PSR Payment Systems Regulator

Annual report and accounts 2020/21

HC 383

The Payment Systems Regulator Limited

Annual report and accounts 2020-2021
(for the year ended 31 March 2021)

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Foreword

Charles Randell
Chair

We've all had to adapt to the extraordinary challenges of the pandemic – including changing the way we pay for things.

As people have shopped more online, they have paid online more. As people have used contactless and mobile payments more, they have used cash less. As the UK recovers and opens up, these trends will slow – but many people won't go back to doing things in the same way as before.

In these times of change, the Payment Systems Regulator has the vital mission of making sure that payment systems continue to serve the interests of the people and businesses using them, including through competition and innovation.

With so much change, this has been a challenging time for us to complete our work on our long-term PSR Strategy. When we were created six years ago, no one expected the landscape we face today. We engaged with stakeholders across the board on our future strategy, and launched our formal consultation on it earlier this summer. We have focused this strategy on the outcomes we seek as much as how they get delivered, because in this changing world payment businesses may be able to deliver those outcomes in ways we can't imagine today.

Securing outcomes today is just as important as working for the future. We are continuing to work to help make sure that payments function during the pandemic. We are continuing to work on maintaining access to cash for those who need it. We are continuing to work on protecting people who pay online from scams. We are continuing to ensure that the UK moves to a new core payment platform which enables further competition and innovation in payments.

Much of our work involves collaborative dialogue with payment firms, businesses using payments and consumer groups, but we also use legal powers when necessary, issuing directions or taking enforcement action when we need to. This last year we announced details of our first enforcement investigation under the Competition Act 1998, with three of the parties under investigation having agreed to pay maximum penalties totalling over £32 million.

As new challenges arise in our work we will intervene where we need to and use the approach which will produce the best result, guided by our PSR Strategy. We will be transparent about how we prioritise our work and how we engage our stakeholders to deliver the outcomes we seek.

Chris Hemsley
Managing Director

In our annual plan each year, we make the point that we may need to adjust our work programme in the face of unexpected new developments. Nobody could have anticipated just how relevant that would be this year.

As we entered the year covered in this annual report, the UK had just entered the first national COVID-19 lockdown. The next 12 months would see everyone in the UK dealing with new circumstances and facing new challenges. For the PSR, this meant new demands and limitations on our resources. The payments industry faced these challenges at a time that it became even more central to our daily lives. Importantly, the industry maintained the capability to make and receive payments – digitally and in cash – throughout the pandemic.

I'm incredibly proud of the way my colleagues have responded. These unprecedented challenges could have reduced our impact; instead, we not only delivered a remarkable amount, we went beyond our planned work and launched new work during the year. The impressive progress and achievements detailed in these pages are a testament to the resilience, dedication and mutual support shown by everybody in our organisation. We reorganised and reprioritised where we had to but maintained our focus on the outcomes we want to see in payments.

By adapting our approach, we were able to continue to work with industry and consumer groups on cash reform, helping to make sure that nobody is left behind as digital payments become increasingly common. This was especially important during lockdowns, as our work helped people get their cash when access was severely limited.

We reached settlement with three of the parties in our ongoing investigation into cartel behaviour in the prepaid cards market, these three having admitted that they took part in the alleged cartel and having agreed to pay maximum penalties totalling over £32 million.

We also made sure the six biggest banking groups launched the Confirmation of Payee service to protect consumers, and other users of payment systems, from payment scams.

We published our provisional findings as part of our card-acquiring market review. This was followed by extensive consultation and engagement with our stakeholders as we prepare our final report, making sure we take the right steps to ensure this vital market functions well for businesses and their customers.

Read more

Foreword Chris Hemsley continued

And we took decisive action and intervened in Pay.UK's development of the New Payments Architecture when we saw that the long-term benefits could be in jeopardy, setting out ways in which the delivery of this important upgrade to our payment systems could be de-risked.

This year we also increased our focus on the longer term, as we started discussions with stakeholders – industry participants, businesses and consumer groups – about our PSR Strategy for the next five years. Starting this discussion remotely saw an evolution in the way we engage with people. We used video presentations, webinars and blogs as part of a digital approach, and I was impressed by the quality and volume of the feedback we received. This is another part of our longer-term approach, working with all our stakeholders in ways that suit a more digitally focused world.

Our focus on the future is also illustrated by our work exploring the role that interbank payments could play in providing more choice to businesses and consumers. We've also started to look in detail at cryptocurrencies, the issues that might arise if they become mainstream payment systems, and the role we might play as people begin to use them more. This wasn't in last year's annual plan, but we identified it as an area that will increasingly become a priority so decided to begin our work now.

Our significant achievements this year reflect our focus on outcomes and demonstrate our value as a specialist economic regulator dedicated to payments. We will continue to bring our payments knowledge together with our policy-making and legal analysis to make a real difference to how payments support people and businesses. And – as is reflected in our plan for 2021/22 – we will continue to balance the need to take action on immediate priorities with the need to take action today that will deliver improved outcomes in the future.

I'd like to thank all our staff for their perseverance in getting us through this year so well. I look forward to working with all our stakeholders as we move onward together in our continued work on reforming payment systems, the markets that they support and the payment services on which we all rely.

How we made a difference in 2020/21

Key projects and activity during the year

Keeping the UK's new payment system on track

We identified risks to the industry's delivery of the UK's New Payments Architecture (NPA), and consulted on options to reduce these risks. This will help the NPA deliver improvements for people making payments.

The New Payments Architecture, page 26

Fighting payment fraud

We've overseen the introduction of a new service aimed at preventing scams and improving security in interbank payments, and are working on expanding the service to more banks.

Authorised push payment scams and Confirmation of Payee, page 14

Making sure card-acquiring services work well

We've been carrying out a market review following concerns that the supply of this vital part of the card payments process may not be working well for merchants – and, ultimately, consumers.

Card-acquiring market review, page 29

Protecting people's access to cash

We did vital work to ensure people could continue accessing their cash throughout the pandemic and beyond.

Access to cash, page 22

Effective enforcement

Our investigation into a possible prepaid cards cartel put a stop to a harmful practice affecting welfare payments to vulnerable members of society such as the homeless, victims of domestic violence and asylum seekers. The parties involved face fines of over £32 million if we ultimately conclude they infringed competition law.

Competition casework, page 32

Focusing on the future

We engaged with stakeholders across the board as we developed our future strategy. We're focusing on the outcomes we want to see in payments, to help us make sure they continue to work well for everybody as technology and services evolve.

Strategy work, page 36

Our vision and objectives

Our vision

Payment systems that are accessible, reliable and secure, and represent value for money.

Our statutory objectives

The PSR was created in 2014 under the Financial Services (Banking Reform) Act 2013 (FSBRA). FSBRA requires us to advance one or more of these payment systems objectives when we use our general functions under FSBRA:

- Ensure that payment systems are run and developed in a way that takes account of and promotes the interests of those that use, or are likely to use, the systems.
- Promote effective competition in the market for payment systems and markets for services provided by payment systems in the interests of those who use, or are likely to use, their services.
- Promote the development of, and innovation in, payment systems in the interests of those who use, or are likely to use, them.

With certain exceptions, such as our power to require information, our regulatory powers under FSBRA apply in relation to participants in payment systems designated by the Treasury – the 'regulated payment systems'.

The regulated payment systems under FSBRA are Faster Payments Scheme, Bacs, CHAPS, LINK, Mastercard, Visa Europe, Cheque and Credit/Image Clearing System and Northern Ireland Cheque Clearing.

Our wider role

We are a concurrent competition regulator in relation to participation in any payment system, alongside the Competition and Markets Authority. For example, we can investigate where there may be breaches of the prohibitions against anti-competitive agreements and abuses of dominant positions. We can conduct market studies and make market investigation references under the Enterprise Act 2002.

We are the lead competent authority for monitoring compliance with the Interchange Fee Regulation (IFR) in relation to most card payments. We are a competent authority for monitoring compliance with aspects of the Payment Services Regulations 2017, in particular concerning access to payment systems for payment service providers. We are also the competent authority for alternative switching schemes under the Payment Accounts Regulations 2015.

Strategic report

In 2020/21, in the face of unprecedented challenges, we made effective use of our specialist knowledge and resources to improve outcomes for people and businesses across the UK.

The year was defined by COVID-19 and the lockdowns and other restrictions introduced to contain the pandemic. In the first part of the year, we examined all our operational and strategic priorities and reset timelines for several projects, to allow us and the industry to adapt where necessary. This meant that we could maintain our focus on the outcomes we want to see for people using payment systems, using our full range of regulatory tools to get the right results in the right way. Because of this, the pandemic hasn't reduced our impact: by being bold and decisive, we've achieved a remarkable amount. We even went beyond our annual plan and launched new work on consumer protection and cryptocurrency, in light of priorities we identified throughout the year.

The pandemic meant we had to innovate and take some new approaches to engaging with stakeholders on our future priorities. We successfully used an informal digital approach to get valuable feedback for our proposed PSR Strategy for the next five years, which we're now consulting on. This work will allow us to focus our resources where they can make the most impact, so we can continue making sure payment systems work well for everyone.

Authorised push payment scams and Confirmation of Payee

We continued our work protecting people from payment scams, where some victims have lost life-changing sums of money. We held banks to account on levels of reimbursement to fraud victims, and proposed significant changes to improve the situation. We oversaw the introduction of Confirmation of Payee by the six largest banking groups, creating a major blocker to scams.

The story so far

Authorised push payment (APP) scams

An APP scam takes place when someone is tricked into making a payment to a fraudster. These scams can have a devastating impact on victims, both financially and psychologically. In the first half of 2020, losses due to APP scams totalled £208 million. Our aim is to prevent scams from happening in the first place, and to significantly reduce the harm to victims when they do happen.

Previously, we focused on encouraging and facilitating industry-led approaches to combatting APP scams. We considered this to be the most effective way to achieve the best protection for consumers; we were also mindful of statutory restrictions on the action we could take under the Payment Services Regulations 2017 (PSRs 2017), which implement the second EU Payment Services Directive (PSD2) into UK law. Our work resulted in the introduction of the Contingent Reimbursement Model (CRM) Code in 2019, which sets rules for signatory banks about reimbursing fraud victims who've taken suitable care over their transaction.

The CRM Code has significantly improved outcomes for customers by increasing the number of people who have been reimbursed for their losses. The Lending Standards Board (LSB) has reported that the average reimbursement banks paid to APP scam victims was 19% by value in the first half of 2019. The Code came into effect in May 2019, and average reimbursement levels rose to just under 50% by value in 2020 for payment service providers (PSPs) signed up to the Code. While levels are increasing and continuing on an upward trend, the values are still low on average and vary across PSPs, ranging from 18% to 64%.

Our analysis suggests that although it has significantly improved outcomes for customers, the CRM Code hasn't led to the reduction in APP scams, or the level of protection for victims, that we expected. The wide variation in outcomes across different banks could be due to reimbursement rules in the Code being open to interpretation – making them difficult to apply consistently. This can be seen in the LSB's thematic review of the Code, and in the Financial Ombudsman's decisions on appeals from APP scam victims.

In March 2020, we held a roundtable with representatives of the payments industry and colleagues from other authorities to discuss progress on tackling APP scams. With particular reference to the lower end of the reimbursement range, we said we'd take action if the industry didn't improve customer outcomes.

Confirmation of Payee (CoP)

CoP is a service aimed at improving security, and helping users of interbank payments be confident that they are sending the money to the right recipient. This in turn helps to avoid APP fraud and certain types of APP fraud and accidentally misdirected payments.

Under our Specific Direction 10 (SD10), we directed the UK's six largest banking groups (representing around 90% of bank transfers over Faster Payments and CHAPS) to implement CoP by March 2020.

However, we told the banks that we would not take any formal action before 30 June 2020 if they had to delay implementation while they responded to the immediate pressures caused by COVID-19. In July 2020, all the directed banks had implemented CoP, except for a small number of accounts where there were reasonable grounds not to (for example, due to technical challenges). These exceptions account for less than 5% of transactions.

How this work supports our objectives

We are carrying out this work to ensure that payment systems are operated and developed in a way that considers the interests of the people and businesses who use them. At the same time, we are mindful of the principle that people using payment services should take responsibility for their decisions.

What we did in 2020/21

APP scams

What we said we'd do	What we did
Monitor and assess the extent to which the CRM Code and CoP are preventing APP fraud and protecting victims. Actively encourage any Code amendments, firm behaviours and other actions needed to ensure the Code has its intended impact. Identify and take steps to encourage more PSPs to join and support the CRM Code. Work closely with the Financial Conduct Authority (FCA) and other relevant authorities in tackling financial scams, ensuring we coordinate our efforts, share relevant information and take appropriate action where the PSR is best placed to act.	In early 2020, we determined that reimbursement and repatriation levels were not where we expected them to be. In March 2020, we called on industry to improve outcomes for APP scam victims, and said we would take action if they did not improve. Following this, we looked at whether the CRM Code was protecting people and helping them recover their funds where possible, by: • engaging with Code signatory banks about their progress, and with the Financial Ombudsman Service about consumers' experiences and outcomes • analysing reports and requesting further information from the signatory banks to understand whether they were applying the Code consistently and effectively • working closely with the LSB to make sure governance of the Code is effective • working with the banks to support them to make any amendments required to the Code and guidance, changes to their behaviour, and any other actions highlighted in the LSB's review work (for example, in April 2021, following a review of the Code, the LSB changed it to clarify that PSPs can fund their own reimbursement costs (rather than having to sign up to a shared funding pot) in APP scam cases where neither the victim nor their bank is to blame) In spite of our warning, reimbursement rates did not improve significantly during 2020, with the average across the CRM Code signatories remaining below 50%. Because of this lack of improvement, in February 2021 we issued a call for views on three measures we believe could prevent APP scams and protect victims: • requiring banks to publish their APP scam reimbursement and repatriation levels, which will mean people can make an informed choice about who to bank with • enhancing banks' risk detection by sharing information about suspect transactions, which will help to prevent fraud • changing the rules of the main payment systems that deal with consumer payments (Faster Payments and Bacs direct credit) so that all PSPs using these systems have to reimburse APP scam victims who have acted appropriately During 2021, after a consultation, we will consider the responses and take whatever action is appropriate to ensure industry is helping to protect people from fraud.

What we did in 2020/21

Confirmation of Payee

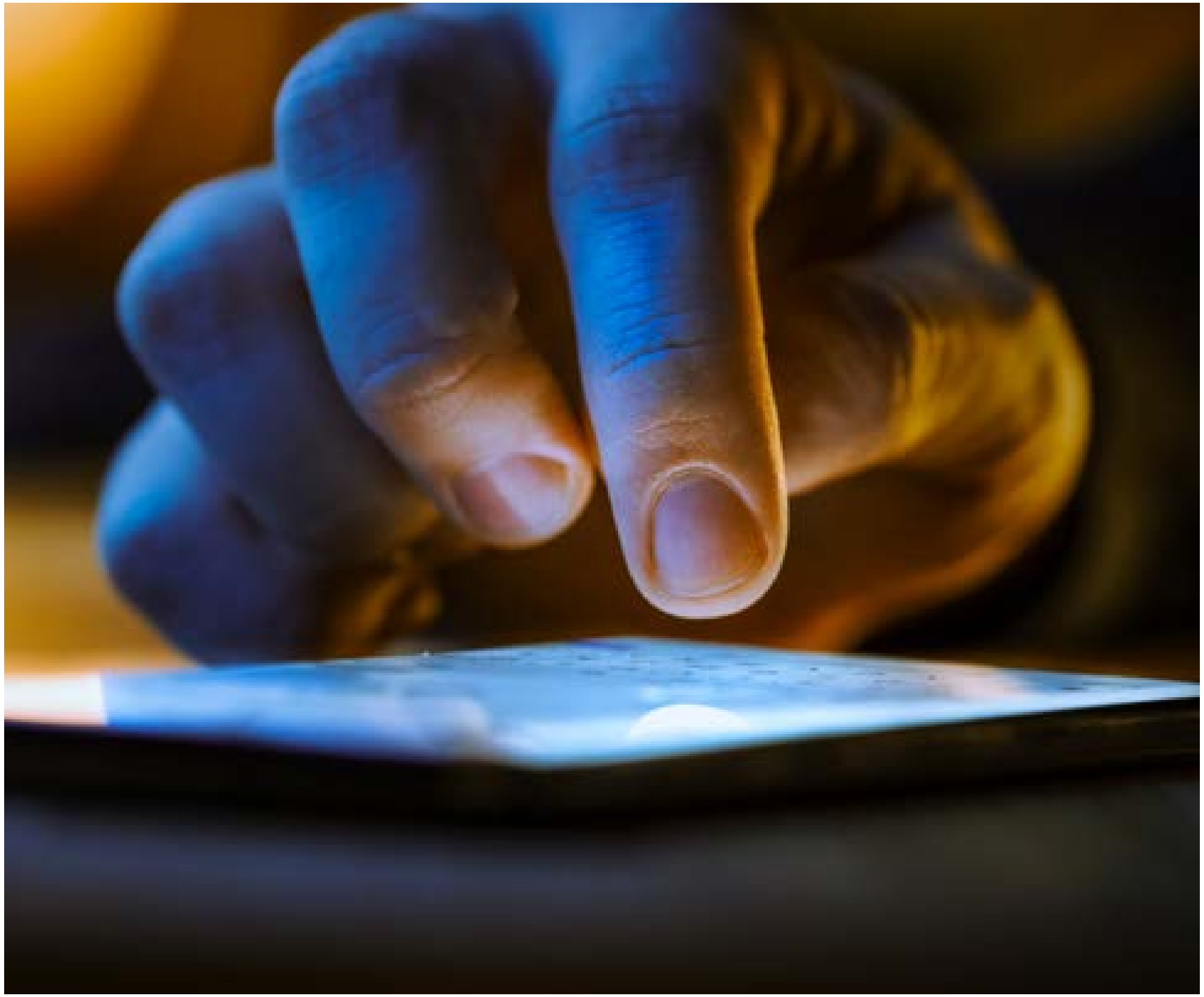
What we said we'd do	What we did
Monitor and assess compliance with our Specific Direction 10 (SD10), which required the UK's six largest banks to fully implement and deliver Confirmation of Payee by the end of June 2020.	• We assessed the banks' progress in implementing CoP, including rejecting applications for deadline extensions where they weren't justified. • In August 2020, we confirmed widespread coverage of CoP across members of the UK's six largest banking groups, covering 90% of relevant transactions in the UK, as a result of our direction under SD10. • Banks told us that CoP has made a difference and increased customer confidence in interbank payments. We gathered detailed data from the industry to see how well CoP is working against a backdrop of ever-evolving APP scam tactics, increased social engineering and the impact of COVID-19. We published our analysis in May 2021. • We worked with Pay.UK to enable more banks to implement CoP. • Several non-directed banks have chosen to implement CoP, but there are more that could do it. We're assessing whether further action is needed to enable CoP to be rolled out by the rest of the market, and we published a call for views on this in May 2021. The responses, our analysis of CoP's impact so far, and other information gathered from the industry will help us determine what further actions are necessary later in 2021.

