PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES

PUBLIC DISCLOSURE OF VISA EUROPE LIMITED (VEL'S) SELF-ASSESSMENT 2023

SELF-ASSESSMENT SUBMITTED TO THE BANK OF ENGLAND (as authority overseeing Visa Europe) ON 23 NOVEMBER 2023

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This disclosure can also be found at: Visa in Europe | Visa

Executive Summary

Purpose

The purpose of this document is to present to the Bank of England ("BoE") details of the risks that impact on Visa Europe Limited's ("VEL's") business, how VEL identifies and mitigates those risks, and to describe VEL's observance of the Principles for Financial Market Infrastructures (PFMI) as these apply to VEL's business. The content of the self-assessment is accurate as of 30 September 2022, unless explicitly noted.

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 and part of the Visa Inc. group[1]. VEL is responsible for representing the Visa brand name and facilitating commerce across the Europe Region, which encompasses 38 countries including the UK, EU/EEA countries, Turkey, Israel, Switzerland and European microstates.

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. We facilitate global commerce and money movement 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 becoming a single connection point for facilitating any payment transaction, using our network, other networks or a combination of networks..

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 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.

[1] 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.

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 Clearing and Settlement Service (VECSS) to the global Visa Inc. platform, Clearing and Settlement (CAS). Since migration, VEL has operated the primary instances of the Authorisation and Clearing and Settlement systems from within the UK. Visa Technology & Operations LLC (VTO), which operates Visa's global technology operations, delivers all non-European processing technology to VEL along with contingency instances of VEL's own core processing systems and the Global Disputes Management service, from its US-based data centres. 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.

VEL Legal and Regulatory Framework

Legal framework

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 VEL Membership Regulations.

VEL's activities and those of Visa Members are subject to specific European and national legislation. This includes, most notably, the following.

- The Interchange Fee Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 (IFR) on interchange fees for card-based payment transactions contains wide-ranging legislation. It caps domestic and cross-border interchange fees for consumer cards within the EEA as of 09 December 2015, and requires the separation of VEL's scheme and processing services as of 09 June 2016. The provisions of the IFR have been incorporated into UK law.
- The Payment Services Directive (2007/64) (PSD) and revised Payment Services Directive (2015/2366) (PSD2). As of January 2018, EU Member states have implemented PSD2, replacing the PSD. Some of the more technical provisions are subject to secondary legislation i.e., the Regulatory Technical Standards on strong customer authentication, which came into effect from September 2019. The PSD2 changed, amongst other things, rules for the access to payment accounts by third parties (so-called Open Banking), banned surcharging for consumer payments, and prescribes how to authenticate payment transactions and cardholders.

Regulatory framework

In March 2015, HM Treasury categorised VEL 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-IOSCO[2] PFMI and includes securities settlement systems, central counterparties and recognised payment systems such as VEL.

In addition to BoE oversight, VEL is subject to regulatory oversight by the following European and national regulatory bodies:

- **Payment Systems Regulator (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 and operated in a way that considers and promotes the interests of users and customers, as well as promoting effective competition and innovation.
- **European Central Bank (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), 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 (DNB):** VEL was granted an authorisation by the DNB on 26 May 2021 to operate in the Netherlands as a payment processing service provider as referred to in Article 2:3.0l of the Financial Supervision Act (Wet op het financieel toezicht) and is accordingly supervised by it.
- **Narodowy Bank Polski (NBP):** upon VEL's designation as a recognised payment scheme on 8 February 2017, VEL is subject to the oversight of the NBP.

Purpose of the Principles

The Principles for Financial Market Infrastructures (PFMI) are the international standards for financial market infrastructures, which includes payment systems, considered essential to strengthening and preserving financial stability. The Bank of England (the Bank or the BoE) supervises Visa Europe Limited in accordance with these principles.

This document provides VEL's self-assessment of how it meets the PFMI, as required by the Bank.

Objective of the self-assessment

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

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[2] 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. 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."

The content of the self-assessment is accurate as of 30 September 2022, unless explicitly noted.

Approach to the self-assessment

The self-assessment has been completed by Subject Matter Experts (SME) from within VEL's First Line of Defence (FLoD). Guidance, challenge and input has then been provided by both VEL Risk and Legal functions as the Second Line of Defence (SLoD).

