to the payment transactions.

VEL's payment processing platforms

Visa provides processing-related services through a number of systems and the processing of a Visa Transaction depends largely on the actual Issuer and Acquirer. With regard to the scope of VEL's processing activities, it is important to note that, in accordance with the requirements under IFR, Members are free to use the services of processing companies other than VEL.

In some national markets, Visa Transactions are generally processed by Visa. For other national markets domestic processing arrangements exist and Visa is used to process only cross-border Transactions within the Europe region, or domestic Transactions where either the Acquirer and/or the Issuer is not connected to the domestic processing arrangements. Visa also provides 'last resort' processing for all domestic Transactions, which may occur when the domestic processing arrangements are not functioning or when one party to the Transaction has lost its connectivity to those arrangements. Moreover, if the issuing or acquiring country is located outside the Europe region, Visa processes all transactions on the Visa network and settlement of the non-European element takes place via Visa Inc. operated accounts.

V | Principle-by-Principle Narrative Disclosure – Summary

The following section provides a summary narrative disclosure for each applicable principle to provide details of VEL's key frameworks, policies, processes, procedures, controls, approaches and initiatives that are in place for the safe and sound operation of Visa and to support VEL's observance of the PFMI. They have been compiled to give an overview of VEL's response to each of the detailed questions within the PFMI: Disclosure Framework and Assessment Methodology.

Principle 1: Legal Basis

An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

VEL is a private limited company registered in England according to the Companies Act (2006) and is a wholly owned subsidiary of VIHL and part of the Visa Inc. group as of 21 June 2016. Visa is one of the world's leaders in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payments network - enabling individuals, businesses and economies to thrive. Visa globally facilitates digital payments across more than 200 countries and territories among a global set of consumers, merchants, financial institutions, businesses, strategic partners and government entities through innovative technologies VEL is responsible for representing the Visa brand name and facilitating commerce across the Europe Region, which encompasses 38 countries including the UK, the 27 countries of the EU, 3 EEA countries, Turkey, Israel, Switzerland and the Baltic states. The Membership Deed, which incorporates the Visa Europe Membership Regulations and the VCR/VPSR (which Members receiving scheme services are required to comply with and adhere to), have resulted in there being a high degree of legal certainty between Members about their respective obligations and responsibilities, including their obligations in the event of any default.

Members that opt to process with VEL, will be subject to VEOR - Processing which set out the procedures necessary to use VEL's processing services.

VEL has a strong Legal function which also works regularly with external legal advisers to assess the compatibility of its rules, procedures and business operations across all jurisdictions within the Europe region, making changes where required. VEL is confident that its legal framework is enforceable in each jurisdiction in which it operates. Following the UK withdrawal from the EU, VEL's priority has been to ensure that its activities and operations continue unaffected, in particular, that its contractual relationships remain enforceable and that it continues to have legal mechanisms in place to maintain the movement of data between the EU and UK, in compliance with European data privacy law.

VEL interacts with national regulators and the EU institutions on a regular basis and takes account of, and complies with, applicable local requirements. In addition, the VCR/VPSR and VEOR – Processing set out that in the event of a conflict between a Visa rule, a procedure and/or an applicable law, applicable law will take precedence.

The VCR/VPSR are published bi-annually to Members, and all changes to the VEOR – Processing are communicated to Members via a Visa Business News (VBN) article. Both documents are available through Visa Online (“VOL”).

Principle 2: Governance

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

VEL has recognised in its mission statement and Articles of Association that it plays a significant role in ensuring the continued day-to-day operation of the payment systems it controls, ensuring the continued integrity of the system and managing the risks involved, by helping to support the stability of the broader UK financial system, other relevant public interest considerations, and the interests of relevant stakeholders. This is to the benefit of the whole Europe region. VEL regularly measures, monitors, reviews its performance against its strategic objectives, with specific metrics to support the safety and efficiency of Visa. Therefore, the broader financial system.

VEL maintains clear and transparent governance arrangements comprising Board-level and internal governance. The roles and responsibilities of the VEL Board Directors are documented in the Articles of Association of VEL and the Matters Reserved for the Board, with the Chair (who is an Independent Non-Executive Director) and other Independent Non-Executive Directors having prescribed roles.

The CEO is responsible to the Board for the day-to-day management of VEL and has responsibility for performing the function of systemic risk manager on behalf of the Board. The CEO delegates some authority to the BLT and internal governance committees. The respective Terms of Reference and Charters detail the expected roles and responsibilities of each internal governance committee and sub-committee. VEL’s reporting lines balance the needs of both the VEL operating model and the Visa Inc. global regional structure, with some matrix reporting lines in place. In line with best practice, VEL allocates clear accountabilities to individuals via a model which formalises what VEL already expects of its Leaders in ensuring that they effectively manage and oversee their area of the business, delegate appropriately, comply with regulatory requirements and take appropriate steps to prevent regulatory breaches from occurring.