Working together

We worked closely with the Treasury, the Home Office, the FCA, the Bank of England, UK Finance, the Financial Ombudsman Service, the LSB, individual PSPs and a number of consumer and other stakeholder organisations to ensure our work is targeted and has an impact. We will continue to work with this varied range of groups.

Why this matters

APP scams are a significant and growing problem. Fraudsters trick people into transferring money to them by posing as a legitimate payee or constructing fraudulent reasons for a payment. The scammers are clever, organised criminals, and people have lost life-changing sums of money as a result of this activity.



Consumer protection

We published a call for views to look at whether consumers are sufficiently protected when they make payments. Although this work wasn't in our annual plan, we identified protection of end users as being particularly important during the pandemic and its aftermath. We know that protecting end users is crucial to a robust payments sector.

The story so far

In recent years, consumer behaviour has changed considerably. Notably, demand for real-time payments with instant transfer of funds has grown significantly. The UK led the way with the launch of Faster Payments in May 2008. This means payments of up to £250,000 can be sent to or from almost all current accounts in the UK with very fast clearing times.

More and more of us are using these forms of digital payments, and more regularly. New developments and innovations – such as those offered through open banking services – continue to improve opportunities for using Faster Payments. While we welcome innovation, we need to ensure that the interests of the people and businesses who use payment systems are continuously considered during the development of these services. There must be adequate safeguards in place if people are going to use Faster Payments for retail purchases.

How this work supports our objectives

We want to encourage payment systems to develop and innovate in ways that benefit their users. And we want to see measures that protect consumers by making it easier for them to make a claim when something goes wrong with their purchase; this will also benefit businesses by providing them with certainty about what happens when a purchase is disputed.

What we did in 2020/21

What we said we'd do

Although this wasn't in our annual plan, in the face of the challenges presented by the pandemic, we identified it as a potential concern and acted decisively to improve protection for consumers.

What we did

- In February 2021, we published a call for views on consumer protection in interbank payments, setting out why we think more protection for retail purchases is needed. We also asked questions about how to prevent consumer harm and improve protection processes. We published this alongside our call for views on measures to combat APP scams, as part of our plan to boost protection in payments.
- We engaged with a wide range of stakeholders to explore ways to improve protection for consumers, including:
  - co-chairing a working group on consumer protection in open banking together with the Open Banking Implementation Entity (OBIE)
  - developing solutions as part of a working group on consumer protection co-chaired by Pay.UK and UK Finance
  - speaking to industry, consumer representatives, the Financial Conduct Authority (FCA), the Competition and Markets Authority, the Bank of England and the Treasury to make sure we understand the issues fully and can develop solutions that will work

Working together

When we started the consumer protection project, other organisations were also reviewing consumer protection for Faster Payments. In July 2020, the Treasury issued a call for evidence for its Payment Landscape Review. Various businesses also initiated research into the effectiveness of protection for Faster Payments. This includes the working group on consumer protection co-chaired by Pay.UK and UK Finance mentioned above. Our consumer protection project builds on their work and – through regular engagement with stakeholders – gathers insights about the different initiatives to steer the debate.

In addition, we are working closely with the OBIE to develop recommendations for addressing consumer protection for Payment Initiation Service Provider (PISP) initiated payments.

Why this matters

We place high importance on ensuring that consumers and businesses continue to be protected when they use payment services. This is as important for existing services as it is for innovative ways to pay. Consumers should find it easy to make a claim when something goes wrong, and businesses should have certainty about what happens when a payment is disputed. All of this should be done without introducing disproportionate costs to the system or its participants.

We think this work will increase confidence in interbank services. It may contribute to greater use of interbank systems (including retail payments), which could lead to greater competition between payment systems – which could ultimately lead to lower costs, higher quality and greater choice of payments.

Access to cash

We made sure people had access to cash throughout the pandemic by maintaining a robust ATM system, through our strong regulatory engagement with LINK, industry and authorities.

The story so far

Digital payments are increasingly common for people in the UK, and during COVID-19 people have made even greater use of online and contactless payments. But the pandemic has also shown that most of us still use cash too – and for some, it's essential. At the beginning of the lockdown in April 2020, people still withdrew £1 billion a week from ATMs. In August 2020, that rose to £1.5 billion a week. Our view is that everyone should be able to make payments in ways that work well for them. This means there must be long-term solutions to guarantee continued access to cash for people who need it.

Despite the downward trend in cash transactions, we want to make sure that the market supports varying choices and needs so that people have ways to pay that work for them. Our Specific Direction 8 (SD8) requires LINK to maintain a broad geographic spread of free-to-use (FTU) ATMs, so that people can withdraw cash when they want to. This Direction has helped to support LINK in developing policies to protect this geographic spread and install new machines in areas that need them. We are also starting to see the impact of industry pilots exploring how to solve some of the more immediate problems in accessing cash.

In September 2020, the National Audit Office published a report on **the production and distribution of cash**. This recognised that we have been active in managing access to cash in line with our responsibilities and statutory objectives.

How this work supports our objectives

Access to cash for those who need it is a key priority for us; through our regulation of LINK we ensure that cash remains available across the UK. This supports our statutory objective of promoting the interests of the people and businesses who use payment systems. We know that, while cash is important for a wide range of people, those who are most likely to rely on it tend to be more vulnerable – including people who don't have access to computers or internet, those on low incomes and the elderly.

This work also supports our other statutory objectives on promoting effective competition and supporting innovation. For example, consumer need for cash should drive competition between payment systems (for example, between cash and card payments) to meet that need, and there should be innovative market offers on ways for people to access cash.

What we did in 2020/21

What we said we'd do	What we did
Take appropriate steps to ensure reasonable access to the ATM networks in the near term. This will include overseeing LINK as it maintains a broad geographic coverage of FTU ATMs and working with other stakeholders to support improvements in cash access.	• We acted quickly and decisively with LINK to make sure cash was available in ATMs throughout the pandemic. • We worked out where cash needs were and were not being met across the UK. Alongside the Financial Conduct Authority (FCA), industry and the University of Bristol, we produced the first ever fully comprehensive map of access to cash across the UK. This indicated that access to cash is good across most of the UK, with free access within 1km for 90% of neighbourhoods (based on geographical areas used for the census). • Together with the FCA, we gathered data during COVID-19 to identify any temporary losses of cash access (cold spots) and worked with industry to fill these gaps. • We supported innovation in cash access services, including those which have emerged in response to the COVID-19 pandemic – for example, direct cash deliveries for people who couldn't leave their houses. We also continue to encourage industry to talk to communities to understand changing cash access issues in local areas and identify solutions. Examples include LINK's ATM request scheme, which has received over 3,800 requests since it launched in October 2019; and the Community Access to Cash Pilot initiative, which has identified multiple solutions to trial in eight communities across the UK • We continued to make sure LINK maintains a broad geographic spread of FTU ATMs. We're reviewing our regulatory measures to make sure we continue to regulate LINK in detail. We do this through our Specific Direction 8 (SD8), which is part of the review. We issued a call for views on SD8 in January 2021, which fed into our second annual review of how well SD8 is working. We published the SD8 review in July 2021. We found that SD8 should remain in place, with some minor amendments, until it expires in January 2022. We are currently considering whether a new Specific Direction to LINK is required to maintain access to cash, when SD8 expires.

What we did in 2020/21

What we said we'd do

Play an active role in developing a long-term framework for access to cash, working closely with the FCA, the Bank of England, the Treasury and industry stakeholders to coordinate our work on ATM networks.

What we did

- In late 2020, we established a series of industry working groups with the FCA to identify sustainable long-term solutions for access to cash. This included considering and recommending how to support people in transitioning to digital solutions that work for them.
- The industry working groups made a number of recommendations, which also reflected input from consumer groups. These included:
  - establishing a Provider of Last Resort for ATM provision – a provider that would step in and run an ATM if the existing operator couldn't do it any more
  - a five-year industry commitment to a single ATM scheme

  These recommendations were presented to the Steering Group (jointly chaired by the PSR and FCA) in December 2020. We have set out our expectations for industry to progress these recommendations and maintain access to cash through our recent **joint statement with the FCA**. We welcome UK Finance's recent commitment to protect critical cash infrastructure and look forward to seeing further progress from the Access to Cash Action Group, in a way that complies with competition law.
- In December 2020, the Public Accounts Committee recommended that we send it a detailed assessment of access to cash in the UK. In January 2021, we issued a **joint response** with the Treasury.

Working together

We have worked very closely with the FCA in the past year, including:

- publishing a joint policy statement setting out our approach to access to cash
- hosting joint stakeholder events and meetings (including the industry working groups mentioned above)

We have collaborated with our fellow regulators and public bodies via the Joint Authorities Cash Strategy (JACS) Group. This brings together the PSR, the FCA, the Bank of England and the Treasury to coordinate activity and ensure that regulatory oversight supports the end-to-end cash infrastructure. This valuable work has continued throughout the pandemic to minimise any temporary losses in access to cash.

Why this matters

Despite falling use, cash remains an important payment method for many, particularly the more vulnerable members of society. This includes people who have been unable to shop for themselves and need cash to reimburse friends and family. Digital payments are not yet suitable for every need or circumstance. This means supporting access to cash is important, both for people's current needs and as they change over time.

The New Payments Architecture

We're making sure Pay.UK develops this new payment system in a way that promotes effective competition and innovation, giving people more security and choice in interbank payments. This year we concluded that there are unacceptable levels of risk delivering the programme and intervened to make sure Pay.UK and the industry deliver a robust and competitive system.

The story so far

The New Payments Architecture (NPA) is the UK payments industry's proposed new way of organising the clearing and settlement of interbank payments – payments transferred directly from one bank to another. It should provide more security for people making interbank payments.

Pay.UK, the operator of Bacs and Faster Payments, is responsible for delivering the NPA. This includes procuring a provider for the NPA's central infrastructure services. We're monitoring Pay.UK's progress, and we'll take action where needed to make sure it delivers positive outcomes for people and businesses.

In January 2018 we sent an open letter to Pay.UK with four targets that we consider need to be met for the NPA to be successful:

- increased innovation in the payments industry
- timely delivery with support and engagement from stakeholders
- effective competition across all layers of the NPA, with low entry barriers for service providers
- an NPA that is technically robust and resilient

In January 2020, we also published a call for input on potential risks to competition and innovation in the NPA.

How this work supports our objectives

The NPA is an opportunity to promote the interests of the people and businesses who use payment systems across the UK by meeting the growing demands for digital payments and supporting increased competition, resilience and security in payments.

What we did in 2020/21

What we said we'd do

Monitor the procurement of central infrastructure services, to make sure the process supports competition and innovation in the NPA.

Deliver greater clarity about how competition risks will be managed when NPA goes live, including details on our regulatory approach.

What we did

- We evaluated Pay.UK's NPA programme, working closely with the Bank of England, to ensure it meets our expectations: supporting competition and innovation and taking account of and promoting the interests of people and businesses.
- Through our work with the Bank of England and Pay.UK, we concluded that there are unacceptably high risks that the NPA programme will:
  - not provide value for money
  - delay or prevent the benefits to competition and innovation that we want it to deliver
- To reduce these risks and find an effective way forward, we published a consultation paper in February 2021 asking for views on:
  - whether narrowing the scope of the central infrastructure services contract would reduce risks to the programme being delivered successfully
  - the appropriate way to secure this contract
- The consultation paper also sets out our proposals for reducing risks to competition and innovation when the NPA is operational, building on our call for inputs and other stakeholder engagement.
- We also required Pay.UK to provide a report by a skilled person on its ability to deliver the NPA, which it gave us in January 2021.

Working together

Our consultation paper opened a dialogue with stakeholders about how we could make sure the programme delivers good outcomes for the people who will use the NPA. We're working closely with Pay.UK to explore these options.

We also continue to work closely with the Bank of England, which monitors Pay.UK's NPA programme in line with its responsibilities for supervising systemically important payment systems and risks related to financial stability.

Why this matters

Millions of us rely on interbank payments every day – whether receiving wages, paying bills through Bacs or transferring money using internet banking via Faster Payments. They are an important part of life and are central to the functioning of the UK's economy.

The NPA presents an opportunity to deliver improved resilience, meet the growing demands for digital payments and support increased choice, competition, resilience and security in payments to benefit people and businesses across the UK.

We're overseeing Pay.UK's work delivering the NPA, to assure an outcome that supports our statutory objectives – to promote competition, innovation and the interests of the people and businesses who use payment systems.

Card-acquiring market review

Card-acquiring services are essential for businesses taking card payments from customers. We analysed a huge amount of data for our interim report, where we concluded that many businesses could be getting a better deal – which could lead to better prices for consumers.

The story so far

Card-acquiring services accept and process card payments on behalf of a merchant, resulting in a transfer of funds to the merchant. We have been carrying out a market review following concerns that card-acquiring services may not offer value for money for merchants. In particular, stakeholders told us that acquirers were not passing the savings made from Interchange Fee Regulation caps through to smaller merchants. These concerns prompted us to examine whether the supply of these services has been working well for merchants and, ultimately, consumers.

How this work supports our objectives

The market review helps us to promote effective competition in the markets for payment systems and services. The aim of the review includes looking at how well competition is working and whether there are any aspects of the market that might negatively affect competition in the supply of card-acquiring services.

It also helps us consider whether any aspects of the market might affect firms developing innovative ideas, or harm the interests of the people and businesses affected by the supply of card-acquiring services.

What we did in 2020/21

What we said we'd do	What we did
Set out our initial findings on the current operation of the card-acquiring market in our interim report.	• We published our interim report in September 2020. It showed that merchants could make savings by shopping around and either switching or negotiating with their current provider – but many small and medium ones don't. The report also outlined some potential approaches we could take to address why certain merchants aren't trying to find a better deal.
We will work with stakeholders if we think this part of the market needs fixing through what we call remedies.	• We set up a special process referred to as 'confidentiality rings'. These allowed us to safely share confidential material underlying our analysis and survey of businesses with firms and their appointed external advisers. This helped firms, with input from their appointed advisers, to help respond to our consultation. • We held a programme of stakeholder engagement consisting of meetings, two webinars and a live Twitter event to discuss the interim report. The aim was to make sure our final conclusions are as robust as possible, so we can find the right solutions to issues we identify.
Consider responses to our interim report, and set out our final views and any proposals on remedies in our final report.	• We're currently finalising our findings and making progress with our remedy design work. We now plan to publish the final report and consult on our proposed remedies in Q4 2021.

Working together

We have engaged with other authorities during our work, including the Competition and Markets Authority and the Bank of England.

Why this matters

Card payments are now the most popular way for people to pay for goods and services, and their use is growing.

For merchants to accept card payments, they need to use card-acquiring services. The costs of these services ultimately affect the prices their customers pay, so it is important merchants have the opportunity to get a good deal.

COVID-19 may accelerate many well-established trends, such as the growth in card payments. If these trends continue, it's even more important that the supply of card-acquiring services works well for merchants.

Competition casework

We've worked hard to investigate a potential cartel relating to prepaid cards used by local authorities to distribute welfare payments. We issued a Statement of Objections to five parties alleging that they engaged in anti-competitive behaviour by agreeing not to compete or poach each other's clients. Three of the parties – allpay, Prepaid Financial Services (PFS) and Mastercard – have already admitted that they took part in the alleged anti-competitive arrangement(s). If we ultimately conclude that they infringed competition law, the three parties have agreed to pay maximum fines totalling over £32 million. The investigation is ongoing.