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

A robust governance process has facilitated review, challenge and confirmation of each response:

- Each Principle was assigned to a relevant member of VEL's Broader Leadership Team (BLT) for review.
- Relevant SMEs have been consulted during the review process.
- The VEL Chief Risk Officer (CRO) and General Counsel have reviewed and approved this document.

Scope of the self-assessment

Seven of the 24 PFMI Principles are not applicable to VEL and were not assessed against. Of these, six (Principles 6, 10, 11, 14, 20 and 24) are not relevant as they do not apply to a payment system and one (Principle 12) is not relevant as VEL does not operate a payment system that settles transactions involving the Settlement of two linked obligations.

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 such as VEL's Risk and Internal Audit functions, and also by external independent parties where required.

Informational sources

VEL's internal documentation is the primary source of information for this self-assessment. Such sources include: frameworks; policy and procedure 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. 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.

General overview of the FMI

VEL is a private limited company, incorporated in England and Wales, and is a wholly owned subsidiary of Visa International Holdings Limited and part of the Visa Inc. group[3]. VEL is responsible for representing the Visa brand name and facilitating commerce across the Europe Region, which encompasses 38 countries including the UK, EU/EEA countries, Turkey, Israel, Switzerland and European microstates.

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. We facilitate global commerce and money movement 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, we have evolved into a global company that is a trusted engine of commerce, working to provide payment solutions for everyone, everywhere. We are focused on extending, enhancing and investing in our proprietary network, VisaNet, while seeking new ways to offer products and services and becoming a single connection point for facilitating any payment transaction, using our network, other networks or a combination of networks. We offer products and solutions that facilitate secure, reliable and efficient money movement for all participants in the ecosystem. Examples include:

- **We facilitate secure, reliable and convenient transactions among financial institutions, merchants and consumers**. We have traditionally referred to this as the "four-party" model. As the payments ecosystem continues to evolve, we have broadened this model to include digital banks, digital wallets and a range of financial technology companies, governments and non-governmental organizations. We provide transaction processing services (primarily authorisation and Clearing and Settlement (CAS)) to our financial institution and merchant clients through VisaNet, our advanced transaction processing network.

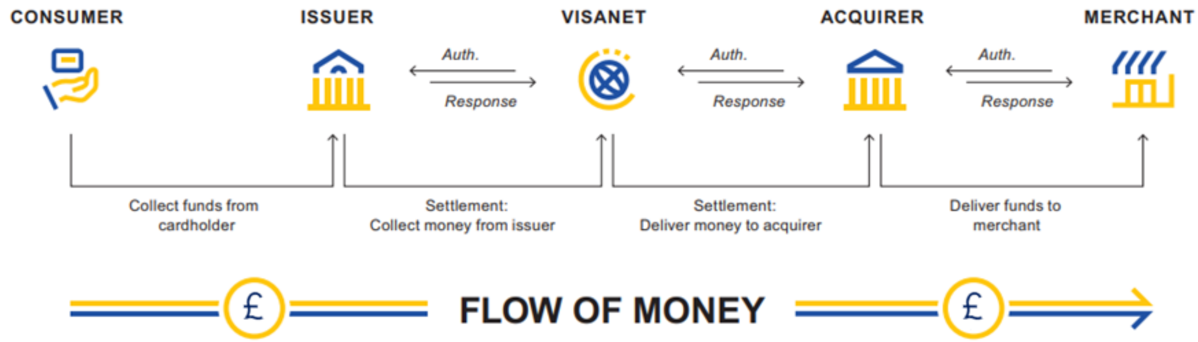
[3] Whilst part of the wider Visa Inc. group, VEL is supported by a number of subsidiaries, branch and representative offices, all of which provide a range of Member liaison, business development and general support services to VEL throughout the region. VEL, however, is the principal contracting entity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