VEL recognises that risk management is a key element of the organisation’s culture to ensure the stability of Visa and help support the UK financial system as a whole. VEL’s approach to risk management has been developed in line with international standards and relevant regulatory guidelines which are incorporated into VEL’s internal risk management policies which are overseen through the appropriate governance channels. VEL’s risk appetite forms an integral part of the overall risk management framework which is set and approved by the Board annually or as needed, with exceptions managed through the appropriate governance fora. Specifically, the SLoD supports the establishment of an effective risk management framework, provides independent oversight, challenge and monitoring of risk appetite. It provides advisory support and challenge to FLoD on the effectiveness of risk assessments, risk metrics reporting and ongoing risk treatment and mitigation.

VEL considers that its governance arrangements are robust and effective in safeguarding its ability to deliver reliable, secure, effective and innovative payment services for its Members and their Customers. VEL's governance arrangements are also designed to meet the various regulatory requirements to which the entity is subject and include appropriate controls and structures to support compliance with those requirements. In addition, VEL is committed to keeping its governance arrangements under constant review to ensure that its arrangements remain effective and transparent to all stakeholders as market conditions develop over time.

Principle 3: Framework for the Comprehensive Management of Risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

VEL recognises that the purpose of effective risk management is, the creation, protection of value, it improves performance, encourages innovation and supports the achievement of these objectives for its stakeholders.

VEL's approach to managing risk is by implementing the three lines of defence (TLoD) model under which risk management is everybody's responsibility, the FLoD. The SLoD provides oversight and challenge of FLoD business and risk management activities. The TLoD, Internal Audit, provides independent review of the FLoD and SLoD adherence to risk and control standards, reporting directly to the Board. There are clear escalation procedures in the event a risk metric breaches set thresholds. In the event of the breach of set threshold, immediate notification of the Executive Owner and CRO is triggered, with additional immediate notification of the CEO and BRC Chair for Board level metrics. This notification is supported by a response plan.

The Risk function is responsible for managing and maintaining oversight of a risk management framework, the corporate risk register (and associated software tools), and risk governance reporting.

VEL's policies are designed to set the foundational philosophy of risk management at VEL, including the management of both direct risks to VEL and Visa, and the risks that may affect Visa Members and the payments ecosystem.

VEL's risk management framework implements the relevant policies through an integrated approach to risk management activities, facilitating the embedding of a disciplined risk management ethos and awareness across the Company. The framework also describes the risk taxonomy, governance structure and approach to risk identification, assessment, treatment, and monitoring and reporting. This framework is updated regularly and is subject to periodic audits.

Visa's risk taxonomy ensures consistent risk reporting and facilitates risk aggregation across the entire Visa Inc. group, covering 6 broad risk categories: 1) Strategic and Growth Risk; 2) Operational Risk; 3) Technology Risk; 4) merchant; 5) Legal and Regulatory Risk and 6) Ecosystem Risk. These risk categories are further supported by 23 risk sub-types which provide for more granular categorisation of risk.

VEL's RAF is supported through the implementation of risk metrics across the risk taxonomy to, monitor, assess business risk performance, inform accountable management, assess control effectiveness apply clear boundaries and escalation points to appropriate risk governance fora.

Furthermore, VEL adopts a number of approaches to support Visa Members to manage and control their financial and operational risks. This includes providing tools, systems and information to Members. In addition to, incentivising Members to manage and contain their risks. This is done through providing security and fraud management services and programmes and operating a Settlement Obligation framework to prevent financial loss. In addition, the Client and Consumer Protection team's remit is expanding to cover security, integrity and resilience of the Visa payment ecosystem.

To identify, assess and manage the risks posed by entities in which VEL has an interdependency, i.e. service providers, VEL has established a supplier management programme. This ensures that the security, integrity, confidentiality and recoverability of assets is understood by identifying risks that service providers may introduce and therefore the Controls such entities should have in place.

Global Operational Resilience oversee a business continuity programme that supports VEL to identify, manage and mitigate the potential impacts from scenarios that could prevent the provision of Visa's critical operations. As such, VEL has detailed response and recovery plans and processes for its various operations. Each plan is reviewed and updated by key stakeholders across the business at a minimum annually, and more frequently following any organisational change or business disruption to minimise the impact of disruptions and to support the continuation or resumption of critical services to help maintain financial stability.

VEL has also established a Financial Recovery Plan (FRP) which establishes tools and processes to restore liquidity and capital if VEL were to experience a financial loss. Should such financial losses be unrecoverable, and VEL is no longer financially viable, an Orderly Wind Down Plan (OWDP) has also been established to ensure continuation of VEL's critical services during a winding down period.

Principle 4: Credit Risk

An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, Clearing, and Settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.

In order to guarantee the integrity of, and confidence in, Visa, VEL assumes ultimate responsibility for Settlement Obligations accepted by VEL under the rules for Settlement and general Visa indemnification set out in the VCR/VSPR. VEL is therefore exposed to credit risk primarily from Visa Members which have Settlement Obligations to VEL. Credit risk also arises through the management and investment of VEL's own resources.

VEL's RAF considers credit risk as part of its overall Risk Appetite for Financial Risk. To support this, VEL has a Credit Settlement Risk Policy and supporting procedures that enable VEL to assess the credit health of its Members and, in particular, VEL's credit exposure to institutions on a Member-by-Member and portfolio basis.