The story so far

We started work on our first Competition Act 1998 (CA98) case in October 2017. In February 2018, we carried out unannounced searches at a number of premises. We seized thousands of documents, which provided evidence suggesting that the parties involved had colluded to prevent competition in the market for prepaid cards for welfare payments. Our investigation involved a series of interviews with all parties and detailed analysis of a huge amount of material over nearly four years to reach our findings.

How this work supports our objectives

Our CA98 enforcement work supports our competition and service-user objectives by holding parties to account for non-compliance with their obligations, ensuring that the payments sector is working well and that effective competition translates into better prices, choice and innovation.

What we did in 2020/21

What we said we'd do	What we did
Continue our first CA98 investigation.	This year we issued a Statement of Objections alleging that Mastercard, allpay, Advanced Payment Solutions (APS), PFS and Sulion engaged in anti-competitive behaviour. We allege that there were two infringements of CA98 that took the form of market sharing and customer allocation: • One lasting six years (between 2012 and 2018) and involving all five parties (some parties participated in the infringement for shorter periods of time). • The other lasting two years (between 2014 and 2016) and involving APS and PFS. We provisionally concluded that the parties coordinated their commercial behaviour to share the market and allocate customers in relation to the supply of prepaid card services used for welfare disbursements to public bodies in Great Britain. The pre-paid cards operated on the Mastercard card scheme and were used by local authorities to distribute welfare payments to vulnerable members of society, such as the homeless, victims of domestic violence and asylum seekers. Other than for a short period in 2016, Mastercard sponsored and wholly funded the National Prepaid Cards Network, whose members were the public sector bodies potentially interested in prepaid cards (local authorities, etc) and the Mastercard programme managers (PMs) – allpay, APS and PFS. Sulion's key function was to provide services to Mastercard for which Sulion was remunerated. Its mandate was to promote the use of prepaid cards in the public sector through the setting up of the Network. The Network was central to one of the cartels we investigated, which took place between 2012 and 2018. We have provisionally found that during this period the five parties arranged for the PMs not to target or poach each other's public sector customers that were in contract with other Network PMs or were being provided services through a pilot programme by other Network PMs. In the early days of the Network, the parties also colluded to exclusively allocate the leads from Network promotional events between the Network PMs. In addition, we have provisionally found that between 2014 and 2016, APS and PFS arranged not to target each other's public sector customers when a contract was up for renewal, including through a public tender. The Statement of Objections sets out our case against the parties. It is a provisional decision only and does not necessarily lead to an infringement decision. Parties have the opportunity to make representations on the matters set out in the Statement of Objections. We will consider any representations we receive from the parties before any final formal decision is taken as to whether competition law has in fact been infringed. Mastercard, allpay and PFS each agreed to settle with us and admitted that they took part in the alleged anti-competitive arrangement(s). If we ultimately conclude that there have been infringements, Mastercard, allpay and PFS have agreed to pay maximum fines totalling over £32 million.

Working together

In line with the competition concurrency regime, we've continued to cooperate closely with the Competition and Markets Authority, in particular, in relation to the ongoing investigation. This has involved the reciprocal sharing of knowhow and experience in different areas of our work to make the best use of our resources and specialist knowledge.

Why this matters

The investigation concerns prepaid cards that were used by local authorities (and other public bodies such as clinical commissioning groups to provide benefit payments to some of the most vulnerable in society – for example the homeless, asylum seekers, and domestic abuse victims. The actions of the parties restricted the choice of suppliers – meaning local authorities could have paid more or have less quality in the services they received.

Strategy work

We've created a proposed strategy to guide our operations over the next five years. The content of the PSR Strategy will lay out the outcomes we'd like to see in payments, our key priorities, and how we propose to measure whether we are achieving these outcomes. The strategy will provide our stakeholders with a good level of knowledge about our work and approach, and help them understand why we make the decisions we make.

The story so far

We recognise that the industry is dynamic and rapidly developing, and we're focused on ensuring we can continue to meet our objectives in such an environment. To do this, we need to prioritise and allocate our finite resources in an effective manner. We can then respond to changing needs and concerns, and focus on improving the areas where we can have optimum impact.

To provide clarity on our priorities, we are creating a PSR Strategy. Over the last year, we embarked on an engagement campaign aimed at gathering different perspectives on our work, mandate and approach. We used new digital approaches across a variety of channels to discuss our priorities with our stakeholders.

The discussions we held were invaluable in helping us learn what our stakeholders think, want and expect from the PSR in the future. The insight gathered through our outreach helped to influence our proposed PSR Strategy, which we published for consultation in June 2021.

How this work supports our objectives

The PSR Strategy is helping us articulate our vision and concerns in an open and clear manner. It will guide a programme of work that supports our objectives, including each of our statutory objectives. We will work to make sure that as many people and businesses as possible have access to payment systems that meet their needs, and that their interests are sufficiently protected when using them. We also want to see a payment landscape that facilitates effective competition and supports innovation, while enhancing efficiency and reliability.

What we did in 2020/21

What we said we'd do	What we did
Hold stakeholder events around the country to discuss views on our proposed PSR Strategy	• As we were unable to hold physical events, we implemented an informal online engagement strategy which allowed us to gain valuable feedback from our stakeholders. Our digital campaign included webinars, surveys, blogs and articles that invited stakeholder responses.
Consult on our strategy for our future longer-term focus, inviting feedback from interested parties.	• To reduce strain on all our stakeholders last year, we focused on a longer and informal digital engagement campaign. As part of our engagement we also discussed the key concerns facing the industry through engagement with the Treasury, the Bank of England, the Financial Conduct Authority (FCA), other regulators and a range of industry stakeholders. • We used the insight gathered through these discussions to assist with the design of our draft PSR Strategy, which we published for consultation in June 2021. This insight was complemented by our own research, as well as the findings from the Treasury's Payment Landscape Review (see page 46).
Publish a final strategy, taking the feedback we receive into account.	• Following our consultation, which we published in June 2021, we expect to publish our final PSR Strategy in Q4 2021.

Working together

In 2020, we began a campaign of engagement to hear different perspectives on our work and approach. We broke down our initial focus into three themes: competition, innovation, and choice and availability of payments.

To help us explore these themes, we had contributions from members of staff and a range of external stakeholders – including groups and organisations representing consumers, businesses and industry, and the Financial Services Consumer Panel. Taking the form of blogs, think-pieces, video discussions and webinars, these contributions helped shape the debate to make this phase of our work more engaging.

We also discussed the key concerns facing the industry through engagement with the Treasury, the Bank of England, the FCA, other regulators, and a range of industry stakeholders.

Why this matters

In recent years, we've made significant progress in working with industry, regulators and government to establish a robust payments sector. We've delivered significant improvements that have helped people making and receiving payments – such as helping to prevent payment fraud and opening up access to payment systems for those providing payment services. As payment systems and services continue to develop, we need to ensure that they do so in ways that benefit those who use these services and, in doing so, help to make sure that the sector is innovative and competitive.

Our aim in designing our future PSR Strategy is to clearly establish the outcomes we want to see for people and organisations making payments in the future, and the key priorities we'll focus on to achieve those outcomes. This will allow us to evaluate our successes and highlight where more needs to be done. It will also help others understand what we prioritise and why, and the potential implications for them.

Engaging with stakeholders in developing and finalising our strategy ensures that those who use and provide payment services feed into our agenda and understand why we make the choices that we do. It will also help us make sure we get it right. The final PSR Strategy will enhance our transparency and provide direction for the payments sector, as we work towards set goals and plans.

Sector intelligence and analysis

We were proactive in our programme of industry engagement, gathering and analysing data to identify emerging trends. This dedication to essential background work informs all of our projects and enables us, as a specialist regulator, to protect and promote everybody's interests in an ever-evolving payments sector.

The story so far

We assess the issues and challenges that arise as payment systems evolve in an ever-changing environment, now emphasised by the pandemic.

We are developing our processes to gather intelligence about the payments sector, boosting our understanding of trends and how the sector is evolving.

Our work provides up-to-date intelligence and analysis to teams and decision-makers across the organisation. This enables us to keep refining our regulatory approach to make sure we can use our resources most effectively to support the interests of people and organisations using payment systems.

How this work supports our objectives

Understanding the emerging issues and challenges in the payments sector helps us decide what we need to focus on in order to further our objectives and make the best use of our resources.

As the payments sector evolves – and the needs and preferences of those making and receiving payments change – we must ensure that we have the right policies and protections in place while promoting the interests of everybody using payment services.

What we did in 2020/21

What we said we'd do	What we did
Improve how we collate and analyse information about market developments to help us to identify risks and use our resources most effectively.	Our key outputs included the following: • We engaged with key stakeholders who facilitate payments to understand their views on how the payments sector has evolved over the year. • We gathered and analysed industry data and information to provide a solid evidence base for our policy work. • We identified key trends arising from technological and structural changes in payments and use of payments, such as the move from cash to digital payments. • We are building an internal analytical framework to help us understand the impact of changes in the sector and inform our regulatory approach.

Working together

Our Chief Economist leads this work with input from across the organisation, including internal policy advisers and economists, as well as internal and external legal and technical specialists. We also collaborate with other authorities to stay aware of relevant developments – in particular with the Financial Conduct Authority (FCA) and the Bank of England in accordance with our Memorandum of Understanding.

Why this matters

The aim of this work is to ensure that we stay abreast of developments in the fast-changing payments sector, so that we can refine our regulatory approach. Intelligence gathering and analysis helps us to identify and manage risks before they materialise, as well as be at the forefront of developments and be agile and effective in our response to them. This will enable us to adapt our approach, taking account of emerging trends where they affect the way we regulate.

Our work will complement projects such as our strategy-setting work (see page 36) and help us to coordinate our efforts to address different challenges. Ultimately, this ensures that we use our resources effectively and intervene where appropriate to promote the interests of people using payment systems.

We're aiming to develop our information-gathering processes, which includes continuing to work collaboratively with the FCA and the Bank of England. Where appropriate, and consistent with information law, we will make fuller use of their data and research to reduce the regulatory burden on firms providing information, particularly in light of COVID-19.

Cryptocurrency and stablecoins

We've started to look in detail at cryptocurrencies, and the role we could play as people begin to use them more. This wasn't in last year's annual plan, but we identified it as an area with numerous opportunities and risks, and have acted to make it a priority.

The story so far

Cryptoassets and stablecoins are becoming increasingly widespread across the financial and payments industries. Research conducted by the FCA estimates that 2.6 million UK consumers have bought cryptoassets.[1] These new products may be used by consumers and businesses more in the future, and in varying ways. For example, some stablecoins have the potential to be used for payments.

We have been engaging with several cryptoasset and stablecoin firms who aspire to launch payment systems in the UK. Alongside our colleagues in the regulatory sphere, we have set out our regulatory expectations for new crypto-based payment systems. We have also worked closely with other authorities to develop an appropriate regulatory framework for these new systems.

How this work supports our objectives

The growth in the cryptoassets market is leading to greater innovation and development of new payment systems and infrastructures. If the Treasury designates a cryptoasset as a payment system for regulation by the PSR, we would work to advance our statutory objectives in this regard. This would involve promoting effective competition, as well as ensuring that it operates and develops in a way that takes account of and promotes the interests of users. One of our key aims is to make sure these new systems are high-quality and cost-effective, while minimising risks to consumers and businesses.

[1] www.fca.org.uk/news/press-releases/fca-research-reveals-11million-spike-cryptoasset-buyers

What we did in 2020/21

What we said we'd do

This work wasn't part of our published annual plan in 2020, but with the growth in the cryptoassets market and development of new payment systems and infrastructures, it became a priority for us during the year.

What we did

- In September 2020, we joined the Treasury's Cryptoassets Taskforce (CATF) alongside the Bank of England and the FCA. The CATF's aim is to coordinate the UK's regulatory approach to cryptoassets and stablecoins. Alongside this group, we have been considering the most appropriate regulatory approach to cryptoassets and stablecoins for payments.
- We provided input to the Treasury's consultation on the broader UK regulatory approach to cryptoassets and stablecoins, which was published in January 2021.

Why this matters

Regulatory authorities and central banks across the world remain mindful of the opportunities and risks associated with these new products. We're focused on making sure any cryptoasset or stablecoin which is used for a significant number of payments is developed and operates in accordance with our statutory objectives, so that they work in the interests of the people using them. This could involve making sure there is effective competition, appropriate access provisions, and rules to protect users.

Treasury-led reviews

We've been working closely with the Treasury on its review of the payments sector.

The story so far

We help the Treasury in its work to make sure regulatory remits and powers keep up with the ever-evolving payments sector. This involves looking at what is happening now, as well as forming a suitable plan and approach for the future.

In June 2019, the then Chancellor of the Exchequer announced two Treasury-led reviews: one of the UK's payments landscape and one of the future regulatory framework for financial services. Since then, we have been supporting and feeding into both reviews.

How this work supports our objectives

The aim of the reviews include ensuring our regulatory remit and powers are fit for purpose, now and in the future, so that the interests of people and organisations using payments are supported across the regulatory regime.

What we did in 2020/21

What we said we'd do	What we did
Feed into the Payments Landscape Review and the Future Regulatory Framework Review.	• Alongside the Financial Conduct Authority (FCA) and the Bank of England, we worked closely with the Treasury to contribute to the Payments Landscape Review, providing resources, feedback and specialist knowledge

Working together

We regularly collaborate with the Treasury, the FCA and the Bank of England to develop proposals and coordinate our work.

Why this matters

The Payments Landscape Review aims to assess how well the present payments framework is delivering against government's aims, and asks questions about the opportunities, gaps and risks that need to be addressed to make sure the UK maintains its status as a country at the cutting edge of payments technology. In addition, the Future Regulatory Framework takes stock of the overall approach to regulation of the financial services sector, and how regulatory frameworks may need to adapt now that the UK has taken on responsibility for financial services regulation previously produced at an EU level.

Access to payment systems

We continued to assess compliance with legislation and our directions on access to payment systems, helping to support competition among payment service providers (PSPs).

The story so far

In the last few years, direct access to the interbank payment systems (Faster Payments, Bacs and CHAPS) has become much more open, with the numbers of new direct participants growing year-on-year. New technologies, such as aggregator services and direct technical access, have enabled more ways of connecting. Six PSPs[2] joined one or more interbank systems directly in the 2020/21 financial year. We expect seven more to join in the remainder of 2021, which will lead to more choice of services and providers for businesses and consumers.

Some PSPs provide indirect access to payment systems, allowing other PSPs to use their connection to a payment system. Some indirect access providers (IAPs) have recently joined the market and are setting up access for new PSPs. In 2020, one indirect IAP left the market.[3] We're aware of other PSPs that are considering becoming IAPs.

As well as regulating to promote the right conditions for access to the UK's payment systems, we have an enforcement role under relevant legislation. We are the competent authority for monitoring and ensuring compliance with the access provisions set out in Part 8 of the Payment Services Regulations 2017 (PSRs 2017).

As part of this role, we review complaints about compliance with these provisions, and act on them as appropriate. We can:

- gather information and conduct investigations into potential non-compliance
- give directions
- impose sanctions, including fines

We also have powers to deal with access matters under sections 56 and 57 of the Financial Services (Banking Reform) Act 2013 (FSBRA). We can intervene in access disputes if we receive an application from a PSP to use our powers.

How this work supports our objectives

Our work on access supports our competition objective. Improved access to payment systems will lead to more effective competition within payment systems, which will provide consumers and businesses with more payment options. This in turn will support our other statutory objectives.

[2] Intelligent Finance, Square, Tandem Bank, Mettle, Prepaid Financial Services, Banco Santander
[3] BFC Bank

What we did in 2020/21

What we said we'd do	What we did
Monitor developments in access to payment systems, including monitoring compliance with the access regulations in Part 8 of the PSRs 2017.	• In our role as competent authority under the PSRs 2017, we received a number of complaints in 2020/21 from PSPs relating to access. For each complaint, we conducted a preliminary assessment of the evidence in accordance with our Administrative Priority Framework where appropriate, to decide whether or not to open an enforcement case. Some of these matters were highly complex and required significant analysis. We opened our first enforcement case relating to access in 2020, and we will continue to progress this case in 2021. • In relation to our powers under sections 56 and 57 of FSBRA, we received one application to exercise our section 57 powers in 2020/21.
Publish our annual report on access to payment systems and the governance of certain regulated payment system operators in the UK.	• We postponed our report in 2020 because of the impact of COVID-19. We plan to publish a report in Q3 2021 that will cover developments over the 2019 and 2020 calendar years.
Consult on updated access guidance, combining our existing guidance.	• We had to put this work on hold, partly due to COVID-19 and partly because we're liaising with the Treasury on access legislation.

Working together

We engage regularly with the Financial Conduct Authority (FCA), IAPs and PSPs on access matters.

Why this matters

Reducing unnecessary barriers to access is an important part of our work. Promoting access to payment systems has always been a major focus for us. Having a greater number and wider range of PSPs participating in the systems benefits consumers and businesses. For example, it gives businesses more choice when it comes to facilitating payments.

