

# Exclusive: FCA Backs Transition Period On Strong Authentication Rules

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**The UK's Financial Conduct Authority (FCA) has taken the first steps towards delaying controversial strong authentication reforms beyond September's deadline, PaymentsCompliance can reveal.**

The regulator wrote to industry groups on Friday to acknowledge [widespread concerns](#) that the industry has had insufficient time to prepare for the new rules, which are [due to take effect](#) across the European Union on September 14 this year.

Following discussions with industry groups, retailers and HM Treasury, the FCA admitted there are "several important matters [awaiting clarification](#)" at the European level that have hampered preparations within a "complex" sector.

"We understand the issues raised and recognise the need to minimise the potential for disproportionate disruption to merchants and consumers," wrote FCA chief executive Andrew Bailey, in a letter seen by PaymentsCompliance.

"While we understand it might not be possible to apply SCA (strong customer authentication) to all such payments in September, it is important for merchants to recognise the need for them to adapt to this to be able to continue to accept payments in the future.

"We accept there is a case for a period of transition and welcome proposals to turn this into a practical proposition. This must be balanced with the need to ensure further steps are taken to reduce fraud and protect consumers."

The FCA has told UK Finance, an industry group representing the banking and payments sectors, to formalise proposals on how to address gaps in current readiness.

"We recognise the need for regulatory certainty sooner rather than later; and await the industry's proposals for a road map to readiness," Bailey wrote.

"Thereafter we aim to confirm our position as soon as possible, and by no later than end of June."

UK Finance has already proposed an 18-month transition period to the regulator. In a draft proposal dated May 13, the industry group suggested reviews of readiness should take place in September 2019, March 2020 and September 2020, before "active supervision" begins in March 2021.

During that time, it said the industry would carry out merchant testing, network enhancement and customer communications.

## See also:

[Industry Pleads For Strong Authentication Compromise As EU Rules Out Delay](#)

It is not yet known whether that timeline will be accepted in full by the FCA, but UK Finance's reasoning is that it would allow proper implementation of 3D Secure, an industry-wide card payment security system.

Version 2.2 of 3D Secure was designed with the regulatory technical standards on strong authentication in mind — it fully incorporates transaction risk analysis and whitelisting, for instance, which the current version does not.

Otherwise, the group estimated that around 50 percent of e-commerce transactions would be subject to additional security checks from September onwards.

Under the standards, which accompany the [revised Payment Services Directive \(PSD2\)](#), two-factor identify checks would be required on all online payments — unless one of a small number of possible exemptions can be used.

"This means additional friction for consumers, declined transactions, and a potential loss of earnings for merchants," UK Finance argued.

The FCA's openness to a transition period on the reforms will come as a major boost to the industry, which has argued that delays in Brussels had a knock-on effect on the supply chain and ultimately resulted in a bottleneck bringing the necessary upgrades to market.

Although there are [rumours](#) that other member state authorities are open to a similar delay, the holy grail for payment providers and retailers would be compromise at the European level.

Despite the fact that industry representatives and national regulators [met with the European Commission](#) last month to make their case, officials have so far remained non-committal beyond [ruling out](#) a deadline extension. The European Banking Authority has [insisted](#) that firms have had ample time to prepare.

UK Finance said its roadmap “was designed with the UK landscape in mind” but “due to the cross-border nature of payments, we strongly believe this issue requires an EU-wide solution”.

“Research indicates 75 percent of all online retailers in Europe may be unaware of the requirements that SCA brings,” it said.

The FCA had not responded to a request for comment by the time of publishing.

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