VEL holds financial resources to mitigate its financial exposure and has robust systems in place to recover amounts that have not been settled by Members. In addition to this, VEL holds financial resources in the form of net liquid assets covered by equity to further mitigate losses due to participant default—this is covered in VEL's Capital Management and Dividend Policy. Members who are deemed below a certain risk threshold are further required to provide collateral in the form of Financial Safeguards, although

collateral waivers can be granted in certain circumstances, such as to support the growth of the FinTech and Start-Up ecosystem. Such waivers are granted in accordance with agreed parameters through the appropriate governance fora.

Credit exposure is monitored on a monthly basis and more frequently were deemed prudent to ensure that any provided Financial Safeguards are sufficient. The Credit Settlement Risk Policy and supporting procedures also take into account the risks associated with each jurisdiction in which a Member operates as well as other factors. These documents are reviewed on an annual basis and are subject to change.

Principle 5: Collateral

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

VEL accepts cash, securities, guarantees and irrevocable standby letters of credit as Financial Safeguards. Guarantees and irrevocable standby letters of credit are only accepted where the Issuer is investment grade and credit reviews of such Issuers are conducted at least annually. Securities are accepted on a case-by-case basis and meet requirements (including credit rating) set out in the Credit Settlement Risk Policy and supporting procedures. Where Financial Safeguards are required, any such request must be satisfied by that Member within 90 days of a request being made. VEL is able to expedite this timeline where required.

Securities require “haircuts” to account for market price changes. VEL applies appropriate haircuts. VEL identifies shortfalls including those arising from foreign exchange movements in cases where the Financial Safeguards collected are not in the same currency as the Settlement exposure currency, and requests additional collateral where needed. This helps VEL guard against price changes and adverse FX movements and ensures appropriate coverage of its credit risk exposure.

Collateral held in the form of cash is held as a deposit and is available on a same day basis. The majority of the funds are in EUR which mitigates the risk posed from FX volatility that could arise as a result of the UK's withdrawal from the EU. The custodian is investment grade and designated as a global systemically important bank.

Collateral from each Member is held in a segregated account specific to that Member and all interest belongs to that Member. Each Member who provides collateral must sign Collateral Programme Security Deeds which gives VEL rights over that Member's collateral and seeks to mitigate the risk of VEL being unable to use that collateral when required.

For some Members, VEL chooses to implement a Trust structure where this is a more efficient Risk Management tool than collateral.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday Settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its

affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Similar to credit risk, VEL's liquidity risk primarily arises as a result of a Member failing to meet its Settlement Obligations in a timely manner. When these situations arise, VEL needs to have sufficient available liquidity to ensure that payments due to Members can still be made as per the VCR/VPSR.

Liquidity risk is also considered as part of VEL's RAF, within Financial Risk, and VEL has adopted the Treasury Policy with supporting procedures to enable it to manage the liquidity risk borne.

VEL assesses its liquidity requirements based upon the exposure it could encounter should the Member with the largest net issuing position in the Europe region fail to settle its Settlement Obligations. In order to cover this position, VEL holds sufficient liquid assets to ensure Settlement would complete on the due value date. Liquidity is largely provided through VEL's own funds and the use of uncommitted intraday overdrafts with commercial banks. Cash is primarily held in pooled investment vehicles such as well diversified and highly liquid Money Market Funds (MMFs). In addition to its own resources, VEL has access to a group credit facility which provides access to further same day liquidity.

Liquidity positions are monitored during the day using a reconciliation tool that matches the expected flows to the actual cash flows in real time. Positions are monitored and escalation points set throughout the day to ensure shortfalls are remedied or managed effectively.

Where possible, Visa operates on the principle of simultaneous Settlement for deferred net debit and credit positions across central bank systems, including through the BoE's Real-Time Gross Settlement (RTGS) system. In some other countries, however, commercial Settlement agent banks are used.

In order to ensure Settlement completes on the value date, VEL also has codified the use of estimates to effect Settlement if Settlement data is not available in time to meet payment cut off times. This can be used as a tool to reduce the liquidity stresses on Members.

Stress testing is used to assess VEL's liquidity requirements under extreme but plausible scenarios and the quality of the planned liquid resources. This is assessed annually as part of VEL's Internal Financial Resources Adequacy Assessment (IFRAA).

Principle 8: Settlement Finality

An FMI should provide clear and certain final Settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final Settlement intraday or in real time.

VEL operates a deferred net Settlement system on a batch processing basis; it does not operate on a real time Settlement basis. Settlement of obligations to Members are made using irrevocable and unconditional payment methods. The VCR/VPSR provides the framework for the Settlement process and acknowledges and describes the obligations between VEL and Visa Members in relation to Settlement and discharge of payments.

On 24 September 2020, the Visa Europe system, as contemplated by the Visa Europe rules, was granted designation under the terms of the Financial Markets and Insolvency Regulations 1999 (as amended), clarifying the point in a transaction cycle when an unsettled transaction may not be revoked in the UK.

VEL's rules set out the various points at which payments may not be revoked by participants, subject to reversals and disputes.

Principle 9: Money Settlements

An FMI should conduct its money Settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Visa settles using central bank accounts wherever possible.¹⁰ In some circumstances however, commercial banks need to be used as neither VEL nor Visa Members have direct access to all relevant central bank accounts or it is not practical to use central bank accounts due to the multicurrency or cross-border nature of a Settlement service.