Regulatory enforcement

The story so far

Over the last four years, we have opened enforcement investigations in relation to potential compliance failures with both the Interchange Fee Regulation (IFR) and the Payment Services Regulations 2017 (PSRs 2017), which implemented the second EU Payment Services Directive (PSD2) into UK law. We have also worked on building our capability as an effective enforcement authority.

How this work supports our objectives

Our enforcement work supports our service-user and competition objectives by holding regulated parties to account for non-compliance with their obligations, ensuring that the payments sector is working well and that effective competition translates into better prices, choice and innovation.

What we did in 2020/21

What we said we'd do	What we did
Continue to progress our current casework and open further regulatory investigations (if appropriate).	**IFR and PSRs 2017 investigations** • In two IFR investigations, we decided to close the investigations without proceeding to formal enforcement action, as we concluded that alternative action was an appropriate and more efficient way to address the compliance issues identified. One investigation concerned a potential compliance failure with the IFR caps and an IFR business rule, and the other concerned a potential compliance failure with an IFR business rule. We took account of the particular circumstances of the cases, our priorities at the time and our Administrative Priority Framework. • Before closing the investigations, we engaged with the parties concerned, formally outlining to them what our concerns were, and agreed steps to address the compliance issues. In one case, the regulated party worked with us to develop a comprehensive plan to address the compliance issues. We continue to evaluate the party's delivery of the agreed steps, and whether they're addressing the compliance issue. If the party doesn't achieve compliance as planned, it remains open to us to resume our investigation. • In the other case, we took account of: ◦ the initial circumstances that led to the compliance issue ◦ the fact that the regulated party took steps to bolster its compliance with the relevant regulatory obligation, to ensure the intended benefits of the regulation were realised to the greatest possible extent • The approach we took in these cases does not indicate that where a party has developed a plan towards compliance, or has achieved compliance, before we complete an investigation, we will usually close the matter without taking enforcement action. • We have three ongoing IFR investigations. **PSR's 2017 investigations** • We opened one investigation under the PSRs 2017 after considering a complaint against an access provider concerning the provisions in Part 8, which relate to access to payment systems and bank accounts.
Publish our final updated Powers and Procedures Guidance (PPG).	• We published our revised PPG in June 2020. We've now turned our attention to revisions needed to our Penalties Guidance. We'll update this Guidance to reflect the new PPG as needed, as well as any changes in our remit and approach.

Working together

When taking enforcement action under either the IFR or the PSRs 2017, we consult with the Financial Conduct Authority (FCA) where appropriate. We might do this, for example, where the FCA is also responsible for monitoring and enforcing certain aspects of the IFR, or where behaviour we've identified is relevant to the FCA's ongoing supervision of a firm.

Why this matters

It's crucial that we, like other regulators, have a credible and agile enforcement function to assist us in delivering our statutory objectives where other measures are insufficient to achieve this. It's important that industry stakeholders recognise that we are prepared to take timely, targeted and effective enforcement action in appropriate cases.

Making our expectations and procedures clear to stakeholders is an important part of regulation. Making sure the Penalties Guidance is up to date supports all of our work, helping regulated parties understand our powers and how we choose what sanctions, if any, to impose when taking enforcement action.

The Interchange Fee Regulation (IFR)

We've monitored compliance with the IFR, which caps some fees that merchants pay for card transactions. We're also updating our IFR guidance to take account of the UK's exit from the EU.

The story so far

Over the past year, we continued our work monitoring and enforcing compliance with the IFR in the UK.

The EU IFR is EU regulation that sets business rules and caps the interchange fees that acquirers pay (on behalf of their merchant customers) for certain card transactions. Last year, the European Commission reviewed the effectiveness of the EU IFR and found the caps led to significant cost savings for merchants accepting card payments.

When the UK left the EU, a UK version of the EU IFR was created (the UK IFR). As part of the 'onshoring' of retained EU law, the government amended the UK IFR to ensure it continued to operate post-exit. As a result, we now have the power to make regulatory technical standards.
The scope of the UK IFR is now limited to UK domestic card transactions.

How this work supports our objectives

The IFR seeks to reduce costs for merchants and promote competition in the card payment ecosystem through business rules and by capping interchange fees.

What we did in 2020/21

What we said we'd do	What we did
Further competition or regulatory enforcement investigations if we identify suspected compliance failures with the IFR, the PSRs 2017, the Payment Accounts Regulations and the Financial Services (Banking Reform) Act 2013 (FSBRA) during the course of our monitoring and compliance work.	• We continued our work monitoring Visa and Mastercard's compliance with Article 7(1)(a) (the separation provision), in cooperation with EU national competent authorities from seven Member States, with whom we entered into a Memorandum of Understanding for this purpose in 2018. • We carried out our annual caps monitoring exercise (Articles 3, 4 and 5), which involves gathering data from card schemes to assess compliance with the caps' provisions. • We closed two IFR enforcement investigations after concluding that an alternative action was an appropriate and more effective way to address the compliance issues identified (see *Regulatory enforcement*, page 52). We continue to monitor two firms' delivery of agreed steps to comply with Articles 4 and 10(5). We expect to complete this monitoring this year. • Some firms have self-reported their potential non-compliance with the IFR to us, in line with their obligations under our General Direction 1 (GD1). Where relevant, we've overseen their implementation of actions to achieve compliance. • We published a consultation document setting out proposed changes to our IFR Guidance that are consequences of the change in the domestic IFR regime post EU-exit. • We monitored proposed fee increases resulting from the UK's withdrawal from the EU and the consequent non-application of the EU fee cap (in the EU IFR) in the UK. We continue to explore the impact these proposals could have on businesses and consumers.

Working together

We co-ordinated with other UK parties, such as the Treasury, the Competition and Markets Authority and the Financial Conduct Authority (FCA) as part of our regular monitoring work. We also collaborated with several EU national competent authorities, as well as the European Commission, in relation to our Article 7 work and to understand their wider IFR work programme, given many of the stakeholders in the card payments ecosystem operate across both jurisdictions.

Why this matters

An interchange fee is paid from a merchant's bank (known as an acquirer) to a card user's bank for most card payment transactions (except for American Express cards). The IFR aims to reduce those costs and promote competition.

We recognise the fast-paced nature of the ever-evolving cards market, with new business models and trends emerging. We'll ensure our Guidance remains up to date and reflects the lessons learned from our compliance work – as well as from other relevant projects such as our market review of card-acquiring services and our enforcement cases.

The Payment Accounts Regulations

We are the UK competent authority for designating alternative account switching schemes (schemes that are independent of the banks involved) under the Payment Accounts Regulations 2015 (PARs). We must also ensure each scheme meets the criteria set out in the PARs:

- it is clearly in the consumer's interest
- it doesn't impose any additional burdens on the consumer
- the switching procedure is completed in 12 working days

As part of the annual monitoring and PARs assessment process, we analyse information and evidence submitted by Pay.UK in relation to the Current Account Switch Service (CASS). In September 2020, we published a statement confirming that CASS continues to meet the PARs criteria for designation as an alternative switching scheme. We'll review this again in summer 2021 and take action if necessary.

We're ready to evaluate any applications for schemes to be designated as alternative switching schemes; we have so far received no other applications.

Why this matters

The ability to switch accounts is a fundamental part of competition in payments, which leads to benefits for consumers in terms of good service and innovation. Our work ensures that alternative account switching schemes enable and encourage this competition in the right way.

Our organisation

Our people

The events of 2020 have tested us all in ways few could have anticipated. As a result, the health, safety, resilience and wellbeing of our people has been a key priority for us. Over the course of the last financial year, approximately a quarter of our people were affected by increased caring responsibilities due to the pandemic. Given this impact on our resources and the volume and speed of industry change, we are proud of how much we were able to achieve as an organisation while adapting to working fully remotely.

Our aim throughout the year has been to ensure that our people continue to feel informed, connected and valued, and that the PSR continues to be a great place to work. We have done this through our wellbeing strategy, our learning and development offering, and our focus on our culture.

Alongside our partner Great Place to Work, we ran three COVID-19 Care Surveys in 2020/21, which focused on the impact of the pandemic. This helped us listen to our people so that we could address any immediate concerns. Our April 2020 Care Survey showed that 92% of our people trusted us as an organisation to manage the impact of COVID-19 effectively.

Like many organisations, we have also been talking to our people as we redefine how we will work once the COVID-19 vaccine has been successfully rolled out. We are committed to maintaining a working environment where our people can successfully balance their work and home lives while working well together and delivering effectively. As was the case before COVID-19, we recognise there are benefits to on-site and off-site working for both individuals and the organisation. Our goal is to adopt the best working patterns for our organisation to ensure that we can successfully deliver our work programme and our longer-term strategy, while also supporting and developing our staff.

Our approach to resourcing

Over the course of 2020/21, we've continued to focus our resourcing strategy on ensuring that we have the right mix of payments and regulatory specialist knowledge, as well as economic and legal skills. We've also targeted an appropriate level of experience and a mix of flexible and permanent resources to deliver our work programme. This has enabled us to identify issues and prioritise those which continue to impact the market, consumers and vulnerable sections of society – all within a complex environment, where there is often no regulatory precedent.

In order to represent the people and organisations that we serve, we are committed to building and sustaining a diverse and inclusive workplace. We recognise the diverse community in which we operate and support applicants irrespective of ethnicity, disability, gender, gender reassignment, pregnancy and maternity, religion or belief, marriage or civil partnership, sexual orientation, social background or age. We advertise our job opportunities with a number of organisations that reach out specifically to candidates from diverse backgrounds. This helps us recruit from a broad pool of candidates.

We are proud signatories of the Women in Finance Charter; we hold the Level 2 Carer Confident accreditation from Carers UK, and we signed the Social Mobility Pledge in June 2020. We are committed to interviewing all disabled applicants who apply under the Disability Confidence Scheme and meet the minimum criteria for a vacancy, and we ensure that our hiring managers, interviewers and resourcing professionals are all appropriately trained.

We treat all documentation and information relating to candidates as confidential, and handle it in accordance with the General Data Protection Regulation.

Even during the pandemic, we have successfully recruited to ensure that we have the right blend of people to achieve an efficient operating model with around 110 people. We've attracted 28 high-calibre people to join us through a combination of six joiners from the Financial Conduct Authority (FCA) and 22 external appointments, and we have also developed internal talent, promoting six employees internally. We are very aware that joining an organisation while working remotely presents some challenges, so we have made every effort to ensure a supportive and informative welcome – just as it would have been had we all been in the office. This year, external turnover has fallen significantly from 12% to 5.9%. This compares to an average external turnover of 15% for 2020 (although this does vary from industry to industry).

Career development

Providing and supporting career development is a key part of our talent offering which helps our people to achieve their full potential. In addition to training, development, mentoring and coaching, we have been working closely with the broader regulatory family to provide development opportunities and share knowledge and experience. During 2020/21, we are pleased to have supported eight colleagues who have been seconded to the FCA (2), the Treasury (3), the Insolvency Service (1), the UK Regulators Network (1), and the Competition and Markets Authority (1). We have also welcomed ten secondees into the PSR from the FCA (9) and the Home Office (1).

Our employee survey results

In addition to the three COVID-19 Care Surveys in 2020, our staff also participated in the annual Great Place to Work survey. This independent survey provides us with valuable feedback about our staff's experience of working at the PSR. This helps us develop our people strategy, which is focused on:

- growing leadership and management skills
- building a high-performing organisation
- enabling a collaborative and engaging working environment through increasing awareness of and access to our learning and career development resources, and using our Capability Framework
- continuing to embed the PSR Values

This strategy enables us to focus on creating a workplace that is committed to delivering against our goals and values, and provides a supportive environment within which our people are able to perform at their best.

Our 2020/21 survey results were significant in that we saw a year-on-year improvement across all key aggregate measures, with increases of 5% or more for 30 questions – including 12 questions where our responses led to a 10–15% improvement across the detailed categories which made up our Engagement and Trust Index scores.

Our highest scoring categories were Diversity; Job Security; Wellbeing; Our Culture; and Empowerment and Accountability.

24% of our organisation joined us during 2020/21, so we continue to focus on developing our people; building our leadership behaviours and strategy; embedding our values; and encouraging empowerment and accountability.

Diversity

Our 2021 Employee Survey results demonstrate our commitment to diversity and inclusion, with diversity continuing to be the highest scoring category. As a proud signatory of the Women in Finance Charter, we are committed to supporting the progression of women into senior roles, and have set targets both for gender and for black, Asian and minority ethnic (BAME) representation. To support this, our senior leadership team and managers have a commitment to diversity and inclusion reflected in their performance objectives.

We are also committed to achieving both gender and BAME pay balance. This is our third year of reporting on our gender pay gap and our first year reporting on our BAME pay gap. Our data is based on a snapshot taken on 31 March 2021 and relates to our pay data from 1 April 2020 to 31 March 2021.

We report these figures voluntarily, in the interests of transparency and to underline our commitment to diversity and equality in our organisation. However, our total staff population is less than half the number of employees (250) required to make gender and BAME pay reporting mandatory. This means the calculations can vary significantly with small changes in the population, so each year of reporting can (and does) show considerable movements.

Gender diversity and pay gap

Gender diversity across the senior leadership of the PSR is already above 50%. Our target is to maintain a balance of 50% women in our extended leadership team (our senior leadership team and managers) with a variance factor of plus or minus 10%, and to continue to develop a balanced pipeline of talent through to the end of 2025 and beyond. We need the variance factor as the size of our organisation means that just one or two joiners or leavers can have a significant impact on our gender and BAME representation. As of 31 March 2021, representation across the PSR was 60% female; our senior leadership team was 75% female; and 71% of our managers were female.

We are very pleased to report that we no longer have a median pay gap or median bonus gap. Due to a shift across the quartiles, with more men moving into our lower quartiles, our median pay gap has decreased significantly by 14.3% percentage points, from 12.9% to minus 1.4%. The median bonus pay gap has also decreased significantly by 28.9% percentage points, from 2.6% to minus 26.3%.

The mean pay gap has decreased this year by 4.8 percentage points to 3.5%, and we no longer have a mean bonus pay gap as this has decreased by 51.9 percentage points from 12.5% to minus 39.4%.

The significant reductions in our gender pay gaps are due to a shift across the quartiles, with more men now represented in the lower quartiles, creating some significant pay differences in favour of our female staff.

Diversity continued

BAME diversity and pay gap

In 2020, we witnessed a public focus on diversity and inclusion across the world – particularly the Black Lives Matter movement. We had already made the decision to voluntarily report on our BAME pay gap for the first time this year, and these events made it even more important to do so.

We are committed to achieving at least 8% to 15% BAME representation across our senior leaders and managers by the end of 2025. We met this target this year, with BAME representation across our combined leadership team at 11%, up from 7% last year, while representation across the organisation is at 18%.

As with our gender pay gap data, our BAME population is also significantly affected by a shift in our population. Using the same snapshot of data and calculations as we used for gender (as at 31 March 2021), 88% of our people declared their ethnicity. 19 said they are BAME, which is 18% of our total population.

The pay gaps for BAME are larger than those for gender because the majority of BAME colleagues are represented at more junior grades, forming a significant part of our talent pipeline. That being said:

- the percentage of BAME colleagues in the lower quartile has fallen by 23%
- the percentage of BAME colleagues in the lower middle quartile has fallen by 8%
- the percentage of BAME colleagues in the higher middle quartile has increased by 8%
- the percentage of BAME colleagues in the higher quartile has increased by 5%

Our BAME median pay gap has decreased by 3.1 percentage points from 37.5% to 34.4% and the median bonus pay gap has decreased by 30.2 percentage points from 68.9% to 38.7%. The mean pay gap has increased slightly by 2.6 percentage points from 28.6% to 31.2% and the mean bonus gap has decreased by 11.5 percentage points from 41.3% to 29.8%. A similar proportion of BAME and non-BAME colleagues receive a bonus.

The median bonus gap shows that white colleagues still receive a larger bonus than BAME colleagues on average, but this has improved on last year where the bonuses of white colleagues were almost three times the size of those received by BAME colleagues. This reflects the fact that our BAME employees are currently mainly represented in our lower grades. We expect the balance to change as these employees move up through the grades.

In order to nurture our talent pipeline and future leaders, we have developed a wide range of materials to support our managers and create safe spaces for discussions to take place. Our ethnicity action plan prioritised four key areas for action:

- transparency and data to hold us to account
- BAME talent pipeline and BAME progression
- training and support
- accountability

We have also introduced additional unconscious bias training interventions, developed an 'Acts of Allyship' toolkit to support an action-focused ally strategy, and introduced a reverse mentoring programme. This will help to embed 'Inclusion Allies' across our senior leadership team. Our aim is for these programmes to go further to help us develop diverse teams capable of dealing with the tough challenges we face while reflecting the society within which we operate.

Social mobility

In June 2020, along with the FCA, we signed the **Social Mobility Pledge**. In doing so, we committed to participate in outreach work: providing structured work experience and apprenticeship opportunities, and adopting open recruitment practices to provide a level playing field for those from disadvantaged backgrounds or circumstances.

Corporate responsibility

Good corporate citizenship and corporate responsibility are important parts of our identity, both as an employer and as a regulator. We will not tolerate slavery or human trafficking in our business or supply chains. We are committed to continually improving our policies and practices to play our part in fighting against slavery and human trafficking and protecting human rights. We continue to be a Living Wage Employer. We also have a strong commitment to diversity and inclusion and looking after the wellbeing of our people, ensuring that they are safe and well and appropriately cared for. Our various policies and procedures aim to ensure that we create a safe and inclusive working environment for our staff.

