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Preparing for the Transition from PSD2 to PSD3

*What Payment Firms
Should Be Doing Now*

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A recent webinar hosted by WH Partners, featuring Joseph F. Borg, Gaby Zammit and Lara Savona, explored the proposed PSD3 and Payment Services Regulation (PSR) framework, the anticipated implementation timeline and the practical steps payment and electronic money institutions should begin taking to prepare for reauthorisation.

The transition from PSD2 to PSD3 will represent far more than a regulatory update. Throughout the session, the speakers emphasised that firms should begin assessing their readiness at an early stage, engaging boards of directors, compliance and legal teams, technology functions and key third-party service providers in the process.

While the proposed implementation timeline remains subject to the outcome of the legislative process and the adoption of accompanying regulatory standards, the speakers noted that publication of the new framework is currently expected by the end of the year, although timelines may still evolve.

A New Regulatory Framework for Payment and E-Money Services

The proposed package marks a significant shift from PSD2's structure by separating the framework into two legislative instruments.

Under the proposals, PSD3 will focus primarily on authorisation, licensing and supervisory requirements, while the Payment Services Regulation (PSR) will establish directly applicable rules governing the provision and use of payment services, including consumer protection measures and enhanced fraud prevention obligations.

The framework is also expected to bring electronic money institutions within the PSD3 authorisation regime while retaining rules specific to e-money activities. The speakers encouraged firms to assess the combined impact of both instruments rather than viewing the transition as a straightforward update to existing PSD2 requirements.

Reauthorisation and the Transition Timeline

According to the timeline discussed during the webinar, Member States will have 21 months from the framework's entry into force to transpose PSD3 into national legislation. Existing payment institutions and electronic money institutions will then be required to demonstrate compliance with the new requirements and obtain reauthorisation within the transitional period.

A particularly important milestone highlighted by the speakers is 27 months from entry into force, which is expected to represent a key deadline for existing institutions seeking to continue operating under the updated framework.

The session also addressed the role of the European Banking Authority (EBA), which is expected to develop several technical standards during the transition period. As a result, firms may have a relatively limited timeframe to complete final assessments and remediation efforts once the relevant standards are published.

Importantly, reauthorisation should not be regarded as automatic. The speakers advised firms to revisit their original authorisation files, identify which documents remain valid, determine what information requires updating and assess any new documentation that may be required under the revised framework.

Key Areas Requiring Attention

The webinar identified several areas where firms should begin undertaking impact assessments and planning exercises.



Capital and Safeguarding

Firms should review capital requirements against their existing permissions and business models. Safeguarding arrangements should also be reassessed, taking into account concentration risk, reconciliation processes, governance frameworks and board oversight responsibilities. The speakers further noted that safeguarding through a central bank may be possible where such options are available.



Winding-Up Planning

The proposed framework places increased emphasis on effective winding-up planning. As highlighted during the webinar, a winding-up plan is distinct from a business continuity plan and should clearly address how a firm would cease operations in an orderly manner, including the treatment of customers, safeguarded funds, outsourced service providers and outstanding transactions.



Fraud Prevention

Fraud prevention is expected to become a more prominent regulatory focus under the PSR. Areas discussed included real-time transaction monitoring, oversight of both incoming and outgoing payments, enhanced staff training and appropriately governed information-sharing mechanisms between payment service providers.



Verification of Payee and Customer Protection Measures

Firms should assess the operational implications of verification of payee requirements, customer warning mechanisms and potential delays that may apply when customers request increases to spending limits. The speakers also stressed the importance of ensuring accessible alternatives for customers where strong customer authentication relies on the use of smartphones.

Open Banking and Data Access

The proposed framework seeks to strengthen open-banking arrangements through requirements for reliable access interfaces while removing the fallback-interface requirement introduced under PSD2. Account information service providers would also be required to offer users a clear and straightforward mechanism for reviewing and withdrawing consent relating to data access.

Customer Documentation

Customer-facing documentation may require substantial review and updating. This includes framework agreements, terms and conditions, fee disclosures, fraud warnings, privacy notices and complaints-handling procedures.

Developing a Practical Readiness Strategy

To prepare effectively for the transition, the speakers recommended undertaking a documented gap analysis that extends beyond legal and compliance considerations.

The assessment should focus on four key pillars:

-  Authorisation and prudential requirements;
-  Governance and control frameworks;
-  Systems, technology and operational processes; and
-  The customer-facing experience.

Each identified gap should be linked to a defined remediation action, assigned ownership and a target completion date. Firms were encouraged to maintain this assessment as a living document, updating it as technical standards, national legislation and regulatory guidance continue to develop.

The speakers emphasised that prioritisation should be driven not only by legal significance but also by implementation lead times. Technology enhancements, safeguarding arrangements, financial planning exercises and outsourcing changes may require significant preparation. At the same time, firms can immediately begin briefing boards, assigning internal responsibilities, updating governance frameworks and developing winding-up plans.

Key Takeaway

A central theme throughout the webinar was that PSD3 readiness should not be viewed solely as a legal or compliance exercise. Rather, it should be approached as a board-led governance and implementation programme, requiring coordinated involvement across multiple business functions to ensure a smooth and timely transition.

Questions from Attendees

1. Can a firm add an electronic money permission during PSD3 reauthorisation, or must it apply separately under the current regime?

Answer: It is still too early to determine how regulators will approach this. Firms may potentially have the opportunity to seek additional permissions as part of, or alongside, the reauthorisation process. However, where an electronic money licence is required in the near term, applying under the current framework may be the more practical option. Firms should also bear in mind that obtaining an electronic money licence remains subject to regulatory scrutiny and assessment.

2. Will open-banking requirements apply to e-money accounts without an IBAN or SEPA connectivity?

Answer: Based on the current proposals, these requirements appear to apply to payment accounts rather than e-money accounts that do not have an IBAN. Nevertheless, further clarification will be required once the final rules are published. If included within the PSR, the requirements would apply directly across Member States.

3. Are the technical standards final, and when are they expected to be published?

Answer: The current expectation is that the framework and accompanying technical standards may be published before the end of the year. However, timelines remain subject to the progress of the EU legislative process and could change.

4. How will reauthorisation applications be prioritised, and could delays still occur even if firms apply on time?

Answer: No confirmation has been provided on how applications will be prioritised or whether all firms will be authorised within the transition period. Factors such as the quality, completeness and timing of applications may be relevant. Firms are therefore encouraged to prioritise submitting comprehensive and well-prepared applications rather than focusing solely on early submission.

5. Will PSD3 reauthorisation follow a similar approach to previous accelerated regulatory authorisation processes?

Answer: Direct comparisons may be difficult, given the scale and nature of the PSD3 transition across the European Union. While regulators are expected to work towards an efficient process, firms should begin preparations early and ensure their applications are complete and submission-ready.

6. Will applications submitted now be assessed under PSD2 or PSD3?

Answer: Applications submitted at present will continue to be assessed under the existing PSD2 framework. A transition to the PSD3 and PSR regime is expected once the new legislation enters into force, although the exact timing remains uncertain.

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