Where it is not possible or practical to effect Settlement using central bank money, Settlement is made in cash assets using Settlement Banks selected on the basis of their credit standing, security and operational effectiveness. This is to minimise credit and liquidity risk. Commercial banks are regularly reviewed to ensure their continued creditworthiness, and this is monitored by VEL through regular reporting of Transaction volumes through Settlement accounts.

Principle 13: Participant-Default Rules and Procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

VEL has policies and procedures in place to identify and manage possible Member defaults, as well as rules and procedures that require each Member to indemnify it against losses, claims, damages, costs or expenses that may arise as a result of the Member being unable to meet its Settlement Obligations.

As described above in respect of Principles 4 and 5, VEL has a framework to assess the credit health of all Members with Settlement Obligations. Consequently, some Members are required to provide cash or other collateral in certain circumstances or enter into a Trust arrangement. The VCR/VPSR contain rules pertaining to Settlement Obligations and all Members have access to full copies via VOL.

Where a Member does not meet its Settlement Obligations, VEL engages with the Member to understand the cause of the failure to settle and to arrange payment of outstanding Settlement funds. A failure of a Member to meet its Settlement Obligation does not automatically constitute an event of default.

If a Member is clearly unable to meet its financial obligations, VEL will use its own liquidity to meet the Member's Settlement Obligations before seeking reimbursement from the Member.

VEL also has the power to suspend Member access to all or part of any element of Visa in order to stop any further Transactions from taking place in relation to a defaulting Member. Where appropriate, VEL will notify relevant regulators and central banks before taking such action and seek reimbursement of outstanding funds. When losses crystallise as a result of a Member failing to meet its Settlement Obligation, and Financial Safeguards are taken, the safeguards will typically be used before resorting to

¹⁰ Central Bank settlement occurs within the Hungarian, Icelandic, Romanian and UK Settlement Services.

using VEL's own funds to absorb the loss. VEL's FRP sets out the actions VEL would take to replenish its own funds.

In the event of a default, VEL has pre-assigned decision makers to approve the appropriate action, such as suspension of Member activity on a timely basis. VEL has pre-emptive Controls in place to minimise the impact of a Member default.

Principle 15: General Business Risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

VEL defines categories and types of risks and considers General Business Risks across all its risk taxonomy, as each could result in a potential financial impact. This is represented in VEL's risk assessment methodology which considers financial impact as criteria within the risk scoring matrix. The Chief Financial Officer (CFO) is ultimately responsible for measuring cash flow exposure from general business risks identified.

To mitigate against extreme losses from General Business Risks, VEL holds capital in the form of liquid net assets. The amount is sufficient to conduct an orderly wind down of VEL's operations in the event that the crystallisation of general business risk results in VEL becoming financial unviable.

As mentioned above, VEL's FRP provides the tools available to rebuild financial resources, whilst the OWDP sets out how VEL would ensure continuity of its critical services in the event of a winding down scenario.

Principle 16: Custody and Investment Risks

An FMI should safeguard its own and its participants' assets and minimise the risk of loss and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market and liquidity risks.

VEL holds most of its liquid assets in cash. VEL's investment strategy is set out within the Treasury Policy which governs the management of VEL's cash assets. Credit, counterparty rating and instrument limits are all documented in this policy and accompanying Investment Guidelines. These limits are monitored daily, reported to management on a monthly basis and compliance to Policy reported to the Europe Risk Committee (ERC) quarterly.

Minimum external ratings standards must be met for all investment counterparties. These are checked quarterly, with any changes reported as part of the monthly Treasury reporting.

VEL's investments are held across various counterparties and in multiple currencies. This ensures that VEL has a well-diversified investment portfolio, minimising the risk of loss.

Principle 17: Operational Risk

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should

be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business Continuity Management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.

VEL has a primary focus on the importance of operational risk and operational resilience. The Operational Risk Management Framework is used to identify, measure, report and manage all types of operational risks borne by VEL in accordance with the TLoD model. The Operational Resilience team focus on continually strengthening Visa's operational resilience capabilities and developing the model to ensure alignment to the regulatory requirements set out by the BoE.

Various policies and procedures are in place to ensure the Operational Risks are appropriately managed and enable VEL to meet its operational reliability objectives. For example, there is a comprehensive and robust set of policies that deal with threats to the organisation from an internal and an external perspective including, for example, physical security and cyber security.

These policies are designed to ensure that known or suspected threats do not impact Visa's operational reliability. There are also change management procedures that seek to minimise the risk from the implementation of change and procedures for ensuring the appropriate recruitment, retention and training of staff.

VEL proactively monitors, analyses, models, optimises and initiates capacity-based changes to ensure that Visa has sufficient capacity to handle events that result in increased Transaction volumes. This requirement is set through the Visa Global Key Controls (VGKC) and is governed through capacity management methodology. Visa periodically produces 12-month forward projections for operational component demands, processing requirements and Transaction volumes.