How we engage with our stakeholders

In 2020/21, we continued to be proactive in our engagement with our wide-ranging and varied stakeholders, making sure that – as well as sharing key information and developments – we took the time to discuss our work, and listen and learn from what we were hearing.

Reflecting the vast range of people and businesses that use and rely on payments and payment systems every day, our range of stakeholders is also broad and diverse. From newsagents to international banks, consumer organisations to industry bodies, we place great importance on sharing and discussing updates about our work and hearing from those that it affects.

We do that through more traditional 'tell' communications – such as content for our website, email updates, speeches and press announcements; through two-way engagement – such as phone and video conferencing and roundtable discussions; and by listening – such as attending events and research workshops. We keep our approach under review to adapt and refocus our engagement where necessary. Of course, throughout 2021, we had to adapt how we met with stakeholders and focused our attention on making sure that we could continue to engage. Our updated engagement strategy focused on delivering activities in a digital way.

The PSR Panel, which is set up to be representative of our stakeholder population, provides us valuable insight into the thinking of those we regulate and the people and businesses of all sizes that use and rely on payments. As well as discussing our work programme, we engage with the Panel about our broader approach such as communications and engagement, research we are planning (or sharing findings) and – naturally – our future direction as a regulator.

A large proportion of our staff engage with our stakeholders – not just those working on our key projects, but volunteers from across our divisions who attend and support at PSR events. Since we first started work, we have placed a great deal of importance on engagement, and we will continue to do so.

Industry-facing stakeholders	User-facing stakeholders	Industry and user-facing stakeholders
Payment system operators: non-designated Direct banks (not sponsors) Direct sponsor banks Indirect banks Payment or e-money institutions Independent ATM operators Acquirers and payment facilitators Payment infrastructure and technology providers Innovators/smaller technology providers Consultants Trade and industry bodies	Consumer groups Charities Small and medium-sized enterprises (SMEs) Large businesses Government as users Retailers	Regulators and other authorities Academics and think tanks Government and parliamentarians as representatives of the people The media

Stakeholder engagement strategy

Our stakeholder engagement goal is to ensure we are sharing the right information with, and listening and speaking to, the right people at the right time and in the right way. We want to ensure stakeholders understand what we are doing and why – so they know what they need to do, feel like they can engage with us and be heard, and know that we are all working to improve payments systems for end users.

The objectives of our strategy are:

- Stakeholders understand what we do and why, and they have confidence in our ability to deliver.
- Our staff are engaged with all relevant new or emerging stakeholders and we are effective at horizon scanning, following new and emerging trends for the future of payments, and creating advocacy as a result. During COVID-19, this means ensuring our presence at key networking and virtual conferences to ensure we are tapped into the right conversations, gathering insight and focusing on the right policy areas.
- Our staff view engagement with stakeholders positively, and this helps them do their jobs more effectively to deliver better outcomes for users of payment systems.

Stakeholder Perceptions Survey

Stakeholders and their views are really important to us. Engaging in an open and transparent way helps us to make informed decisions, and to truly understand the implications of what we do. We conduct an annual Stakeholder Perceptions Survey to get views on the current state of the payments industry and on our own objectives and role as a regulator.

Last year, stakeholders told us they wanted to see us continue to take a balanced approach to:

- our three statutory objectives
- making sure we consider – and are seen to consider – the needs of our different stakeholder groups
- planning and delivery

We have continued to meet a broad range of stakeholders, meeting people and small and medium-sized enterprises (SMEs) and communities who have a vested interest in certain areas of our work.

Changing attitudes to the use and acceptance of cash was a common theme. We also met and listened to smaller companies, such as fintech innovators bringing about new payment services made possible by open banking. We also conducted research with consumers to understand how they think about and use payment systems (see page 40).

We also engaged with stakeholders on the PSR Strategy project, which will help us address another theme from the Perceptions Survey – making sure we are planning and delivering our work effectively and showing why it matters.

Working with other authorities

We are now into our sixth year of regulation. We are an established regulator leading significant areas of work with outcomes that have a huge impact on the way the UK economy operates.

In exercising that responsibility, we continue to coordinate certain uses of our Financial Services (Banking Reform) Act 2013 (FSBRA) functions with the other UK financial regulators – the Bank of England, the Prudential Regulation Authority (PRA) and, in particular, the Financial Conduct Authority (FCA). This is a statutory duty and helps us share and enhance our knowledge and work more effectively and efficiently.

The payments regulation remits of the FCA, the PSR, the Bank of England and the PRA

	FCA	PSR	Bank of England and PRA
Objectives	Protect consumers, protect financial markets and promote competition.	Promote the interests of people and businesses using payment systems; promote competition and innovation.	Ensure financial stability and promote resilience of payment systems.
Activity related to payments	Conduct regulation, including authorising and supervising payment service providers, and related enforcement. Prudential regulator for payments and e-money firms. Regulated firms include payment institutions, such as money remitters and non-bank credit card issuers, and e-money institutions.	Regulating the designated payment systems and participants of such systems, to make sure those systems work well for everyone.	Supervising payment systems, service providers and their users; delivering settlement and trustee functions, operating the RTGS and CHAPS systems, regulating the resolution of firms; issuing notes; regulating the safety and soundness of firms; aiming to ensure critical services are continued in the event of financial failure. The PRA also has a secondary competition objective.

Working with other authorities continued

Given our especially close relationship to the FCA, we worked hard in 2020/21 to find efficiencies – where appropriate – in the way we work. This included sharing research findings where appropriate, as well as, on the people side, secondments between the two organisations.

As you would expect, we engage regularly with the Bank of England, the PRA and the FCA about payment systems, their evolution and regulation. We engage regularly with them to monitor developments in the industry and identify areas of common interests that cut across our respective regulatory roles. These include policy discussions on, for example, access to cash, authorised push payment scams and merchant acquiring. We also work with the Bank of England, the FCA and the Treasury to consider if our legal framework continues to be appropriate for achieving our objectives in a changing environment.

We and the FCA are both competent authorities in relation to Regulation 105 of the Payment Services Regulations 2017, covering access to bank accounts. We've continued to work closely with the FCA to monitor compliance with Regulation 105, including through regular meetings to discuss all notifications we receive of withdrawal or refusal of bank account access.

We are the main authority for monitoring and enforcing compliance of the Interchange Fee Regulation (IFR), sharing this competency with the FCA in relation to Articles 8(2), (5) and (6), 9, 10(1) and (5), 11 and 12 of the IFR. As we continue to monitor compliance with these provisions, we work with the FCA to ensure we cooperate effectively.

We also cooperate with the European Commission Directorate-General for Competition and with EU national competent authorities to increase the effectiveness of our IFR monitoring work. This collaboration has continued since the UK left the EU.

A statutory Memorandum of Understanding between the PSR and certain other UK financial services regulators (the FCA, the PRA and the Bank of England) is in place, which describes the role of each authority in relation to matters of common regulatory interest and how the authorities intend to cooperate. The memorandum is reviewed annually. As a member of the Financial Services Regulatory Initiatives Forum, we contribute to the Regulatory Initiatives Grid – a joint initiative designed to help firms prepare for upcoming regulatory work.

During the last year, we've also continued to engage regularly with the Competition and Markets Authority and other sector regulators in the UK Competition Network to share specialist knowledge and insights into the identification and effective delivery of competition cases. We are members of, and take an active role in, the UK Regulators Network, which allows relevant bodies to pool their experience, identify best practices and work together where appropriate.

We engage with the European Banking Authority, the European Commission and other international supervisory authorities as needed.

Consumers and payments

During the year, we conducted quantitative and qualitative research to increase our in-depth knowledge of how consumers think about and use payment systems. This included the challenges they face and their views on how payment systems will evolve in the future.

Overall, and in the context of COVID-19, the research looked to:

- understand consumer awareness of payment systems
- explore consumer expectations and perceptions around payments
- explore consumers' needs in relation to payments
- understand any challenges consumers face around payments
- identify what consumers expect from the future payments landscape

We found that consumers tend to think about payments in terms of what they need from them, and the experience. The most frequently used payment types are contactless card payments, cash, and chip and PIN card payments. There has been a significant increase in the use of contactless and mobile payments since 2017.

COVID-19 has had a clear impact on the payment types used, with contactless payments being used more often and cash less often – a change that many consumers expect to stick after the pandemic.

Our research explored this further, and many consumers see the decline of cash as inevitable. However, those who strongly prefer to use cash are extremely concerned about this, and it puts some at a disadvantage. Their concerns often relate more to their ability to use cash (i.e. whether retailers accept cash) than to being able to access cash.

Retailer preference is another key factor influencing consumer behaviour, which has changed during COVID-19, with many consumers reporting changing their behaviour as a result of a retailer preventing or strongly discouraging the use of cash in-store.

Our research also showed that a range of factors influence the use of different payment systems, such as the value of the payment, retailer preference, social norms and COVID-19 considerations. For lower value payments, speed and convenience are the key factors seen as important by consumers; whereas for larger payments, security, traceability and payment protection are the highest priorities.

Overall, from a consumer perspective, there is a high level of satisfaction with the choice of payment systems available and they trust that the systems work well. However, among those who have experienced problems, the most encountered challenge relates to IT failures and outages, although fraud is front of mind.

From a consumer perspective, the priorities for the future of payment systems in the UK should focus on:

- tackling fraud and payment scams
- improving security of payment systems
- supporting access to cash
- ensuring consumer protection across all payment types

Consumers are clear that they want to see action on fraud and payment scams, with survey respondents choosing to tackle financial scams and payment fraud as our top priority.

By listening to views from our stakeholders – including consumers – we can continue to shape our work programme to make sure that we are delivering outcomes that will work for everyone.

Whistleblowing

The ability of people who work for firms in a particular sector to alert the authorities if they believe their firm is acting unlawfully is an important element of ensuring markets operate in the interests of consumers. In order to ensure people are able to make disclosures, section 43F of the Employment Rights Act 1996 provides that whistleblowers may qualify for employment protections if they disclose information to a 'prescribed person'. The PSR is a Prescribed Person as defined in The Public Interest Disclosure (Prescribed Persons) Order 2014.

In order to fulfil our duties as a Prescribed Person, and to help fulfil our statutory duties to promote competition, innovation and the interests of people and organisations that use payment systems, we have processes in place to handle any whistleblowing enquiries or declarations we receive. Under our provision of services agreement with the FCA, the FCA's Whistleblowing Team undertakes the administration of any whistleblowing cases directed to or relevant to the PSR, with the PSR being the decision-maker on cases relating to its statutory remit.

In the current reporting period (1 April 2020 to 31 March 2021), we received three qualifying whistleblowing disclosures. We decided not to proceed with any of these, taking into account the details of the matters concerned, the available evidence, and our Administrative Priority Framework. Under Regulation 3 of the Prescribed Persons (Reports on Disclosures of Information) Regulations 2017, we must produce an annual report on the disclosures that we have received. We are in the process of doing this and will publish it on our website.

The UK's withdrawal from the European Union

Up to the UK formally leaving the EU, our work on the UK's withdrawal in 2020 was primarily focused on a no-deal scenario. We worked with the Treasury, the FCA, the Bank of England and other regulators to manage risks relating to the payments sector and onshore relevant legislation including:

- the Payment Accounts Regulations 2015
- the Payment Services Regulations 2017
- the Payment Card (Interchange Fee) Regulations 2015 (PCIFRs)
- the Financial Services (Banking Reform) Act 2013 (FSBRA)
- FSBRA (Disclosure of Confidential Information) Regulations 2014

We also engaged with the PSR Panel and some key participants in the sector, such as Visa, Mastercard, Amex, PayPal, UK Finance and Pay.UK to understand the risks they faced and the contingency plans they developed to mitigate these risks.

The UK has since agreed a Trade and Cooperation Agreement (TCA) with the EU in December 2020 but it has limited implications on financial services and payments. We will continue to monitor and assess any potential implications for the sector and our work, should further relevant negotiations take place between the UK Government and the EU during the reporting year 2021/22.

PSR fees

We are funded by fees from the participants in the payment systems we regulate. In 2018, we introduced a new process for PSR fees, using an 80:20 volume-to-value ratio calculation. This helps ensure our fees are collected and allocated in a simple, proportionate and sustainable way. The 2020/21 fees were gathered using this method.

Developing our Financial Penalty Scheme

For any financial penalties resulting from our enforcement actions, we pay to the Treasury our penalty receipts after deducting our enforcement costs. We would use this retained amount to reduce the regulatory fees we collect from firms that were not liable to pay a penalty. We didn't issue any penalties in the reporting period 2020/21.

The Business Impact Target

Under the Small Business, Enterprise and Employment (SBEE) Act 2015 (as amended by the Enterprise Act 2016), we must report on our performance against the Business Impact Target (BIT). The BIT is the government's target for the economic impact on businesses of measures that fall within the definition of a qualifying regulatory provision (QRP).

We submitted our return for the Parliamentary year in December 2020, which is available on our website. Based on the list of exceptions within the BIT, we did not report any QRPs in the last reporting period. The department for Business, Energy & Industrial Strategy published their 2019/20 BIT report on 15 January 2020.

Risks and uncertainties facing the PSR

The focus of this section is on risks to the PSR achieving its vision to have payment systems that are accessible, reliable and secure, and represent value for money. In considering risk, we assess the impact of events that could threaten the long-term viability of the PSR and its ability to serve the public interest.

The PSR risk management methodology is based on three lines of defence. The board reviews risks and oversees the operation and interaction between the first and second line of defence at the board meetings, rather than delegating this to a separate risk committee.

External risks

The most material risks and trends that could pose a risk to our objectives in the coming years are set out below.

1. Demographics, accessibility and affordability

Those making and receiving payments use different options, which are influenced by factors such as age, location, abilities, market size and income levels. The rapid changes over the last year – such as the increased use of contactless payments and the change in online digital sales – will have had a significant impact on the way people choose to pay and how businesses accept payments. We'll continue to review this across our work when considering the needs of those who make and receive payments (which includes a range of businesses – especially small businesses). We'll need to ensure that the market supports varying choices and needs so that everyone has ways to pay that work for them. We also want to ensure that payment services are available to people regardless of factors such as age, race, disability or gender, and represent good value for money.

2. Technology and innovation

Technology and innovation have the potential to increase competition, enhance efficiency, and transform business models relating to the way we make and receive payments. These changes have the potential to offer major benefits to consumers and businesses. As the New Payments Architecture is shaped, our focus is on ensuring the market continues to work well, and that innovations continue to produce the payment options that users need. We continue to assess how developments in technology provide different ways to pay, both over existing channels and through new products such as stablecoin.

3. Data access and use

Access to, and use of, data is key to the rate of innovation, and the ability of the payments sector to deliver new and improved services. We recognise that increased use of data from payment systems brings both opportunities and concerns. As we monitor developments in payments data, we'll pay close attention to the way companies collect and use it.

4. Safety, security and resilience

It's important that people have confidence in payment systems. One way we can maintain this confidence is to work towards enhanced safety and security and maintaining resilience in the payments landscape. Along with the Bank of England, the Prudential Regulation Authority and the Financial Conduct Authority (FCA), we have specific duties and responsibilities in pursuing these aims. We'll continue to work closely with these authorities to ensure that payment systems are operated and developed in a way that promotes the interests of service users.

5. Macro-economic developments

Like the rest of the economy, the payments sector and the wider financial services industry will need to take the impact of recent events into account. The shape of the economic recovery across the country, as well as the effects of the UK's withdrawal from the EU are factors which will significantly affect the sector. The economic recovery will also be affected by work to reach the UK's net zero carbon emissions target and other environmental goals. We'll account for this in our regulatory approach. We'll continue to work with the Treasury, the FCA, the Bank of England and other authorities to manage any risks relating to the payments sector and its participants.

6. Emerging issues

As with all markets, there are unknown or emerging risks which we may need to address. We're working to enhance our intelligence-gathering processes so that we can respond proactively to such risks.

Risks and uncertainties facing the PSR continued

Internal risks

Balancing our priorities and resources within a fast-moving sector requires us to be close to market development and agile in our response. We've been working to refine internal processes and use lessons learned to implement business improvements, but we're always looking for ways to improve further.

The PSR has recently been focused on improving the first line of defence management of risk, incrementally and proportionately for the size of business. In the last 18 months, this has included building up the Project Management Office function with associated escalation routes, regular reporting to the board via the Chief Risk Officer report, and this will be the second year we have completed the Risk and Control Self-Assessment and Statement of Assurance (SOA) of our internal controls.

The main risks we face arise from our operating environment.