- **We offer a wide range of Visa-branded payment products** that our financial institution clients use to develop and offer core business solutions, including credit, debit, prepaid and cash access programs for individual, business and government account holders.
- **We take an open partnership approach** and seek to provide value by enabling access to our global network, including offering our technology capabilities through application programming interfaces. We partner with both traditional and emerging players to innovate and expand the payments ecosystem, allowing them to leverage the resources of our platform to scale and grow their businesses more quickly and effectively.
- **We are accelerating the migration to digital payments** and evolving Visa to be a "network of networks" to enable the movement of money through all available networks. We aim to provide a single connection point so that Visa clients can enable money movement for businesses, governments and consumers regardless of which network is used to start or complete the transaction. Ultimately, this helps to unify a complex payments ecosystem. Visa's network of networks approach creates opportunities by facilitating person-to-person, business-to-consumer, business-to-business, business-to-small business and government-to-consumer payments, in addition to consumer to business payments.
- **We provide value added services** to our clients, including issuer solutions, acceptance solutions, and risk and identity solutions.
- **We invest in and promote our brand** to the benefit of our clients and partners through advertising, promotional and sponsorship initiatives including with FIFA, the International Olympic Committee, the International Paralympic Committee and the National Football League, among others. We also use these initiatives to showcase our payment innovations and advisory services.

Our Core Business

In an example of a typical Visa consumer to business payment transaction, the consumer purchases goods or services from a merchant using a Visa card or payment product. The merchant presents the transaction data to an acquirer, usually a bank or third party processing firm that supports acceptance of Visa cards or payment products, for verification and processing. Through VisaNet, the acquirer presents the transaction data to Visa, which in turn contacts the issuer to check the account holder's account or credit line for authorisation. After the transaction is authorized, the issuer effectively pays the acquirer an amount equal to the value of the transaction, minus the interchange reimbursement fee, and then posts the transaction to the consumer's account. The acquirer pays the amount of the purchase, minus the Merchant Discount Rate (MDR), to the merchant.

Visa earns revenue by facilitating money movement 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. Net revenues consist of service revenues, data processing revenues, international transaction revenues and other revenues, minus client incentive arrangements that we have with our clients. We have one reportable segment, which is Payment Services. We generally do not experience any pronounced seasonality in our business.



Visa is not a financial institution. We do not issue cards, extend credit or set rates and fees for account holders of Visa products, nor do we earn revenues from, or bear credit risk, with respect to any of these activities. Interchange reimbursement fees reflect the value merchants receive from accepting our products and play a key role in balancing the costs and benefits that account holders and merchants derive from participating in our payments networks. Generally, interchange reimbursement fees are collected from acquirers and paid to issuers. We establish default interchange reimbursement fees that apply, absent other established Settlement terms.

In addition, we do not earn revenues from the fees that merchants are charged by acquirers for acceptance, including the MDR. Our acquiring clients are responsible for establishing the relationships with merchants as well as establishing and earning these fees.

Core products

The core products we provide are as follows:

- **Debit cards:** Debit cards and digital credentials allow consumers and small businesses to purchase goods and services using funds held in their bank accounts. Debit cards enable account holders to transact in person, online or via mobile without needing cash or checks and without accessing a line of credit. The Visa/PLUS Global ATM network also provides debit, credit and prepaid account holders with cash access, and other banking capabilities, in more than 200 countries and territories worldwide through issuing and acquiring partnerships with both financial institutions and independent ATM operators.
- **Credit cards:** Credit cards and digital credentials allow consumers and businesses to access credit to pay for goods and services. Credit cards are affiliated with programmes operated by financial institution clients, co-brand partners, fintechs and affinity partners.
- **Prepaid:** Prepaid cards and digital credentials draw from a designated balance funded by individuals, businesses or governments. Prepaid cards address many use cases and needs, including general purpose reloadable, payroll, government and corporate disbursements, healthcare, gifts and travel. Visa-branded prepaid cards also play an important part in financial inclusion, bringing payment solutions to those with limited or no access to traditional banking products.