Visa operates via multiple, geo-distant data centres designed to operate independently. Each data centre has the full capacity to independently handle 100% of VEL's Transaction processing. The Authorisation service works as an active-active service so that multiple sites are continuously processing Transactions. The service is designed so that data is continuously synchronised across the sites so that if one site encounters issues, Transactions are routed to another site for processing. The Clearing and Settlement service works as an active-passive service across multiple sites and provides a high volume, high integrity system. The systems' design support VEL's operational reliability objectives and are aligned to the company's Risk appetite.

In addition, VEL operates across three corporate locations within the UK (London Paddington, Basingstoke and Reading) that allow for the relocation of staff to recover key processes in the event of an incident affecting any of VEL's corporate locations. In addition, key business processes can be managed remotely, as demonstrated during the response to the current COVID-19 pandemic.

When incidents do occur, VEL has various detective and corrective Control mechanisms, as well as follow up procedures, to enable the appropriate response and recovery actions to be taken. Such mechanisms include: automatic and 24*7 monitoring of IT system components; nominated Member contacts for peer-to-peer technology cooperation so to speed up identification and verification of issues; a Technology Incident Management Process and dedicated incident and crisis management procedures with clear escalation paths; and, an established post incident review methodology to ensure critical incidents are managed and reviewed with relevant stakeholders across VEL.

VEL has an Operational Resilience Policy which sets out a list of processes that govern VEL's risk assessment, impact analysis, planning, and exercising. In addition to VEL's operational resilience and its Europe data centre and operations, Global Operational Resilience work closely with IT Disaster Recovery to ensure the availability of all technology identified as a requirement for the continued delivery of Visa's critical functions and operations in the event of disruption, VEL has business continuity plans aimed at reducing those disruptive impacts, while supporting the continuation and timely recovery of critical assets, systems, services and business functions. These plans are reviewed, updated, approved and exercised at least once a year.

VEL has various avenues for identifying, monitoring and managing risks posed to it directly and those borne by Visa Members through their participation. A Client Services function also provides first line support to Visa Members on the suite of VEL's products, systems and services.

Principle 18: Access and Participation Requirements

An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

VEL operates open and transparent membership criteria for Visa in compliance with the access requirements under Article 35 of PSD2 and Part 8 of the Payment Services Regulations 2017, that requires payment systems to maintain objective and non-discriminatory access criteria.

Membership applications are subject to a thorough risk review in order to protect the integrity of, and confidence in, the Visa payment system, and to assess against potential concerns. The different classes of membership allow different entities to become Members at a level appropriate to the risk exposure that the class of membership involves.

In order to become a Visa Member, the applicant must hold an appropriate authorisation in the jurisdiction in which it is incorporated. It must have been assessed as being able to meet the creditworthiness obligations associated with its credit risk rating (or be granted the appropriate waiver when meeting certain criteria); and must also undergo anti-money laundering and relevant fraud risk management due diligence checks. Details of VEL's criteria for participation are publicly disclosed via VEL's website.

If applications are approved, Members must agree to adhere to the Visa Europe Membership Regulations, the VCR/VPSR, and the VEOR – Processing where Members choose to use VEL Processing services. Such Members must also comply with the Visa system manuals, and a certification process ensures that Members are able to correctly format and populate messages prior to full access to VEL Processing services being granted.

Membership in Visa may be terminated either voluntarily by the Member or involuntarily for cause by VEL. Where VEL does need to terminate Membership, there is a defined process to be undertaken. Financial stability considerations are taken into account during this decision.

Principle 19: Tiered Participation Arrangements

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

In the European region, Visa Members can play one or several of the following key roles, as set out in the Visa Europe Membership Regulations: Principal Members; Associate Members; and Participant Members.

All Visa Members in the Europe region are required to comply with prescribed access and participation requirements, and have a contractual relationship with VEL. This gives VEL powers to monitor and manage the activities of all Members and to take action where a Member is outside of VEL's acceptable Risk Appetite.

Direct Participants are considered by VEL as those Members who have direct liability for participation in Visa and are granted a license by VEL to Issue and/or Acquire payment Transactions. As such, only Principal Members are considered Direct Participants.

Indirect Participants are therefore considered as entities that are sponsored by a Principal Member, who have both an agreement with VEL but also with a Direct Participant as their sponsor.

Through its contractual relationships with all of its Members, VEL obtains information on the Indirect Participants in Visa, while also obtaining additional transactional information on a quarterly basis through Direct Participants, i.e. Principal Members, who sponsor Indirect Participants.

VEL has developed internal procedures to identify and monitor the risk arising from its tiering arrangements. This includes the development of thresholds to identify material dependencies between Direct and Indirect Participants that could pose a significant risk to Visa, and procedures to regularly review the tiering arrangements against such thresholds.

Principle 21: Efficiency and Effectiveness

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Providing services in an efficient and effective way is vital to VEL's business. VEL operates in a highly competitive and dynamic market. VEL, therefore, must continually innovate to meet the evolving needs and options of service-users, including importantly customers, whilst also efficiently managing costs to ensure profitability and provide Members with a cost effective service. As a result, the market itself creates compelling incentives for VEL to be as efficient and effective as possible and to ensure that its services are designed and operated to meet the needs of its Members.¹¹

In support of the market it serves, for example, VEL provides STiP services to ensure guaranteed authorisation response (i.e. approval or decline) in the event of issuer unavailability; has designed its Clearing and Settlement processes to enable Members to settle Transactions quickly in local currencies; facilitates the processing of numerous payment products to allow Customers to use products that meet their personal needs; and, utilises technology to provide a high level of service to all users.