- **Execution risk:** This relates to the execution of our regulatory objectives and arises when we fail to deliver our work programme as intended. When an execution risk crystallises, it usually means we have failed to reduce or prevent harm where we would otherwise have been able to with the resources available. The creation of a new division, focusing on Strategy, Analysis and Monitoring, will support our efforts to improve our use of data and how we match our workplan to the risks, issues and opportunities that exist in payment markets. It will also create a team that is accountable for the PSR's strategy and supporting the organisation in aligning its work to that strategy.
- **Internal operational risks:** Like any organisation, we face significant operational risks which may result in financial loss, disruption or both – and may, in turn, result in us failing to deliver our work programme as intended. These main risks include:
  - **People risks:** Including risks associated with the capacity of our staff to deliver our work programme and the changing capability needs of the organisation. Key risks include the impact of COVID-19 and remote working on staff resilience and wellbeing, and the ability to engage with and take on board change. Risks also include the PSR being unable to manage recruitment, retention, skills and knowledge within acceptable tolerances, potentially leading to increased costs, or failure to deliver our objectives. We continue to mitigate these risks as part of our people strategy.
  - **Regulatory scope/remit:** Including the risk that the scope of our regulatory remit is unclear, inappropriate or misunderstood internally or by consumers and organisations. We've taken a wider leadership role in addressing issues of public interest where action is required by others outside our own remit – including the FCA and government. This includes our work on authorised push payment scams and access to cash.
  - **Change delivery risk:** We're making a number of changes across the PSR to align the organisation to our future PSR Strategy (see page 36). Failure to successfully implement the changes may compromise our ability to deliver benefits to our work programme in the future. There is a risk that the amount of change required will be difficult to prioritise and absorb alongside our existing priorities.
  - **Key supplier risk (FCA service provision):** We are supported by the FCA through a provision of services agreement; therefore, internal operational risks affecting the FCA may also affect our own effective operation. The FCA is currently undertaking a number of complex projects and continuing its Transformation work. Some of this affects the PSR under our service delivery provision, creating further change for us and potentially affecting our resources and how we use them. More detail on this can be found in the FCA's Annual Report and Accounts.
- **Public confidence risks:** includes risks that could constrain our ability to deliver against our objectives due to diminished levels of public confidence, a reduced ability to influence key stakeholders or a reduction in our credibility and standing as effective regulators. These risks could result from the inappropriate management of our other risks. The current economic environment also increases public confidence risk due to the potential for increased failures of firms that we regulate. One of the ways we mitigate this risk is through good stakeholder engagement – see page 65.

Risks and uncertainties facing the PSR continued

COVID-19

We have continued to work with the FCA, the Bank of England and other regulatory authorities to manage both the internal and external risks.

- **Wellbeing:** Most of our staff have been working from home since March 2020. The stresses of the national lockdown and managing work/life balance poses a risk to everybody's wellbeing. We're maintaining a comprehensive range of wellbeing initiatives, including enhanced flexible working, wellbeing events and seminars. Staff have been provided with workplace health guidance and have had the option to purchase equipment (which was reimbursed up to a set limit) to support working from home.
- **Revenue and collections:** The potential for firm failures resulting from the pandemic may affect the collection of our fees and future fee income due to reduced revenues generated by firms. Bad debt for 2020/21 stands at less than 0.1% of revenue. See the credit risk section of the directors' report on page 82.
- **Post COVID-19 ways of working:** We're committed to maintaining a working environment where our people can successfully balance work and home lives while working well together and delivering effectively. We knew the benefits of on-site and off-site working before the pandemic – both for individual people and for the organisation – and believe a hybrid approach is still the best way to work effectively and inclusively for our colleagues.

Statement on section 172(1) of the Companies Act 2006

The board holds the PSR accountable for the way it works. It takes decisions and acts in a way that ensures that we advance, where relevant, our statutory objectives of promoting effective competition and innovation, and ensuring payment systems are operated and developed in a way that takes account of the interests of service-users. Section 172(1) of the Companies Act 2006 requires the board to act in a way that it considers will promote the success of the company. The board must take account of:

a. the likely consequences of any decision in the long term

b. the interests of the company's employees

c. the need to foster the company's business relationships with suppliers, customers and others

d. the impact of the company's operations on the community and the environment

e. the desirability of the company maintaining a reputation for high standards of business conduct

f. the need to act fairly as between members of the company

Under the Companies Act 2006, we must make a section 172(1) statement in our annual report explaining how the board has regard to the above matters in promoting the success of the company.

We explain in more detail below how the board considered the above matters under section 172(1). This includes the engagement the board had with stakeholders during the year, and how this helped us deliver better outcomes for payment system users.

The likely consequences of any decision in the long term

As an organisation, our focus is on making sure payment systems continue to serve well the people and businesses that use them, both now and in the future. This means the long-term strategic outcomes of our actions are always a factor in the board's decisions and in the organisation's prioritisation of its work. As part of this, the board also considers feedback it hears via, for example, our stakeholder perceptions survey.

This prioritisation is demonstrated by our key strategic projects for 2020/21, where our actions were dictated by our long-term aims of protecting and promoting the interests of those who use payment systems. In particular: authorised push payment scams (see page 14); access to cash (page 22); our market review of card-acquiring services (page 29); and our work on the New Payments Architecture (page 26).

The interests of the company's employees

Our employees are key to our success as a regulator. We seek to create a diverse and inclusive workplace that is free from discrimination and bias so that our employees can perform at their best and we can better deliver as a regulator. One of our values is 'unity'. A key way we demonstrate this value is through our commitment to, and support for, the PSR/Financial Conduct Authority (FCA) employee networks; our continuing support and focus on our Women in Finance Charter commitment; our social mobility pledge; and through our representation on the Staff Consultative Committee.

We build and develop multi-skilled teams, using a mix of flexible and permanent resources to help ensure we have the capability and skills necessary to deliver our aims and objectives. Providing and supporting career development is an essential part of our employee value proposition, not just to help us deliver our objectives but also to enable our staff to achieve their full potential in their current roles and to build capability for the future.

During the year, the board discussed matters including our employee survey; our diversity, gender and ethnicity pay gap data; succession planning; and our culture.

See *Our people* (page 62), *Our organisation* (page 61) and *Employee engagement* in the directors' report (page 80) for more details.

The need to foster the company's business relationships with suppliers, customers and others

The board oversees the cooperation and coordination activities we undertake with regulatory counterparts across the UK and internationally – for example, our collaboration with the Directorate-General for Competition of the European Commission and with EU national competent authorities to increase the effectiveness of our Interchange Fee Regulation (IFR) monitoring work. The board also reviewed and approved our stakeholder strategy.

Statement on section 172(1) of the Companies Act 2006 continued

The PSR has a statutory duty to coordinate the exercise of its the Financial Services (Banking Reform) Act 2013 (FSBRA) functions with the FCA, Prudential Regulation Authority and the Bank of England. This includes consulting with them when we propose to exercise a function in a way that could have a material adverse effect on how they advance their objectives, and obtaining information and advice from them where appropriate. The PSR and the other regulators must also maintain a Memorandum of Understanding setting out their roles in areas of common regulatory interest and how they will cooperate in exercising their relevant functions.

In ensuring that the PSR continues to meet these requirements, the board maintains strong relationships with other domestic financial services regulators – for example, the FCA, the Bank of England, the Treasury and more broadly the UK Regulators Network.

See *How we engage with our stakeholders* (page 65), *Working with other authorities* (page 68), *The Business Impact Target* (page 70), and *Business relationships* in the directors' report (page 80) for more details.

To meet our objectives efficiently and effectively, the PSR utilises FCA operational services (where appropriate) to drive value for money for fee payers. This means taking advantage of the scale, scope and established practices of the FCA through a Service Level Agreement (see *Business model* on page 78). Through board-member membership of the Audit Committee, there is oversight of the operational services on behalf of the PSR.

The board delegates all matters relating to procurement and management of suppliers to the Managing Director and Chief Operating Officer. This year, we have worked closely with the FCA and our critical suppliers to ensure service continuity during the significant disruption arising from the COVID-19 outbreak. We have accelerated payments of valid, undisputed invoices to support suppliers' cash flows and offered to discuss relief opportunities with any suppliers in need. In alignment with the FCA, we buy responsibly, ensuring Value for Money criteria are met, and we adhere to the Ethical Procurement Policy. In addition, the behaviours and standards we expect from our suppliers are clearly set out in the Supplier Code of Conduct, which was updated in December 2020.

The impact of the company's operations on the community and the environment

Good corporate citizenship and corporate responsibility are important parts of our identity, both as an employer and as a regulator.

The board, together with our senior leadership team, oversees our community engagement, diversity and inclusion and sustainability strategies.

We actively contributed to our local community through volunteering programmes and our work with our nominated local charity, Ambition, Aspire, Achieve (AAA). We've worked with AAA over the last two years, raising over £2000 to help AAA's work.

We're committed to running a sustainable operation minimising our impact on the environment. This is helped by sharing some practical operational elements with the FCA. For example, our building in Stratford was designed with sustainability in mind and was awarded the Building Research Establishment Environmental Assessment Method (BREEAM) rating of excellence. Changes to our working practices in response to COVID-19 have led to a significant reduction in our environmental impacts, particularly emissions from business travel.

See *Our organisation* on page 61 for more details.

The desirability of the company maintaining a reputation for high standards of business conduct

The board is committed to attaining and maintaining high standards within the company.

See *Corporate governance* on page 83 for more details.

The need to act fairly as between members of the company

As a wholly owned subsidiary of the FCA, the PSR has only one member.

Considering stakeholders' interests

The board takes account of the interests of our internal and external stakeholders, and recognises that effective stakeholder engagement is key to promoting the success of the company.

The board sets out to achieve this by:

- ensuring that it engages fully with stakeholders to gain an understanding of the issues that matter to them – for example, through our regional visits programme
- providing strategic leadership within a framework of robust corporate governance and internal control
- setting the culture, values and standards that are embedded throughout the PSR, which help us to deliver in the public interest (for example, the board holds an annual dedicated strategy setting session, and receives regular updates on organisational culture, including but not limited to feedback from our annual employee survey)

For details on our leadership and governance framework, see the directors' report on page 80 and our corporate governance statement on page 84.

Making sure we are engaged with the right stakeholders across our broad work programme is essential, and we keep this continually under review. Our key stakeholders include our employees, consumers, parliamentarians, international and domestic regulators, those we regulate, our suppliers and the communities we operate in.

The directors take account of the views of our different stakeholders when making decisions in a number of ways, including:

- discussing the findings from our annual stakeholder perceptions survey each year, and monitoring recommended actions from the survey to enhance engagement with, and communications to, stakeholders
- reviewing feedback to consultations and other engagement before making decisions, and meeting with stakeholders through regular meetings, roundtable discussions and other forums

See *How we engage with our stakeholders* on page 65 for more details.

Financial overview

Business model

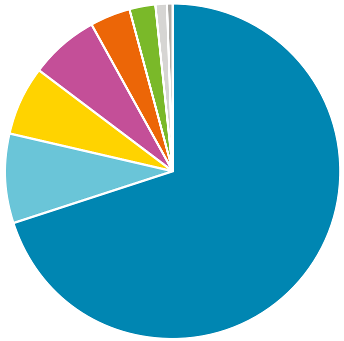
We do not receive funding from the UK government as we fund the cost of delivering our statutory objectives by raising fees from the organisations we regulate. The Financial Conduct Authority (FCA) has powers to levy fees to recover our costs. We seek to make neither a profit nor a loss from our regulatory activities, although in practice this can happen due to unforeseen circumstances or timing issues. We follow best practice procurement mechanisms as part of our focus on delivering good value for money.

We are co-located in the FCA's offices, and are operationally supported by the FCA through a provision of services agreement. The aim is to fully maximise the FCA's existing resources and infrastructure to support the effective operation of the PSR. This means leveraging of the scale, scope and established practices of the FCA and working hard to find efficiencies where possible.

Analysis of performance during the year

	Total 2021 £'000	Total 2020 £'000	Year on Year change
Fee income	16,848	15,624	1,224
Other income	88	64	24
Total income	**16,936**	**15,688**	**1,248**
Staff costs	(11,208)	(10,410)	(798)
Administrative costs	(4,624)	(5,721)	1,097
Total operating costs	**(15,832)**	**(16,131)**	**299**
Profit/(loss) for the year	**1,104**	**(443)**	**1,547**

Analysis of operating costs



	Operating costs £'000
Staff costs	11,208
Accommodation and office services	1,359
Professional fees	1,062
IT running costs	1,046
FCA staff recharges	598
Recruitment, training and wellbeing	403
Other costs	153
Travel and hospitality	3
Total	**15,832**

For 2020/21, we set a budget of £16.8 million, which was based on the planned work for the year and us reaching our anticipated scale. The underspend this year can, in the main, be attributed to COVID-19. Alongside other public bodies, we adopted a conservative approach in relation to remuneration and bonuses. Projects and pieces of work were also delayed or reprioritised, resulting in an increase in reserves. Therefore, we will use our reserves to fund the delayed projects we've carried over into 2021/22.

We had an accumulated surplus held in reserves of £4.6 million at 31 March 2021 (2020: accumulated surplus of £3.5 million). We will hold the remainder in reserves in the event PSR needs to draw on funds in response to changing business demands.

The chart above shows a breakdown of our operating costs. Overall, operating costs have decreased by £0.3 million to £15.8 million (2020: £16.1 million) largely due to lower professional fees, as well as lower-than-expected administrative costs, particularly training and travel due to COVID-19, but offset by higher staff costs.

Staff make up 71% of our cost base and are key in delivering our objectives. This increase in staff cost was due to our mix of resources, with an increased focus on seniority to reflect the complexity and breadth of our work programme, and us getting closer to our target operating model, which we reached in the financial year. We had 106 full-time equivalent employees at the end of this financial year, compared to 97 at 31 March 2020.

The year-end cash position is £11.9 million (2020: £9.6 million). The FCA collects fees on behalf of the PSR and pays the balance over on a weekly basis. As at 31 March, the FCA had invoiced £7.2 million of on-account fees, of which, £5.5 million had been collected and £5.2 million had been remitted to the PSR.

Directors' report

The directors present their report for the year ended 31 March 2021.

Details of the directors during the year can be found in Table 1 in the corporate governance statement (page 86). The strategic report (page 12) and the corporate governance statement (page 84) are used by the directors to explain how they have performed their duty to promote the success of the PSR under section 172 of the Companies Act 2006.

The PSR has no branches outside the UK.

Directors' responsibilities in respect of the annual report and accounts

In accordance with applicable law and regulations, the directors are responsible for preparing the annual report and the financial statements.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards, as adopted by the United Kingdom. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- make judgements and estimates that are reasonable and prudent
- select suitable accounting policies and then apply them consistently
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business
- state whether applicable International Financial Reporting Standards, as adopted by the United Kingdom, have been followed, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records that show the financial position of the company and enable the directors to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps to prevent and detect fraud and other irregularities.

As far as the directors are aware:

- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and establish that the auditor is aware of that information
- there is no relevant audit information of which the company's auditor is unaware

The directors are responsible for maintaining and ensuring the integrity of the corporate and financial information on the company's website. UK legislation that applies to preparing and distributing financial statements may differ from legislation in other jurisdictions.

The directors confirm that the annual report and accounts, as a whole, are fair, balanced and understandable.

Going concern and key financial risks

As a subsidiary of the FCA, the financial resilience of the PSR is closely connected to that of the FCA.

The FCA board considers the FCA's Business Plan 2020/21, the PSR's Annual Plan 2020/21 and the key financial risks and uncertainties in assessing the FCA as a going concern, as set out below.

1. **Liquidity risk** can be assessed by looking at the following four key areas:

   a. The FCA's current liquidity position reflects:

      1. cumulative scope change costs (£20.0 million)
      2. the continued cash contributions to reduce the pension scheme deficit
      3. the funding of capital expenditure which is recovered over the useful economic lives of the assets rather than when the expenditure is incurred

   b. The FCA's net pension obligation asset at 31 March 2021 reflects:

      1. the triennial valuation of the FCA Pension Plan at 31 March 2019
      2. the effectiveness of the Plan's low-risk strategy to minimise the impact of market fluctuations on funding levels, resulting in a net pension assets position of £20.7 million

   c. The FCA's strong fee covenants are underpinned by its statutory powers to raise fees to fund its and the PSR's regulatory activities. Of the firms on which the FCA currently levies its fees, the top 100 are responsible for 50.5% of those fees (2019: 52.5%). For the PSR, the top 10 fees payers are responsible for 70.9% (2020:69.9%) of our Annual Funding Requirement.

   d. The FCA is currently well placed from a liquidity perspective, with cash deposits of £199.7 million at 31 March 2020 and an available overdraft facility increased from £50 million to £100 million. The PSR has cash deposits of £12 million ring-fenced within the FCA total.

Going concern and key financial risks
continued

2. **Credit risk** falls into three main categories:

   a. **The collection of fees from the financial services industry:** The FCA has a strong record in terms of collecting fees, with bad debt experience averaging less than 0.2% of fees receivable over the last three years. However, the collection of fees is at greater risk due to COVID-19. While the FCA has agreed to extend the payment of invoices from 30 days to 90 days to provide small and medium-sized firms with greater liquidity, the impact of COVID-19 on the financial services industry has not fully materialised yet. There is therefore the potential for additional pressure on the FCA's collection of fees.

   b. **The UK's withdrawal from the EU:** This has had a slight impact on 2020/21 FCA fee rates due to firms moving some of their business outside the UK. The impact on 2021/22 fees will therefore depend on whether firms continue to move part of their operations outside the UK and reduce the tariff data they report for the calendar year ending 31 December 2020. PSR fees are based on transactions with a UK element and is therefore insignificantly affected by firms moving their business outside the UK (for details of the full approach, see the FCA and PSR's joint policy statement on PSR regulatory fees, PS18/12, paragraph 4.26).

   c. **The placement of fees as deposits with various counter parties:** The FCA only invests with financial institutions which, among other things, meet its minimum credit rating as assigned by credit rating agencies. The FCA also spreads its deposits across a number of counterparties to avoid the concentration of credit risk. The FCA manages these deposits on our behalf.