Capabilities

We offer capabilities, tools and solutions that enable consumer payments and help our clients grow, as digital commerce, new technologies and new participants continue to transform the payments ecosystem. Some of our offerings include the following:

- **Tap to Pay:** As we seek to improve the user experience in the face-to-face environment, contactless payments or tap to pay (which is tapping a contactless card or mobile device on a terminal to make a payment) has emerged as a preferred way to pay among consumers in many countries. Tap to pay adoption is growing and many consumers have come to expect touchless payment experiences. As an example, Visa continues to work with payments industry partners, regulators and governments to support raising contactless payment limits, whilst maintaining low levels of fraud.
- **Tokenisation:** Visa Token Service (VTS) brings trust to digital commerce innovation. As consumers increasingly rely on digital transactions, VTS is designed to enhance the digital ecosystem through improved authorisation, reduced fraud and improved customer experience. VTS helps protect digital transactions by replacing 16-digit Visa account numbers with a token protecting the underlying account information. This security technology can work for a variety of payment transactions, both in the physical and online space.
- **Click to Pay:** Click to Pay provides a simplified and more consistent cardholder checkout experience online by removing time-consuming key entry of personal information and enabling consumer and transaction data to be passed securely between payments network participants. Based on the EMV® Secure Remote Commerce industry standard, Click to Pay brings a standardized and streamlined approach to online checkout and meets the needs of consumers shopping across a growing number of connected devices. The goal of Click to Pay is to make digital payments safe, consistent and interoperable like the checkout experience in physical stores.

Advisory services

Visa Consulting and Analytics (VCA) is the payments consulting advisory arm of Visa. The combination of our deep payments expertise, proprietary analytical models applied to a breadth of data, and our economic intelligence, allows us to identify actionable insights, make recommendations and help implement solutions that can drive better business decisions and measurable outcomes for clients. VCA offers consulting services for issuers, acquirers, merchants, fintechs and other partners, spanning the entire customer journey from acquisition to retention.

VEL Legal and Regulatory Framework

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- The Payment Services Directive (2007/64) (PSD) and revised Payment Services Directive (2015/2366) (PSD2). As of January 2018, EU Member states have implemented PSD2, replacing the PSD. Some of the more technical provisions are subject to secondary legislation i.e., the Regulatory Technical Standards on strong customer authentication, which came into effect from September 2019. The PSD2 changed, amongst other things, rules for the access to payment accounts by third parties (so-called Open Banking), banned surcharging for consumer payments, and prescribes how to authenticate payment transactions and cardholders.

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Summary of major changes

This section provides a summary of any major changes in how VEL observes each Principle since the 2021-22 self-assessment. It also provides a summary of how each Principle is observed.

Following VEL's self-assessment against the PFMI in 2022, the 2023 self-assessment reflects changes made to strengthen governance and operational resilience activities.

Principle 2: Governance

- VEL appointed a new CISO, which received non-objection from the BoE on 09 October 2023ELT .
- A limited restructure of the Risk function was undertaken in 2023, creating a focus on getting closer to our Strategic and Growth Risk areas, focusing on cluster/country-level risks to the business, continuing to build VEL's Ecosystem Risk Integrity & Compliance Programs and ensuring that we have strong Risk perspective in our regulatory engagements.

Principle-by-Principle summary disclosure

This section contains an overview of VEL's self-assessment against each of the Principles within the PFMI.

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's incorporation under the laws of England and Wales and the requirement for Members to execute a Membership Deed (and incorporated documents) provides Visa with a legal basis that has a high degree of certainty across the Europe region. This legal basis includes Visa's rules and procedures which are drafted, reviewed and approved to ensure they are clear, understandable and consistent with laws and regulations, whilst allowing for local laws to take precedence where necessary. This mitigates the risk arising from potential conflict of law issues.

The legal basis is articulated to stakeholders through multiple channels, including VOL, disclosures to regulators and publicly, where appropriate.

Assessment of Principle

Observed

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 a clearly defined strategy, with supporting objectives, that is regularly reviewed to assess the company's performance, and which covers financial stability, VEL's overall resilience and broader public interest considerations.

The governance arrangements of VEL are well documented and publicised through appropriate Charters, Matters Reserved for the Board and the VEL IAM, ensuring that there are clear and distinct lines of responsibility and accountability.

There are documented procedures for managing conflicts of interest for the Board and all VEL employees. Performance of the Board is assessed periodically, and the ELT members are assessed as part of the VEL Performance Development Review Cycle.