¹¹ Visa Members can also be called Cash Disbursement Members and VPAY Members. Both these membership categories are eligible to be Principal, Associate or Participant Members.

Furthermore, VEL is continually innovating and is often a leading force behind new payment technologies. Examples include contactless, mobile payments, risk services, tokenisation and the provision of Application Programming Interfaces.

Structurally, VEL has a Client Engagement organisation with dedicated and separate teams to enable it to work closely with Financial Institutions, Merchants and Acquirers, and processing service users, as well as operating teams serving sub-regions across Europe. VEL conducts an annual satisfaction survey of its Members which takes account of their overall satisfaction as well as Visa's value to them and consistently performs well in these surveys.

VEL also maintains objectives and Key Performance Indicators (KPIs) that track the performance of the company against its strategic plan. Such metrics include the financial performance of the business.

Principle 22: Communication Procedures and Standards

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, Clearing, Settlement, and recording.

Visa Members connect to the VEL's Authorisation, Clearing and Settlement services typically through an Extended Access Service (EAS) Device. This provides a secure access point to interface to Members' technology systems.

Transactional traffic and files are securely routed from Members EAS to VEL and vice versa based on internationally accepted communications procedures and standards, with Authorisation Transaction messages using ISO 8583(97) enhanced to reflect the cross-border nature of Visa.

VEL is registered as a 'Supervised Financial Entity' user of SWIFT and leverages the SWIFT network to facilitate funds transfer. VEL's uses standardised SWIFT message types to instruct bank to bank transfers.

Principle 23: Disclosure of Rules, Key Procedures, and Market Data

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.

VEL communicates effectively, efficiently and thoroughly with Visa Members and other external stakeholders to ensure that participants have an understanding relevant to the operations of Visa.

VEL has clear and comprehensive rules and procedures that are set out under various legal documents, namely the Membership Deeds, Membership Regulations, the VCR/VPSR and the VEOR - Processing. These documents outline the rights and obligations of VEL and Visa Members. Copies of these documents are provided to Members via VOL, a secure online portal. A public version of the VCR/VPSR is available on the VEL website.

The framework documents provide a high degree of legal certainty between VEL, Visa Members and assists Members with the assessment of risks incurred by participating in Visa. There is a comprehensive approach to communication with Members to ensure that all rule changes are fully communicated,

through VBN, and understood ahead of implementation. Any changes to the rules are incorporated into the next edition of the VCR/VPSR.

VEL's system manuals and the implementation and user guides for VEL's systems and services are designed to facilitate Members' further understanding of Visa. Additionally, VEL provides a regular programme of communications for its Members, as well as a dedicated Client Support function to monitor and address queries from Members across the Europe region, ensuring these are escalated to senior management for resolution where necessary. Tailored training programmes, such as fraud prevention and risk management consultancy, assists in ensuring Members continue to fully comprehend their participation.

VEL also provides its Members with information of its pricing for each service via fee schedules. Fee changes are typically communicated to Members six months prior to being implemented. Fee schedules are published on VOL.

In addition, VEL discloses a public version of its PFMI self-assessment on its website, as well as publishing quantitative information such as financial results and data on Transaction volumes.

IX | Glossary of Terms

Acquirer	A Member that (a) enters into an agreement with a Merchant for the display of any of the licensed marks and the acceptance of Visa Products and Services or (b) disburses currency to a Cardholder.
Associate Member	A Member with the participation rights and obligations as specified in the Visa Europe Membership Regulations.
Authorisation	The approval of a Transaction either by an Issuer, a Visa system processor or Stand-In Processing (STiP).
Bank of England (BoE)	The Bank of England is a regulatory body as set out at IV General background on the FMI UK – Regulatory Framework.
Business Risk	The risk of any potential impairment of the financial condition (as a business concern) of VEL due to declines in its revenues or growth in its expenses. Such impairment may be a result of adverse reputational effects, poor execution of business strategy, ineffective response to competition, losses in other business lines or other business factors. Note: Definition ascertain from Visa Europe Financial Recovery Plan dated July 2021.
Card	A payment card, device or any other electronic or virtual product or account, which is capable of completing a payment Transaction and is issued by a Member or a Customer for use in connection with Visa and bears a licensed mark.
Cardholder	A person who is issued with and authorised to use a valid Card.
Chargeback	A Transaction that an Issuer returns to an Acquirer.
Clearing	All of the functions necessary to collect a Clearing record from an Acquirer in the Transaction Currency and deliver it to the Issuer in the billing currency or to reverse this Transaction or to process a fee collection Transaction.
Control	A business or project activity intended to manage the inherent risk identified. This will relate to management of the potential likelihood and/or consequence of the risk. Controls are the actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity and at various stages within business processes, and over technology environment.