Events after the reporting period

There were no material events after the reporting period.

Employee engagement

The directors consider our employees to be a key asset of the organisation. They therefore take various steps to ensure that they gain an understanding of the issues that matter to employees and take account of their views in decisions likely to affect their interests. The PSR has a Staff Consultative Committee (SCC) which the directors consider to be a formal workforce advisory panel. The SCC includes staff representatives and is one of the PSR's most important communication lines with its employees.

Business relationships

The directors recognise that there are numerous external stakeholders that they must have regard to in their decision making, including consumers, regulated and other businesses, the communities we operate in, community leaders and parliamentarians, international and domestic regulators, and our suppliers. By working to gain an understanding of the perceptions of each external stakeholder group and of the issues that matter to them, we can ensure that we deliver a high-quality service and provide appropriate protection to consumers in a fast-changing world.

The directors recognise that the views of our external stakeholder groups do not always align. In such circumstances, the directors decide on the most appropriate course of action to ensure we are delivering in the public interest.

Further information on our key external stakeholder groups and how we engage and take into account the views of those stakeholders is described in our section 172(1) statement, which can be found on page 74.

Directors' indemnities

Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were in force during the course of the financial year ended 31 March 2021 and remain in force at the date of this report.

Under the Financial Services (Banking Reform) Act 2013 (FSBRA), we have the benefit of an exemption from liability in damages for anything done or omitted in relation to the exercise or purported exercise of our statutory functions, provided that such acts or omissions are in good faith. This is supplemented with indemnities given by the Financial Conduct Authority for the protection of individual employees, including directors. Accordingly, we do not currently purchase Directors and Officers Liability Insurance.

Political donations

The PSR did not give any money for political purposes in the UK or the rest of the EU, nor did it make any political donations to political organisations, or to any independent election candidates, or incur any political expenditure during the year.

Auditor

FSBRA requires the company's accounts to be examined, certified and reported on by the Comptroller and Auditor General.

Accordingly, the Comptroller and Auditor General was auditor throughout the year.

By Order of the Board on 8 July 2021.

Simon Pearce
Secretary

Corporate governance

Corporate governance statement for the year ended 31 March 2021

Introduction

This section of the report details the board's composition and governance structure. It explains the board's role, its performance, ongoing professional development and succession planning.

The PSR is funded by the regulated payments industry through statutory fee-raising powers. We are independent of government, but accountable to government and Parliament through obligations set out in the Financial Services (Banking Reform) Act 2013 (FSBRA). We consult with industry participants and users on our practices and policies and how our objectives may be best achieved, including through engagement with the PSR Panel (see page 89).

This report sets out how we are governed in line with the principles of the UK Corporate Governance Code (the Code). The board considers that we maintain high standards of corporate governance and comply with the Code as far as is appropriate.

The role of the board

The board is our governing body. It sets our strategic direction and ensures our long-term success. The board liaises with the Financial Conduct Authority (FCA), consistent with the obligations set out in FSBRA, to take necessary steps to ensure that the PSR is, at all times, capable of exercising its functions and that the necessary financial and human resources are in place.

The Managing Director is responsible for implementing the strategy agreed by the board, as well as leading the organisation and managing it within the authorities delegated by the board.

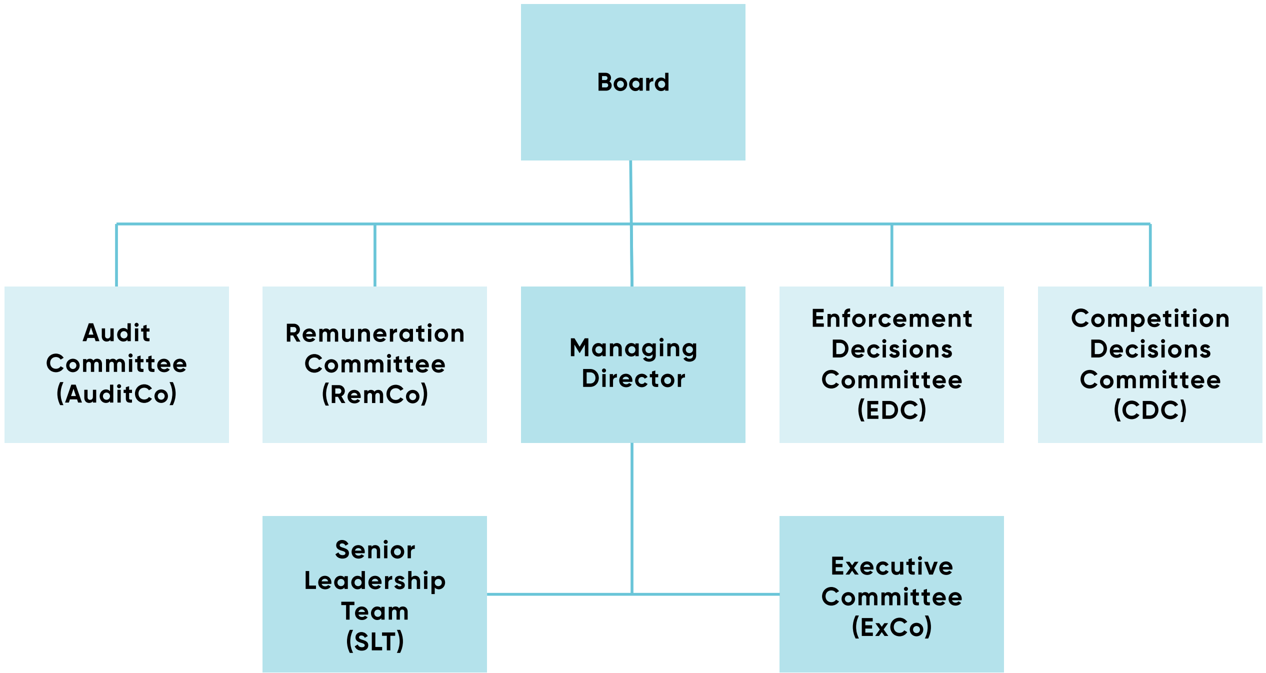
The board's role includes:

- making strategic decisions about our future operation
- deciding which matters it should make decisions on, including exercising our legislative functions and other matters as set out in the Schedule of Matters Reserved to the Board
- overseeing the executive management of our day-to-day business
- maintaining a sound system of financial control
- seeking regular assurance that our system of internal control is effective in managing risks
- setting appropriate policies to manage risks to our operations and the achievement of our regulatory objectives
- taking specific decisions that are not expressly included in the Schedule of Matters Reserved to the Board, but that the board or executive management consider are novel or contentious, or so significant that the board should take them
- establishing and maintaining the accountability for decisions made by committees of the board and executive management
- maintaining high-level relations with other organisations and authorities, including the government, the FCA, the Prudential Regulation Authority, the Bank of England and the Competition and Markets Authority

Our executive committees also play an important role in our overall corporate governance.

Our website gives more details on our governance arrangements as detailed in our 'Corporate governance of the PSR Limited' document: **www.psr.org.uk/corporate-governance-psr-limited**

Our governance framework



Senior Managers and Certification Regime

The Senior Managers and Certification Regime (SM&CR) does not formally apply to us. However, as a matter of best practice, we have set out a formal description of the core responsibilities of members of our board and those carrying out senior management functions. Our website has more details on how we apply the SM&CR to ourselves: **www.psr.org.uk/about-psr/psr-governance/senior-managers-regime**

Members of our board

The composition of our board is set out in FSBRA and, consistent with those requirements, the board currently comprises:

- the Chair, appointed by the FCA with the approval of the Treasury
- the Managing Director, appointed by the FCA with the approval of the Treasury
- other members, who are all non-executive directors (NEDs), appointed by the FCA

Table 1: Directors and dates of service

Name	Original appointment date	Expiry of current term/date membership ceased
David Geale Non-Executive Director	14/02/2020	13/02/2023
Noel Gordon Non-Executive Director	01/05/2016	16/07/2020
Chris Hemsley Executive Director Managing Director	02/09/2019	01/09/2024
Charles Randell Chair	01/04/2018	21/03/2023
Simon Ricketts Non-Executive Director	01/07/2017	30/06/2023
Tommaso Valletti Non-Executive Director	01/04/2020	31/03/2023
Aidene Walsh Non-Executive Director	01/06/2020	31/05/2023

Charles Randell was appointed for a five-year term. All other directors are appointed for three-year terms.

Tommaso Valletti was appointed as a NED for a three-year term with effect from 1 April 2020 and Aidene Walsh was appointed as a NED for a three-year term on 1 June 2020.

A majority of our board members are NEDs. Over the course of the year one or more NEDs, including the Chair, also served on the board of the FCA. Our NEDs bring a range of skills and experience that is appropriate for the requirements of the PSR.

The board is committed to ensuring that diversity remains a central feature of its membership. It pays particular attention in the recruitment process to ensure the board consists of a variety of members with the appropriate balance of relevant skills and experience. For the reporting year, our female membership did not meet the 33% target figure for the boards of UK FTSE 350 companies proposed by the Hampton-Alexander review. After the year end, Faith Reynolds was appointed for a three-year term with effect from 19 April 2021.

Board meetings and activities of the board

There is a clear division of responsibility between the executive running of the organisation and the running of the board. The Chair leads the board and ensures its effectiveness, while the Managing Director is responsible for implementing the strategy agreed by the board, the leadership of the organisation and managing it within the authorities delegated by the board.

The board has a formal schedule of matters reserved to it and meets regularly in order to discharge its duties effectively. The board held seven meetings during the year.

Details of the number of meetings held and attendance at those meetings are set out in Table 2 (the table reflects the number of meetings available for them to attend, given that their terms began or ended part way through the reporting year).

During the year, the NEDs met privately without members of the executive present.

The Chair and Company Secretary ensure that the board's agendas reflect our business priorities. They also conduct a review of papers before they are circulated to the board to ensure that information is clear and accurate. Papers for board and committee meetings are normally circulated one week before meetings.

Board members provide rigorous challenge on strategy, performance, responsibility and accountability. They hold the executive to account and ensure that the decisions of the board are robust.

The board addressed many issues during the year. The principal areas of activity included short-term measures to ensure a resilient system of cash distribution during the coronavirus pandemic; strategic policy development on the long-term future of cash; progress towards the New Payments Architecture; the effectiveness of measures to ensure reasonable reimbursement of victims of push payment fraud; discussions on internal and external risk and strategy setting; consideration of the annual report and accounts, a review of the organisation's strategy and development of the business plan; and a three-year strategic internal audit plan.

A record of the board's activities can be found in our published minutes on our website: **www.psr.org.uk/about-psr/psr-governance/board-minutes**

Table 2: Attendance at board meetings for 2020/21

Name	Scheduled board meetings	Additional board meetings
David Geale	5/6	1/1
Noel Gordon (Stepped down 16/07/2020)	2/2	1/1
Chris Hemsley	6/6	1/1
Charles Randell	6/6	1/1
Simon Ricketts	6/6	1/1
Tommaso Valletti	5/6	1/1
Aidene Walsh (Term began 01/06/2020)	5/5	1/1

Company Secretary and independent advice

Each director has access to the advice and services of the Company Secretary, who advises the board on governance matters and ensures the board follows appropriate procedures. The Company Secretary is also responsible for providing access to external professional advice for directors, if required.

Succession

The board considers that all of the NEDs bring strong oversight. However, the board recognises the recommended term within the Code and is mindful of the need for suitable succession.

Succession planning remains a key agenda item for the board. It monitors the skills and experience of its members and identifies where gaps exist to inform future appointments.

Board induction and training

On joining the board, directors are given background information describing the PSR and our activities. They receive an induction pack which includes information on our governance arrangements, the board's role and responsibilities, its sub-committees and officers and other relevant information. Structured meetings and briefings with a range of key people across the PSR are also organised, to ensure directors have a thorough induction to the board and to the business of the PSR. There is also a systematic continuing professional development programme for board members.

Board effectiveness

Reviews of board effectiveness are conducted annually. In accordance with good corporate governance practice, such reviews are externally facilitated every three years. The most recent external review was in 2017-18 and so an externally facilitated review has been commissioned again this year. The review is taking the form of interviews with board members and other relevant personnel, observations of board and committee meetings and review of relevant documentation. It is being conducted by Advanced Boardroom Excellence.

The review timetable has been designed to enable account to be taken of recent changes in the membership of the PSR board and to coincide with a similar review of the effectiveness of the FCA board. The key findings of the review will be published in the coming months.

Conflict of interests

All directors are required to declare relevant interests in accordance with the Conflict of Interests policy. The board took appropriate steps to manage any potential conflicts of interest that arose during the year.

A register of interests is maintained by the Company Secretary. The board reviewed its policy in November 2019.

Governance and committee structure of the PSR

The PSR is a wholly owned subsidiary of the FCA. We share operational functions and support with the FCA through a service agreement, which is reviewed annually. All PSR staff are employees of the FCA. The functions of the PSR's Audit Committee and Remuneration Committee are carried out by the members of the respective FCA committees.

Catherine Bradley was Chair of the Audit Committee until July 2020 and was then succeeded by Liam Coleman. Baroness Hogg was Chair of the Remuneration Committee until September 2020 and was then succeeded by Alice Maynard. Bernadette Conroy was appointed to the Audit Committee and Remuneration Committee in May 2020 and Jeannette Lichner and Liam Coleman were appointed to the Remuneration Committee in July 2020 and September 2020 respectively. Further details are available in the FCA's Annual Report and Accounts 2020/21.

The FCA's annual report has information on the membership of these committees as well as details of the issues they considered.

The board reviews the external risks to the PSR on a regular basis. The board reviewed our risk framework and approach, responsibilities and reporting mechanisms. There's more information on the principal risks and uncertainties we face in the financial overview (page 77).

Our website has more details on our governance arrangements: **www.psr.org.uk/about-us/psr-governance/**

The PSR Panel

The PSR Panel (the Panel) is independent of the PSR. It contributes towards the effective development of our strategy and policy, and offers advice and early input on our work.

The Panel comprises members drawn from payment system operators, payment service providers, infrastructure and technology providers, and service-users, including representatives of consumers and large and small businesses.

Further information on the Panel, including a list of members, can be found on our **website**.

Competition Decisions Committee

The Competition Decisions Committee (CDC) acts as the decision-maker in any particular investigation arising where we propose to impose a sanction under the Competition Act 1998. In individual cases, a CDC Panel comprising three CDC members will be appointed to decide on behalf of the PSR on whether there has been a competition law infringement, whether to impose a penalty, and whether to give directions.

Enforcement Decisions Committee

The Enforcement Decisions Committee (EDC) makes regulatory enforcement decisions for the PSR under FSBRA or other legislation (for example, the Interchange Fee Regulation) when a settlement cannot be reached. The EDC is separate from staff at the PSR who investigate whether there has been a compliance failure.

In individual cases, an EDC Panel comprising three EDC members will be appointed to decide on behalf of the PSR whether there has been a compliance failure and whether to impose a financial penalty and/or publish details of the compliance failure.

By Order of the Board on 8 July 2021.

Simon Pearce
Secretary

Remuneration report

Directors' remuneration (audited)

The adjacent table sets out the remuneration paid or payable to any person that served as a Director during the years ending 31 March 2021 and 2020. The remuneration figures shown are for the period served as Directors. The PSR follows the same remuneration principles as the Financial Conduct Authority (FCA). Further information is available in the FCA's annual report.

	Basic salary		Performance-related pay		Other benefits		Total remuneration (excluding pension)		Pension		Total remuneration	
Chair	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Charles Randell[1]	20	20	–	–	–	–	20	20	–	–	20	20
Executive Directors												
Christopher Hemsley[2,3]	198	189	17	22	24	21	239	232	25	20	264	252
Louise Buckley[3,4]	–	90	–	27	–	10	–	127	–	11	–	138
Carole Begent[4]	–	70	–	28	–	10	–	108	–	7	–	115

	PSR fee paid	
Non-Executive Directors	2021 £'000	2020 £'000
Andrew Bailey[6,7]	–	–
Christopher Woolard[6,8]	–	–
David Geale[6,9]	–	–
Amelia Fletcher[10]	–	8
Noel Gordon[11]	5	15
Simon Ricketts[12]	15	15
Nick Stace[13]	–	6
Tommaso Valletti[14]	8	–
Aidene Walsh[15]	13	–

Notes

Chair

1. Charles Randell received a fee of £20,000 as Chair of the PSR during the year.

Executive directors of the PSR

2. Chris Hemsley was appointed as Managing Director of the PSR on 2 September 2019. For the 2020/21 financial year, Chris received a performance bonus of £16,795, of which £6,718 (40%) was paid in March 2021. The remaining £10,077 (60%) was held in deferment and is due to be paid in April 2022.