VEL has a defined ERMF, Risk Management Policy and risk appetite whilst assigning responsibilities appropriately utilising a 3LoD model. The CRO, General Counsel and Chief Information Security Officer have sufficient independence and access to the Board.

VEL continues to make changes to further enhance its governance and will continue to monitor the effectiveness of its arrangements.

Assessment of the Principle

Observed

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 has a Risk Management Policy and ERMF that enables the company to identify, measure, monitor and manage the risks it faces. There are also embedded supporting policies, procedures, tools and systems. Both the Risk Management Policy and ERMF (and its sub frameworks) are subject to periodic governance reviews, and both have incorporated and will continue to incorporate and consider industry standards and best practice. The TLMP also ensures that material dependencies with service providers are managed appropriately.

VEL plays a key role in the payments ecosystem and incentivises its Members to proactively manage risks that they could pose to Visa and the payment system, including security, fraud, operational reliability and resilience and financial risk.

A business continuity programme, incorporating business impact analyses and response and recovery plans, supports the identification of scenarios that could prevent VEL from being able to provide its critical operations. The FRP sets out how VEL can recover its services as a going concern in the event of a financial shock. Furthermore, an OWDP provides that VEL is able to operate its critical services in an orderly way whilst in a winding down scenario.

Assessment of Principle

Observed

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.

Financial risk is a major component of the ERMF, and incorporates the identification, measurement and management of current and potential credit exposures stemming from Members, as well as those borne through VEL's business operations. This is exercised through the implementation of the Credit Settlement Risk Policy (and underlying procedures), the VEL Capital Management and Dividend Policy and the Treasury Policy, which are supported by tools which enable VEL to assess credit risk posed to VEL in a timely manner.

By adopting and maintaining compliance with an agreed risk appetite, VEL substantially covers its credit exposure to Members with higher credit risk through collecting collateral, whilst accepting the credit risk for better credit rated clients and retaining sufficient capital to absorb the potential loss arising from the disorderly failure of the participant representing its single largest credit risk. This provides a high degree of confidence that VEL fully covers the current and potential future exposures arising from its Settlement operations.

Further, VEL has established explicit rules under the VCR/VPSR which allow it to address credit losses, including the right to collect funds from Members who failed to meet their Settlement

Obligation, and the ability to invoke loss sharing amongst Members if needed. The loss sharing arrangements are detailed in the FRP.

Further, VEL has established explicit rules under the VCR/VPSR which allow it to address credit losses, including the right to collect funds from Members who failed to meet their Settlement Obligation, and the ability to invoke loss sharing amongst Members if needed. The loss sharing arrangements are detailed in the FRP.

Assessment of Principle

Observed

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's Credit Settlement Risk Policy sets the requirements pertaining to the collection and use of collateral from Members, restricting collateral to those with high credit, liquidity and market risks. Haircuts are made for securities, with daily market values provided by the custodian. Monitoring is in place to ensure shortfalls are identified quickly. There is a system in place to support VEL's collateral management approach, and Collateral Programme Security Deeds give VEL legal rights over collateral.

Assessment of the principle

Observed

Principle 6: Credit Risk

This principle is not applicable to payment systems.

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.

Financial risk is a major category within the ERMF risk taxonomy, with liquidity risk considered within this element. The Treasury Policy sets the framework for managing liquidity risk posed by Members, Settlement banks and other stakeholders within the context of the ERMF. This is supported by appropriate tools which enable VEL to identify, measure and monitor, intraday, its liquidity risk and exposures.

VEL maintains access to sufficient liquidity to complete same-day Settlement in the event that the Member with the largest forecast net debit position fails to settle. The size of this liquidity is stressed through various events, and the composition, i.e., own funds, intraday overdrafts and

MMFs, ensures that the arrangements are highly reliable. As noted, the IFRAA applies stress tests to VEL liquid resources and the FRP sets out the tools available to VEL to replenish such resources.

Assessment of the principle

Observed

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.

The VCR/VPSR define the point at which Settlement within Visa is final, and there are also rules which set out when unsettled payments cannot be revoked by participants and must instead be corrected through the submission of disputes.

VEL also has mechanisms in place to ensure final Settlement is achieved no later than the end of the value date.