Control Effectiveness	<p>There are three types of control effectiveness:</p> <ul style="list-style-type: none"> • Not tested – The Control is in place but has not been tested for design or operational effectiveness. • Effective – To be effective, Control activities must be relevant, sufficient, function consistently according to plan, be cost effective, and directly relate to the risk mitigation objectives. • Ineffective – To be ineffective, Controls must be suitably designed, operating effectively and not be excessive.
Country Risk Rating	<p>An assigned risk rating applied to a country based on an evaluation of the economic, social and political factors as well as the regulatory framework within the country. This rating defines the level of risk exposure posed by the country and the potential impact this could have on a Member’s ability to meet its Settlement Obligations.</p>
COVID-19 Pandemic	<p>COVID-19 Pandemic is an ongoing global pandemic, an infectious disease caused by a coronavirus called SARS-CoV-2.</p>
Credit Risk	<p>The risk of loss Visa faces if any one of its counterparties were to default on their contractual obligations as per the Visa Europe Limited – International Financial Resources Adequacy Assessment (IFRAA)</p>
Credit Settlement Risk	<p>The level of financial risk exposure posed to VEL by its Members being unable to fulfil their Settlement Obligations and the application of risk mitigating Controls as outlined in the Credit Settlement Risk Policy.</p>
Data Centre	<p>A facility that houses the hardware and systems that run VEL’s core Transaction processing applications.</p>
De Nederlandsche Bank NV (DNB)	<p>The De Nederlandsche Bank NV (DNB) is a regulatory body as set out at IV General background on the FMI UK – Regulatory Framework.</p>
Direct Participant	<p>An entity who has direct liability for participation in Visa, and is granted a licence by VEL to issue and/or acquire payment Transactions. As such, only Principal Members are considered Direct Participants.</p>
Enterprise Risk Management	<p>A structured and consistent process, affected by the Board, management and other personnel applied in a strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be within its Risk Appetite, to provide reasonable assurance regarding the achievement of entity objectives.</p>
External Audit	<p>External audit is an examination of the financial statements prepared by the organisation and is conducted for statutory purposes. The purpose of the audit is to verify that the annual accounts provide a ‘true and fair’ picture of the organisation’s finances.</p>

European Central Bank (ECB)	The European Central Bank is a regulatory body as set out at IV General background on the FMI UK – Regulatory Framework.
Financial Safeguards	Funds, guarantees or other financial securities provided to VEL by certain Members and held to mitigate the credit exposure to VEL by the Member’s potential inability to satisfy its Settlement Obligations.
Global Operational Resilience	Implemented by Operational Resilience, the Global programme is designed to ensure staff safety, mitigate the effect of unplanned business interruptions of the Company’s critical business processes and services, protect its physical assets, maintain the capability to serve Members, and fulfil obligations to stakeholders and regulators.
Indirect Participant	An entity that is sponsored by a Principal Member (who has ultimate liability for the participation of itself and its sponsored entities in Visa). An Indirect Participant will also have a licence, granted by VEL, to issue and/or acquire payment Transactions. An Indirect Participant therefore typically has an agreement with a Direct Participant, as its sponsor, and with VEL.
Institutional Risk Rating	A risk rating applied to institutions applying for membership of VEL and/or to existing Members based on an evaluation conducted by the Credit Settlement Risk Team to determine the level of risk exposure posed by the institution in the event they are unable to meet their Settlement Obligations.
Internal Audit	As a third line of defence, the enterprise risk framework and the related policies are scrutinised by Internal Audit. The internal audit focusses on the breadth of VEL’s strategy and operations as well as the over-arching governance and risk management framework.
Interchange Fee Regulation (IFR)	The European Parliament and Council directive 2015/751 including any subsequent Regulatory Technical Standards (RTS), changes and implementation through National Law.
Issuer	A Member that issues Cards to a Cardholder and maintains the contractual privacy relating to such Card with that Cardholder.
Member	Financial institutions or other entities that use or offer for use Visa Products and Services, including both Scheme and Processing services, in and/or outside the Europe region under sub-licence from VEL or an affiliate of VEL.
Membership Deed	Incorporates a number of other legal documents that establish the rules and requirements for participation in the payment network.
Merchant	Any person that enters into an agreement with an Acquirer for participation in Visa for the acceptance of Cards for purposes of originating payment Transactions under any Visa Marks.

Money Market Fund (MMF)	An open-ended mutual fund that invests in short-term debt securities.
Narodowy Bank Polsk	The Narodowy Bank Polsk is a regulatory body as set out at IV General background on the FMI UK – Regulatory Framework.
National Net Settlement (NNSS)	A Settlement service participated in by some or all Members to settle Transactions within a given country in the currency or currencies of that country.
Non-Settlement	Failure of a Member to meet its Settlement Obligation by paying a Settlement Amount owed to VEL on time and/or in full.
Participant Member	A Member with the participation rights and obligations as specified in the Visa Europe Membership Regulations.
Payment Service Providers	Those entities providing payment services as defined by Article 1(1) of the Revised Payment Services Directive (2015/2366).
Payment Services Directive (PSD)	The European Parliament and Council directive 2007/64/EC and any subsequent changes and implementation through National Law.
Payment Systems Regulator (PSR)	The Payment Systems Regulator (PSR) is a regulatory body as set out at IV General background on the FMI UK – Regulatory Framework.
Principal Member	A Member with the participation rights and obligations as specified in the Visa Europe Membership Regulations.
Processing	The switching of payments instructions between Card-Issuers and Payment-Acquirers and ensures Card-based payments Transactions are authorised, cleared and settled quickly and securely.
Payment Services Directive (PSD2)	The European Parliament and Council directive 2015/2366 and any subsequent changes and implementation through National Laws.
Risk	<p>An event which results in the loss or failure to meet business objectives. VEL identifies and monitors both inherent and residual risk:</p> <ul style="list-style-type: none"> - Inherent: The risk in a business activity before the effect of any mitigation, control or transfer activities. - Residual: The re-defined likelihood or consequence of an identified risk exposure, taking into consideration the effect of existing (but excluding planned or incomplete) controls.

