PSR Payment Systems Regulator

The Payment Systems Regulator Limited
Annual report and accounts 2018/19

HC 2323

The Payment Systems Regulator Limited

Annual Report and Accounts 2018-2019
(for the year ended 31 March 2019)

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Forewords

I am delighted to introduce this annual report, covering the Payment Systems Regulator's (PSR's) fourth year, and my first year as its Chair.

The PSR has already established itself as a dedicated economic regulator of payment systems. It has changed the ownership structure and architecture of some of the UK's core payment systems, and ensured that there is fair access to them, to promote competition and innovation in this critical sector of our economy.

In the world of payments, there are mostly simple needs – but these are often complex to achieve. The needs of the users of payment systems, from consumers or small businesses to large multinationals, are for secure, reliable, accessible and cost-effective payments. These simple needs are currently satisfied through a number of technically intricate infrastructures, overseen by multiple authorities, at a time of rapid technology change and innovation.

This complexity and continuing change make it all the more important that we make sure we stand back and ask ourselves some key questions:

- Do we understand whether payment systems are delivering what their users need?
- Are we working effectively with other authorities to oversee this delivery?

This annual report sets out the work that the PSR has done in the past year to make sure it continues to address these questions.

You will see in this report that there has been an increased emphasis on the needs of consumers and small businesses. We set up a group of industry and consumer representatives who, under the independent chairmanship of Ruth Evans, have developed a code to address authorised push payment fraud. Alongside this we are planning to introduce a requirement that the six largest banking groups in the UK provide a Confirmation of Payee service next year to minimise the likelihood of this fraud happening in the first place. We are also working – with other authorities – to ensure that we play our role in ensuring that everyone who needs to access cash can do so. This builds on the steps we have already taken to ensure that LINK acts on its commitments to secure the existing broad geographic spread of free-to-use cash machines. Additionally, we are investigating the costs to businesses and consumers in the cards market.

You will also see that we have been working closely with the other authorities who have roles in the payments sector, notably the Financial Conduct Authority (FCA) and the Bank of England, to ensure that we have a shared vision of the payments market and that we communicate and collaborate effectively with them. We look forward to continuing this work through our participation in the recently announced Treasury-led review of the payments landscape.

Of course, a notable change in the organisation has been the departure of Hannah Nixon, who left her Managing Director post in April. Hannah has led the organisation from the start, overseeing our development through our crucial early stages. I would like to thank her for her huge contribution over the last five years.

I would also like to take this opportunity to thank all the PSR staff who have supported me in my first year as Chair and I look forward to working with those staff, consumers, businesses and others as we deliver our objectives this year.

Charles Randell
Chair

Payments in the UK are evolving fast. New ways to pay are taking hold among the public, and the systems underpinning them are going through changes too. As the world's only dedicated economic regulator of payment systems, we have to match this evolution and innovation to stay at the forefront of developments and make sure that we use our resources wisely, and where they can have the most impact.

This need to continually progress has been reflected in our growth and development in 2018/19. We've increased our focus on consumer issues, enhanced our market intelligence and analysis with a new chief economist role, and added to our workforce to make sure we have the right operating model for the challenges ahead. Our people remain essential to our progress. Their dedication and engagement with our vison has been a major factor in the successes we've had over the year, and will remain so as we continue to drive forward the important changes we've helped to make.

And these changes make a real difference to people across the UK, in areas that really matter. One of the most visible and significant achievements in payments this year has been the work we've led to fight authorised push payment scams. We now have an industry code that will see banks take responsibility for making proper checks when people transfer money, to keep it out of the hands of fraudsters. And, crucially, the victims of these scams will now have a greater chance of getting their money back if they've taken the right precautions. This is a significant step in the fight against crime and a good example of how we can make progress working collaboratively with industry and consumer groups. We brought the right stakeholders together and let them lead the development of the code. At the same time, we've been working with the industry to make sure the Confirmation of Payee service, which will let people check they're sending money to the right person, can be developed without undue delay. This will make it harder for criminals to commit these scams and give even more protection to consumers.

Our work on scams has spearheaded our further involvement in consumer-facing issues over the last year. The changing dynamics of ATM provision has been a key concern, reflecting changing payment habits and attitudes to cash. The steady growth of card payments has meant cash is being used less across the UK – and we know there's a danger of some people being left behind. We've done work with LINK – which is ongoing – to make sure its changes in interchange fees don't lead to people losing free access to cash right now. And we've also carried out research into consumer habits and attitudes, giving us a foundation for our future work with others ensuring that, for those who need it, there is sustainable access to cash for the future. These are newer and vital areas for us.

Across these and all our other projects we've continued to take a flexible approach, which has been instrumental in our successes to date. We've given directions when we've needed to, and worked collaboratively in other areas to get the right results.

Of course, we've continued looking at how other areas in the payments sector are working. We began another market review, looking at card-acquiring services – an important aspect of card payments that has a big impact for businesses and merchants. The crucial work we began in 2015 to open up access to payment systems continues to bear fruit, and we've seen more direct and indirect participants joining the interbank systems in 2018/19, providing competition and choice that will benefit everyone who uses the systems. We've carried out a major review of our general directions covering access and governance, which will give us the right platform to regulate in the future. We've done a similar exercise for our powers and procedures guidance (PPG), reflecting our practical experience after four years of using our regulatory powers. We are now consulting on our PPG proposals, and plan to issue final versions of all these documents during 2019/20.