Assessment of Principle

Observed

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.

Where possible VEL conducts Settlement in central bank money, and where it does not, it selects Settlement banks using criteria which consider their credit standing, security, operational effectiveness and cost. These minimum requirements are set out in the Treasury Policy. Where Settlement does occur in commercial bank money, VEL monitors the risks associated with such Settlement and ensures that Settlement nets to zero so that there are minimum residual balances, reducing overnight exposures.

Assessment of Principle

Observed

Principle 10: Physical Deliverables

This principle is not applicable because Visa does not settle transactions that involve the Settlement of two linked obligations.

Principle 11: Central Securities Depositories

This principle is not applicable because Visa does not settle transactions that involve the Settlement of two linked obligations.

Principle 12: Exchange of Value Settlement Systems

This principle is not applicable because Visa does not settle transactions that involve the Settlement of two linked obligations.

Principle 13: Participant Default Rules & 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.

The VCR/VPSR sets out VEL's and Members' obligations regarding Settlement, including the action VEL can take in the event of a Member default. VEL's CSR policy and procedure, and the Emergency BIN Blocking/Closure Process, ensure that VEL has procedures in place to manage a default. This includes a clear definition of responsibilities. The development of the FRP provides VEL with tools to enable it to replenish its resources in such an event.

Prior to a Member defaulting, the CSR team focusses on actions to mitigate risk in order to reduce the need for procyclical adjustments to protect the payments ecosystem. This includes asking Members for collateral well in advance and returning excess collateral to Members. Collateral is deposited at the custodian bank where it is available on a same-day basis to be used to pay merchants. Collateral is not VEL's money.

The public version of the VCR/VPSR also includes reference to VEL's ability to reduce Member risk.

Stress tests conducted as part of the IFRAA and FRP consider the financial impact of a default, with tests conducted on VEL's access to liquidity available to ensure it can be accessed when needed.

Assessment of Principle

Observed

Principle 14: Segregation and Portability

This principle is not applicable to payment systems.

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.

General business risk is an inherent risk within VEL's ERMF and risk taxonomy, with financial impact
General business risk is an inherent risk within VEL's ERMF and risk taxonomy, with financial impact
being considered as part of the risk scoring methodology. This ensures VEL is able to identify, monitor and manage business risks, which could include losses from poor execution of business strategy, negative cash flows or unexpected or excessively large operating expenses.

To mitigate the potential impact of losses from business risk, VEL's Capital Management and Dividend Policy includes a provision for business losses as part of the minimum capital that VEL must retain. All equity is held in the form of liquid net assets and covers both credit and general business risk requirements. The general business risk amount is currently based on stress testing scenario analysis, which is the higher of three provisions used in calculating the risk requirement.

Assessment of the Principle

Observed

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 deposits its liquid net assets with MMFs, commercial banks and central banks, which are regulated, of high investment grade and available same day. VEL's Treasury Policy sets out the objectives and requirements for managing the investment portfolio and seeks to minimise the risks associated with such activity. This is achieved through limiting allowable investment types and setting minimum rating requirements and maximum counterparty limits for these investments.

Compliance with investment guidelines is monitored daily and key risk metrics reported monthly. This helps manage concentration risk in relation to exposure across VEL's portfolio. Second line oversight and challenge has been enhanced with the FRSC.

Assessment of Principle

Observed

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 separate frameworks for the management of operational and technology risks, both being key components of VEL's ERMF. This is supported by a wide variety of policies, procedures and tools to enable VEL to identify, monitor and manage the operational risks faced by the organisation. Frameworks and supporting arrangements allow VEL to identify, monitor and manage risks posed to and from stakeholders.

Technology change management frameworks have been designed to enable VEL to implement changes appropriately. Capacity procedures are designed to provide VEL with the ability to handle increasing volumes, and dedicated physical and information security policies and procedures are designed to ensure VEL is adequately protected from vulnerabilities and threats. These are all dovetailed within the TRMF.

VEL has defined operational reliability objectives, which have policies, procedures and processes in place to support the achievement of these objectives. This is supported by a dedicated business continuity programme, and incident detection and correction control mechanisms.