The main goals of risk are to minimise risk and build trust. Achieving these goals entails protecting Card Transactions, brand, operational effectiveness, offices and people.

Risk Appetite	The expression of the level of acceptable and unacceptable risk as defined by the Board. Risk Appetite reflects VEL’s willingness to take on risk as derived from its capacity to bear risk and the attitude towards risk taking.
Risk Profile	A Risk Profile is created from assessing all individual risks, risk categories and corporate objectives against the Risk Appetite Framework. This ensures consistent and transparent governance of the ERMF.
Scheme	Agrees Visa licenses with Card-Issuers and Payment-Acquirers. It develops and ensures adherence to the Visa Core Rules and the Visa Products and Services Rules (VCR/VPSR), which set the specifications and standards for card-based payment Transactions, which preserve the integrity of the Visa brand.
Settlement	The reporting of Settlement Amounts owed by one Member to another, or to Visa Inc. or to VEL, as a result of Clearing.
Settlement Amount	The daily net amount expressed in a Member’s Settlement currency resulting from Clearing. These amounts include Transaction and fee collection Transaction totals, expressed in a Member’s Settlement currency.
Settlement Loss	The amounts actually payable by one Member to another Member pursuant to the provisions of any drafts or other instruments processed in accordance with the VCR/VPSR and shall not include any consequential damages or expenses incurred in attempting to settle such drafts or other instruments, or any interest expenses, whether actually incurred or imputed, associated with delays in Settlement.
Settlement Obligation	The obligations of a Member to pay a Settlement Amount owed to another Member.
Stand-In Processing (STiP)	The Visa component that provides services for obtaining Authorisation on behalf of an Issuer when the Positive Cardholder Authorisation System is used or when the Issuer or its Visa system processor is unavailable.
Three Lines of Defence	The approach to the Three Lines of Defence is set out at Principle 3: Framework for Comprehensive Risk Management
Trademark	Trademarks, trade names, corporate names, business names, trade styles, get up, trade dress, product and service names, words, symbols, devices, service marks, logos, taglines, sounds, combinations thereof, other source or business identifiers and general intangibles of like nature, together with goodwill associated therewith, whether registered or unregistered, arising under the laws of any jurisdiction, and registrations and applications for registration with respect to any of the foregoing.

Transaction	The act between a Cardholder and a Merchant or an Acquirer that results in a Transaction Receipt.
Transaction Currency	The currency in which a Transaction is originally completed.
Transaction Receipt	An electronic or paper record of a Transaction (or a copy), generated at the point of-Transaction, with one copy retained by the Acquirer or Merchant and, at the option of the Cardholder, one copy retained by the Cardholder.
Visa Business News (VBN)	Visa Business News are published for Members to inform them on changes to the Visa Rules, Visa Product and Service Rules.
Visa Core Rules and Visa Product and Service Rules (VCR/VPSR)	The rules applicable to Visa and its Members, as updated by VEL from time to time.
Visa Europe Limited (VEL)	The company, registered in England and Wales with its registered address at One Sheldon Square, London W2 6TT with company number 5139966.
VEL Membership Regulations	Regulations containing matters relating to the rights and obligations of Members, including their authority to use products or programmes of Visa.
VisaNet Integrated Payment System (VIPS)	The processing component of the VisaNet Integrated Payment System comprised of BASE I and the Single Message System used for single message Authorization in connection with financial Transaction processing.
Visa Europe Limited Board of Directors (the Board)	VEL's most senior governance body, taking decisions on strategy who are comprised of Board Directors.
Visa Europe operating Clearing and Settlement platform (CAS)	The system and services for Clearing and Settlement.
Regulations – Processing (VEOR – Processing)	The operating rules and regulations applicable to those receiving VEL Processing services.
Visa Transaction	A Transaction where the Issuer of the Card used is a Member.



Visa Inc.	The corporation, Visa Inc., organised and existing under the laws of the State of Delaware, United States of America with a principal place of business at 900 Metro Centre Boulevard, Foster City, California 94404.
Visa Mark	Trademarks incorporating the term “Visa” and all Trademarks owned or used by Visa Inc. or any of its Affiliates or VEL or any of its Affiliates on 1 October 2007, as amended from time to time to include new Visa Marks, and that are licensed by Visa Inc. to its Customers and to VEL.
Visa Online (VOL)	A secure, internet based communications channel for delivering data and information for Visa products, systems and services to Members of Visa.
Visa Products and Services	Products and/or services of Visa relating to financial services, payments, related information technology and information processing services, including credit Cards and debit Cards and Authorisation, processing, Clearing and Settlement services marketed, offered, provided, sold or distributed in connection with Visa.