3. Chris Hemsley and Louise Buckley were appointed jointly as acting Managing Directors of the PSR on 6 April 2019 until 2 September 2019. During this period, Chris and Louise both received an acting up allowance. Chris was paid his new salary from 2 September 2019 and Louise's acting up allowance ended on 30 September 2019.

4. The performance related pay shown for Louise Buckley and Carole Begent for the year ended 31 March 2020 represents the full performance year and not just their time on the PSR board.

Non-executive directors of the PSR

5. The FCA is responsible for determining the remuneration of the other non-executive directors. The fee for non-executive directors remains unchanged at £15,000 per annum. Non-executive directors serving on both the FCA and PSR boards receive £7,500 per annum in addition to their FCA board fee for serving on the PSR board.

6. Andrew Bailey, David Geale and Christopher Woolard did not receive a fee for their non-executive director roles on the PSR board. Their full remuneration is included in the FCA Annual Report.

7. Andrew Bailey stepped down from the PSR board on 13 March 2020.

8. Christopher Woolard stepped down from the PSR board from 28 February 2020.

9. David Geale was appointed to the PSR board on 14 February 2020.

10. Amelia Fletcher stepped down from the PSR board on 31 March 2020.

11. Noel Gordon retired from the PSR board 31 July 2020.

12. Simon Ricketts was appointed as a member of the FCA Audit Committee on 1 April 2019. For 2020, Simon Ricketts' remuneration disclosed both PSR and FCA fees paid and has been restated to reflect PSR fees paid only.

13. Nick Stace resigned from the PSR board on 29 January 2020.

14. Tommaso Valletti is a member of the FCA board. Tommaso Valletti was appointed to the PSR board on 1 April 2020.

15. Aidene Walsh was appointed to the PSR board on 1 June 2020.

Senior pay disclosure

In addition to the Executive Directors reported under Directors' Remuneration, the table below sets out the remuneration paid or payable to any person that served as a voting member of the Executive Committee during the year ending 31 March 2021.

	Basic salary		Performance-related pay		Other benefits		Total remuneration (excluding pension)		Pension		Total remuneration	
Name	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Carole Begent	169	166	11	28	23	24	203	218	19	17	222	235
Louise Buckley	147	162	11	27	21	21	179	210	24	22	203	232
Genevieve Marjoribanks[1]	133	29	11	–	20	5	164	34	23	5	187	39

[1] 2020 Senior pay disclosure table has been restated to include Genevieve Marjoribanks who was appointed a voting member of the Executive Committee on 13 January 2020.

Payment Systems Regulator

Financial statements

Financial statements

For the year ended 31 March 2021
Company Number: 8970864

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I certify that I have audited the financial statements of The Payment Systems Regulator Limited (PSR) for the year ended 31 March 2021 under the Financial Services (Banking Reform) Act 2013, which comprise the Statement of comprehensive income, Statement of changes in equity, Statement of financial position, Statement of cash flows, and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the International Accounting Standards in conformity with the requirements of the Companies Act 2006.

I have also audited the information in the Remuneration report that is described in that report as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the PSR's affairs as at 31 March 2021 and of the profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the PSR in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of authorities

Authorising legislation:
Financial Services (Banking Reform) Act (FSBRA) 2013.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the PSR's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

My evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included consideration of the PSR's funding arrangements and assessment of whether any conditions exist which may cast significant doubt on the PSR's ability to continue to operate. My key observations were that funding is secured by statutory levies raised on the PSR's behalf and that no events or conditions exist which may cast significant doubts on the ability to continue operations.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the PSR's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the entity's reporting on how they have applied the UK Corporate Governance Code, I have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors' considered it appropriate to adopt the going concern basis of accounting.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

I consider the following area of particular audit focus to be that which had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. This matter remains unchanged from the prior year and has been discussed with the audit committee on an ongoing basis.

This is not a complete list of all risks identified by my audit but only that area that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort.

Key audit matter 1: Risk of management override of controls

Description of risk

The ISAs (UK) include a non-rebuttable risk that management could perpetrate fraud or manipulate accounting records. Accordingly, I am required to perform procedures in response to this risk. Account areas that are particularly susceptible to management override of control are those areas where there has been a change to an established system or process, and account areas where there are high levels of estimation and judgement.

How the scope of my audit responded to the risk

I reviewed key financial processes and controls around journals and account balances which involve estimates and significant accounting judgements;

I used data analytics to review the manual journals posted in year for risk factors identified through our team discussion of potential fraud and management override risks, and tested any such journals. I considered accounting estimates and judgements for evidence of bias, including a retrospective review of management's judgements and assumptions;

I reviewed the general ledger, bank statements, audit committee papers and board papers to support discussions with management in seeking to identify significant transactions that appeared to be outside the normal course of business and did not find any such transactions; and

I reviewed the accounting estimates made by the PSR which relate to expected credit losses, accruals, receivables and prepayments. I found no evidence of management bias.

Key observations

My testing results were satisfactory.

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the PSR's financial statements at £316,000 (2019-20: £300,000), which is approximately 2% (2019-20: 2%) of gross expenditure. I chose this benchmark because expenditure is the key area of interest for Parliament (and indeed more broadly the firms regulated by the PSR) because the budgeted amount for the financial year determines the Annual Funding Requirement for the PSR, which forms the basis of the fees invoiced to regulated firms. This represents the size of the regulatory cost that the PSR imposed upon the financial services sector. The account is primarily composed of payroll and other operating costs.

A benchmark of 2% of gross expenditure has historically been used as the materiality for the PSR audit. I chose 2% because the audit is relatively low risk in terms of underlying complexity. The materiality level set is consistent with the prior year and I have not noted any significant changes to the risk profile that would suggest a lower percentage is more suitable for materiality. A threshold of 2% provides an appropriate level of precision given the profile and the PSR funding mechanism.

Performance materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 71% of materiality for the 2020-21 audit (2019-20: 72%). In determining performance materiality, I have considered the uncorrected misstatements identified in the previous period as well as the fact that this is not a new entity.

Other materiality considerations

Aswell as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the Remuneration report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

Error reporting threshold

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £6,800, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements.

The impact of the unadjusted errors, as reported to the Audit Committee, is an overstatement of expenditure and understatement of assets by £25,297.

Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity-wide controls, and assessing the risks of material misstatement.

Other information

The other information comprises information included in the annual report but does not include the parts of the Remuneration report described in that report as having been audited, the financial statements and my auditor's report thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic, Directors' and Corporate governance report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;

Matters on which I report by exception

In the light of the knowledge and understanding of the PSR and its environment obtained in the course of the audit, I have not identified material misstatements in:

- the strategic report or the directors' report.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or certain disclosures of director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared; or
- I have not received all of the information and explanations I require for my audit.

Corporate governance statement

The Listing Rules require me to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate governance statement relating to the PSR's compliance with the provisions of the UK Corporate Governance Statement specified for my review.

Based on the work undertaken as part of my audit, I have concluded that each of the following elements of the Corporate governance statement is materially consistent with the financial statements or my knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified as set out on page 81;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate as set out on page 81;
- Directors' statement on fair, balanced and understandable as set out on page 81;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out on page 71;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out on page 88; and
- The section describing the work of the audit committee as set out on page 88.

Responsibilities of the directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- such internal controls as directors determine are necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error; and
- assessing the PSR's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to presume that the company will continue in business.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services (Banking Reform) Act 2013.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the PSR's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the PSR's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the PSR's controls relating to Financial Services (Banking Reform) Act 2013.
- Discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition and the posting of unusual journals.
- Obtaining an understanding of the PSR's framework of authority as well as other legal and regulatory frameworks that the PSR operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the PSR. The key laws and regulations I considered in this context included the Companies Act 2006, Financial Services (Banking Reform) Act 2013, relevant Employment Law and tax legislation.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- reviewing the accounting policies related to the PSR;
- using analytical procedures to identify any unusual or unexpected relationships; and
- testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements has been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies
13 July 2021

Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Statement of comprehensive income for the year ended 31 March 2021

	Notes	Total 2021 £'000	Total 2020 £'000
Income			
Fee income		16,848	15,624
Other income		88	64
Total income	**4**	**16,936**	**15,688**
Operating costs			
Staff costs	5	(11,208)	(10,410)
Administrative costs	6	(4,624)	(5,721)
Total operating costs		**(15,832)**	**(16,131)**
Total comprehensive profit/(loss) for the year		**1,104**	**(443)**

Statement of changes in equity for the year ended 31 March 2021

	Total £'000
At 1 April 2019	**3,971**
Total comprehensive loss for the year	(443)
At 1 April 2020	**3,528**
Total comprehensive profit for the year	1,104
At 31 March 2021	**4,632**

Statement of financial position for the year ended 31 March 2021

Company Number: 8970864

	Notes	Total 2021 £'000	Total 2020 £'000
Current assets			
Cash and cash equivalents		11,910	9,587
Trade and other receivables		58	36
Intragroup receivable		–	747
Total assets	**7**	**11,968**	**10,370**
Current liabilities			
Trade and other payables		(6,728)	(6,842)
Intragroup payable		(608)	–
Total liabilities	**8**	**(7,336)**	**(6,842)**
Total assets less total liabilities		**4,632**	**3,528**
Accumulated surplus		**4,632**	**3,528**

The financial statements were approved by the board on 23 June 2021, and signed on its behalf on 8 July 2021 by:

Charles Randell
Chair

Chris Hemsley
Managing Director

The Company is exempt from the requirement of Part 16 of the Companies Act 2006 as stipulated in Schedule 4, paragraph 8 (5) of the Financial Services (Banking Reform) Act 2013.

Statement of cash flows for the year ended 31 March 2021

	Notes	Total 2021 £'000	Total 2020 £'000
Net cash generated by operating activities	**3**	**2,294**	**1,173**
Investing activities			
Interest received on bank deposits		29	64
Net cash generated in investing activities		**29**	**64**
Net increase in cash and cash equivalents		**2,323**	**1,237**
Cash and cash equivalents at the start of the year		9,587	8,350
Cash and cash equivalents at the end of the year		**11,910**	**9,587**

Notes to the financial statements

1. General information

The Payment Systems Regulator (PSR) was incorporated in England and Wales under the Companies Act 2006 on 1 April 2014 as a private company, limited by shares (a single share with a £1 nominal value, wholly owned by the Financial Conduct Authority (FCA)). The nature of the PSR's operations is set out in the financial overview.

The registered office is 12 Endeavour Square, London, E20 1JN.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the PSR operates.

2. Core accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The principal accounting policies applied in preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Changes in accounting policy

There are no new or amended IFRS or International Reporting Interpretations Committee (IFRIC) interpretations that have been adopted.

Income

The core principle of IFRS 15, Revenue from Contracts with Customers is that an entity recognises revenue to depict the transfer of promised goods or services to customers, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard requires an entity to identify the contract(s) with a customer and the performance obligation related to the contract. It further requires for the transaction price to be determined and allocated to the performance obligations in the contract. Revenue can only be recognised under the standard when the entity satisfies a performance obligation.

Management has assessed the implication of adopting IFRS 15 directly, but given the nature of the PSR's activities and that IFRS 15 relates to commercial organisations, it was not considered appropriate. Accordingly, management has applied International Accounting Standards (IAS) 8(10) to use its judgement in developing and applying an accounting policy that provides information that is relevant and reliable.

In doing so, management has broadened the definition of a contract to include legislation and regulation. In this circumstance, a 'contract' is the underlying statutory framework set out in the Financial Services (Banking Reform) Act 2013 (FSBRA). This framework enables the PSR to raise fees to recover the cost of carrying out its statutory functions. The performance obligation under the 'contract' is the granting of the ability to operate and remain authorised during the course of the year.

The PSR's revenue streams are categorised as either **fee income** or **other income**.

Fee income includes the annual periodic fees which are levied and measured at fair value when recognised. The Financial Services and Markets Act 2000 (FSMA) enables the FCA to raise fees, and FSBRA enables the FCA to raise fees on behalf of the PSR to recover the costs of carrying out its statutory functions. Fees are recognised at the later of:

- the fee year to which they relate (invoices on account), or
- the invoice date

Other income satisfies the core principles and conditions set out to recognise revenue. Resulting contract assets and liabilities are included in Current assets within Intragroup receivables and as Fees received in advance in Current liabilities.

Retirement benefit costs
Money Purchase Section (defined contribution)

The PSR is a member of the Money Purchase Section of the FCA Pension Plan, a defined contribution plan where the company pays contributions at defined rates to a separate entity.

Payments to the Money Purchase Section of the Plan are recognised as an expense in the statement of comprehensive income, as they fall due.

Prepaid contributions are recognised as an asset to the extent that a cost refund or a reduction in future payments is available.

3. Notes to the cash flow statement

	Notes	Total 2021 £'000	Total 2020 £'000
Profit/(loss) for the year from operations		1,104	(443)
Adjustments for:			
Interest received on bank deposits	4	(29)	(64)
Operating cash flows before movements in working capital		**1,075**	**(507)**
Decrease in receivables	7	725	916
Increase in payables	8	494	764
Net cash generated (used) by operations		**2,294**	**1,173**

4. Income

FSBRA enables the FCA to raise fees on behalf of the PSR to recover the costs of carrying out its statutory functions. Fee income represents the annual periodic fees receivable for the financial year, is recognised in the year it is levied, and is measured at fair value.

	Total 2021 £'000	Total 2020 £'000
Fee income	16,848	15,624
Interest on bank deposit	29	64
Other income	59	–
Total income	**16,936**	**15,688**

5. Staff information

Staff costs (including executive directors) comprise:

	Total 2021 £'000	Total 2020 £'000
Gross salaries and taxable benefits	9,061	8,023
Employer's national insurance costs	1,039	942
Employer's defined contribution pension costs	904	739
Permanent staff costs	**11,004**	**9,704**
Secondees	–	121
Contractors	204	585
Short-term resource costs	**204**	**706**
Total staff costs	**11,208**	**10,410**

Staff numbers comprise:

The average number of full-time equivalent employees (including executive directors and fixed-term contractors) during the year to 31 March is presented below:

	Total 2021	Total 2020
Permanent staff	103	91
Short-term resource	4	6
Total	**107**	**97**

As at 31 March 2021, there were 106 full-time equivalent employees (2020: 97) and 3 short-term resources (2020: 3).

6. Administrative costs

Administrative costs include:

	Total 2021 £'000	Total 2020 £'000
IT running costs	1,046	981
Professional fees	1,062	2,286
Accommodation and office services	1,359	1,251
Recruitment, training and wellbeing	403	444
Travel and hospitality	3	42
FCA staff recharges	598	589
Other costs	153	128
Total	**4,624**	**5,721**

Auditors

The Comptroller and Auditor General was appointed as auditor on 1 April 2014 under FSBRA. The auditor's total remuneration for audit services is set out below:

	Total 2021 £'000	Total 2020 £'000
Fees payable to the National Audit Office for the audit of the financial statements	21	21

7. Current assets

	Notes	Total 2021 £'000	Total 2020 £'000
Cash at bank		7,410	6,087
Cash deposits		4,500	3,500
Cash and cash equivalents		**11,910**	**9,587**
Prepayments and accrued income		58	36
Intragroup receivable – FCA	9	–	747
Total current assets		**11,968**	**10,370**

Cash and cash equivalents comprise cash and short-term fixed-rate bank deposits with a maturity date of 12 months or less. The carrying amount of these assets approximates to their fair value.

Intragroup receivable consists of fees collected by the FCA on behalf of the PSR but not remitted to the PSR at 31 March, less amounts due from the PSR to the FCA under the provision of services agreement between the two companies which sets out the services that are supplied and the respective costs. These costs are based on the charges the FCA incurs, without margins.

8. Current liabilities

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	Notes	Total 2021 £'000	Total 2020 £'000
Fees received in advance		5,514	5,418
Trade creditors and accruals		1,214	1,424
Trade and other payables		**6,728**	**6,842**
Intragroup payable – FCA	9	608	–
Total current liabilities		**7,336**	**6,842**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 9 days (2020: 22).

Intragroup payable consists of amounts due from the PSR to the FCA under the provision of services agreement between the two companies which sets out the services that are supplied and the respective costs, less fees collected by the FCA on behalf of the PSR but not remitted to the PSR at 31 March. These costs are based on the charges the FCA incurs, without margins.

9. Related party transactions

Remuneration of key management personnel

	Total 2021 £'000	Total 2020 £'000
Short-term benefits	808	680
Post-employment benefits	90	60
Total related party transactions	**898**	**740**

There were no other transactions with key management personnel in the year.

Transactions with the FCA

The FCA provides certain services to the PSR, which are set out in the provision of service agreement. Summarised as:

	Total 2021 £'000	Total 2020 £'000
Accommodation and office services	1,345	1,230
Staff costs	634	591
IT costs	835	774
Other costs	103	76
	2,917	**2,671**

As at 31 March 2021, the intragroup payable due to the FCA was £608,000, as disclosed in note 8 (2020: intragroup receivable £747,000, as disclosed in note 7).

10. Events after the reporting period

In June 2021, the PSR received a court claim for judicial review. We are defending the claim and proceedings are ongoing. The PSR does not expect the ultimate resolution of the claim to have a significant adverse effect on its financial performance, financial position, or cash flows.

There were no material events after the reporting period. The financial statements were authorised for issue on the date of the Comptroller and Auditor General's signature.

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