As referenced in Principle 2, the roles and responsibilities of VEL senior management relating to operational resilience are reinforced through regular crisis simulation exercises. These include annual exercises with key clients and regulators to validate and enhance crisis engagement and communication protocols. The exercises also allow VEL to embed our response protocols and more broadly improve processes that support operational resilience

Assessment of Principle

Observed

Principle 18: Access & Participation Requirements

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

VEL operates fair and open access and participation criteria which are based on risk related requirements. This includes ensuring entities do not pose undue AML, financial or operational risks to Visa and its Members. The processes and procedures to onboard new Members, and to review financial risk, are reviewed and approved on a periodic basis.

Adherence to the majority of the access criteria is monitored on an ongoing basis, through dedicated reviews and arrangements to monitor compliance with Visa rules and procedures. Where compliance is not met, VEL's rules and procedures provide mechanisms to ensure the orderly suspension or termination of a Member.

Visa continues to evolve its processes to ensure fair and open access given the changing landscape of the payments ecosystem. Programmes such as Fintech-in-a-box, Nurture and Path to Growth have been evolved to cater for new, often less established or sophisticated market participants wishing to enter the ecosystem as a Visa client.

Assessment of Principle

Observed

Principle 19: Tiered Participation Arrangements

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

VEL has established processes to identify and monitor the tiering risk arising from within its membership structure and gathers appropriate information to enable it to do so for its indirect Members.

Procedures are embedded to ensure that material dependencies between Members, and material indirect Member activity, is identified in a timely manner. The VCR/VPSR and relevant supporting documents allow Visa to take mitigating actions in the event of risks posed by direct and indirect participants. This includes the development of thresholds and escalation procedures.

Assessment of Principle

Observed

Principle 20: FMI Links

This principle is not applicable to payment systems.

Principle 21: Efficiency and Effectiveness

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

VEL operates within a competitive, dynamic environment and is designed to meet the needs of its Members and the market it serves. VEL demonstrates this through its Member and market focused approach and operating structure, through the processing and other services it offers, the scope of payment products it provides, and the use of technology and procedures within its operations.

The Visa Europe Region Corporate Scorecard and KRIs ensure that VEL has defined goals and objectives with regards to efficiency and effectiveness that are regularly assessed and reviewed. VEL's Internal Audit function, ERMF, RAF and Controls Standard, as well as external mechanisms such as PCI DSS and ISAE3402 assessments, ensure that there are established mechanisms for assessing the overall effectiveness of VEL's control environment.

Assessment of Principle

Observed

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 utilises internationally accepted communication and processing standards, including ISO 8583 and EMVCo specifications, and VEL works with key parties in the ecosystem to create and promote new and improved standards.

Assessment of Principle

Observed

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

An FMI must 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.

The VCR/VPSR and VEOR–Processing clearly and comprehensively set out the rules and procedures applicable to all Members, including their rights and obligations. A version of the VCR/VPSR is publicly disclosed. VEL also ensures Members have access to sufficient information on Visa's design and operations and utilises various means, such as implementation guides and other mechanisms, to ensure Members understand their role in implementing changes required to ensure continued access to Visa.

In addition, VEL has a suite of Member communication channels to Visa and offers training services and programmes to ensure Members understand and can manage the risks and obligations of participation.

VEL provides fee schedules to Members, which include information on its pricing structures.

VEL submits its PFMI self-assessment to the BoE and also publicly discloses it.

Assessment of Principle

Observed

Principle 24: Disclosure of Market Data by Trade Repositories

This principle is not applicable to payment systems.

Summary of Principle Observance

Principle	Observed	Broadly Observed	Partly Observed	Not observed	Update on VEL's Observance and Remediation Activity and Rating Rationale
Principle 1: Legal Basis	2021 2022 2023	2019			VEL's incorporation under the laws of England and Wales and the requirement for Members to execute a Membership Deed (and incorporated documents) provides Visa with a legal basis that has a high degree of certainty across the Europe region. This mitigates the risk arising from potential conflict of law issues. The legal basis is articulated to stakeholders through multiple channels, including Visa Online, disclosures to regulators and publicly, where appropriate.
Principle 2: Governance	2019 2021 2022 2023				VEL continues to maintain clear and transparent governance arrangements comprising Board-level and internal governance. VEL considers that its governance arrangements are robust and effective, enabling VEL to deliver reliable, secure, effective and innovative payment services for its Members and their Customers.
Principle 3: Framework for the Comprehensive Management of Risks	2022 2023	2019 2021			Prudent risk management is a central feature of VEL's systems and controls, and is delivered through VEL's Risk Management Policy and Enterprise Risk Management Framework across a 3LoD model. A number of enhancements were made in 2022 and thesecontinue to strengthen its risk management arrangements.
Principle 4: Credit Risk	2019 2021 2022 2023				VEL is exposed to credit risk primarily from Visa Members who have Settlement obligations to VEL. VEL's Risk Appetite Framework considers credit risk as part of its overall risk appetite for Financial Risk. To support this, VEL has adopted 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.
Principle 5: Collateral	2019 2021				Where financial safeguards, in the form of collateral, are required, VEL has in place robust policies and processes to guide the request and management of such safeguards.

Principle	Observed	Broadly Observed	Partly Observed	Not observed	Update on VEL's Observance and Remediation Activity and Rating Rationale
	2022 2023				
Principle 7: Liquidity Risk	2019 2021 2022 2023				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 Visa Core Rules and Visa Product and Service Rules (VCR/VPSR).
Principle 8: Settlement Finality	2019 2021 2022 2023				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.
Principle 9: Money Settlements	2019 2021 2022 2023				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. VEL has also made enhancements to internal documentation and reporting on concentration risk to ensure associated risks are managed appropriately.
Principle 13: Participant-Default Rules and Procedures	2021 2022 2023	2019			VEL has effective and clearly defined rules (e.g., VCR/VPSR) and procedures to manage Member 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.

Principle	Observed	Broadly Observed	Partly Observed	Not observed	Update on VEL's Observance and Remediation Activity and Rating Rationale
Principle 15: General Business Risk	2019 2021 2022 2023				To mitigate against extreme losses from general business risks, VEL holds capital in the form of liquid net assets. The amount is based on stress testing, which has resulted in a higher provision for general business risk than the minimum required to conduct an orderly wind down of the company, as evaluated in the Orderly Wind Down Plan, or expected operational expenses over a six-month period.
Principle 16: Custody and Investment Risks	2019 2021 2022 2023				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 both VEL's own, and its Members', cash assets. VEL has also made enhancements to internal documentation and reporting on concentration risk to ensure associated risks are managed appropriately.
Principle 17: Operational Risk	2022 2023	2021	2019		Major components of VEL's risk taxonomy are operational risks, for which VEL has a defined risk appetite. Various policies and procedures are in place to ensure that operational risks are appropriately managed and to enable VEL to meet its operational reliability objectives. The rating for this Principle has improved due to embedded improvements in VEL's operational risk and resilience practices and policies/frameworks.
Principle 18: Access and Participation Requirements	2019 2021 2022 2023				VEL operates open and transparent membership criteria for Visa in compliance with access requirements under Article 35 of PSD2, which requires payment systems to maintain objective and non-discriminatory access criteria.
Principle 19: Tiered Participation Arrangements	2019 2021 2022 2023				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 the activities of all Members and to take action where a Member is outside of VEL's acceptable risk appetite.

Principle	Observed	Broadly Observed	Partly Observed	Not observed	Update on VEL's Observance and Remediation Activity and Rating Rationale
Principle 21: Efficiency and Effectiveness	2019 2021 2022 2023				Providing services in an efficient and effective way is vital to VEL's business. VEL operates in a highly competitive and dynamic market. VEL must therefore continually innovate to meet the evolving needs and options of service-users, including customers, whilst also managing costs to ensure profitability and provide Members with a cost-effective service.
Principle 22: Communication Procedures and Standards	2019 2021 2022 2023				VEL continues to use internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, Settlement and recording.
Principle 23: Disclosure of Rules, Key Procedures, and Market Data	2021 2022 2023	2019			VEL maintains a rigorous and well-documented procedure for the updating of Rules and other documentation, and keeping members informed of their obligations.