Much of this work has been about making sure we can continue to lead and shape the landscape in the right way as payments continue to evolve. Knowledge and insight are key to our ability to operate and regulate effectively. Our research projects on contactless mobile payments and payments data are examples of how we can probe and lead the discussion in new areas. And the creation of a new Chief Economist role was designed to ensure we have the right insight where we need it.

We're now an established regulator. In the last year we've continued to deliver in core areas while growing into new ones, laying a solid foundation for the future. We look forward to engaging with people across the payments industry and beyond as we continue our work next year.

Chris Hemsley and Louise Buckley
Acting Managing Directors

Our vision and objectives

We were created in 2014 to make some fundamental changes in the payments industry. We wanted to create the conditions where competition and technology combined to give everybody who depends on payment systems a secure, reliable service. This is embodied in our vision, and in the statutory objectives we were given in the Financial Services (Banking Reform) Act 2013 (FSBRA).

Our vision

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

Our statutory objectives

Under FSBRA, all the work we do is designed to advance one or more of these payment systems objectives:

- 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, them.
- Promote the development of, and innovation in, payment systems in the interests of those who use, or are likely to use, them.

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 are Faster Payments Scheme, Bacs, CHAPS, LINK, Mastercard, Visa Europe, Cheque and Credit/Image Clearing.

Our wider role

We are a concurrent competition regulator in relation to participation in any payment system, alongside the Competition and Markets Authority (CMA). We can investigate where there may be breaches of the prohibitions against anti-competitive agreements and abuses of dominant positions and take action if there are. 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.

Looking forward

The industry is changing, but there are limits to our powers, what we currently regulate and the scope of our legal framework. Where we identify limits which affect our ability to advance our objectives and deliver our vision, we will look for other ways to help ensure positive outcomes for consumers and service-users of payment systems. This includes engaging with other authorities, as in our work with the FCA on authorised push payment scams, for example. We regularly engage with the Treasury and others in respect of the regulatory framework, to ensure that it remains fit for purpose in a changing environment. For example, amending the designation orders of regulated payment systems, where necessary.

Key projects in 2018/19

Authorised push payment scams

We set up a steering group to implement an industry code to help combat these scams. The code was agreed in February 2019 and came into force in May 2019, making scams harder to commit and giving victims a better chance of getting their money back. We're now working on making sure that Confirmation of Payee is introduced next year – a service that should help prevent payments going tothe wrong people. See page 18

The ATM network

We've worked with LINK, the ATM network operator, to protect the broad geographic spread of free-to-use cash machines as the economics of providing them begins to change. We gave LINK a specific direction in October 2018, to ensure it does all it can to fulfil its commitments to protect isolated ATMs. See page 20

Protecting access to cash

Card payments have recently overtaken cash as the most popular payment method in the UK. As the dynamics of cash use change, we want to make sure people who need to use cash will continue to have access to it. We began our own programme of research and are working with other authorities to coordinate activity to address this issue. See page 21

Market review of card-acquiring services

We began looking at card-acquiring services, where merchants pay third parties to accept and process card payments on their behalf. The costs of these services may ultimately be reflected in the prices merchants charge and the services they provide to their customers. Our review was prompted by concerns raised by businesses and others that indicate the supply of these services may not be working well for merchants and, ultimately, consumers. We published the final terms of reference in January 2019 and are now gathering and analysing evidence. See page 26

The new payments architecture

The new payments architecture (NPA) is a brand new infrastructure for the UK's retail interbank payment systems. It should help UK payments systems be fit for future developments and allow more innovation in payment services. It's being developed by Pay.UK, the operator of Bacs, Faster Payments and Cheque and Credit. We've set out our expectations of Pay.UK's work programme and are monitoring its progress closely. In December, Pay.UK began the procurement process for the NPA's central infrastructure. See page 36

Strategic report

Introduction

This annual report covers our activity in 2018/19. We explain how we've met the aims and priorities we set out in our 2018/19 annual plan and policy work programme, and how this has advanced our payment systems objectives.

The last year has been one of consolidation, development and evolution. Our work on opening up access to payment systems is paying dividends. More new payment service providers (PSPs) are connecting to payment systems, meaning more competition in the market – which will benefit everybody that uses payment systems. And competition is also being introduced in the infrastructure for interbank payments, thanks to the directions we gave to payment system operators in 2017. Our ongoing monitoring and enforcement work has helped us ensure compliance with our directions and relevant legislation, so they can bring the intended benefits. Throughout all this work we've continued to use the full range of regulatory tools at our disposal, helping us get the right results in different situations.

Working for consumers

All of our work is important, no matter how high-profile or otherwise it may be, and all of it leads back to promoting the interests of users in payment systems, protecting their interests and giving them greater choice in the way they pay. In 2018, we made a positive difference in our work to protect the people and organisations using payment systems. We helped the industry make significant progress fighting authorised push payment (APP) scams, which have seen many people lose life-changing amounts to fraudsters. We were pleased to see our work lead to the new industry code that will help protect people from this kind of fraud. We've also been working with the industry to make sure the Confirmation of Payee (CoP) service can be launched without unnecessary delay, and we expect to see it in operation early in 2020. This should help to prevent APP scams from happening in the first place.

Free access to cash has been another central concern for us as falling usage changes the economics of providing cash. The ATM network operator LINK began its programme of cuts to its interchange fees in 2018, and we've kept a close watch on the effect this might have on consumers and businesses. We issued a specific direction to LINK in October, requiring it to fulfil its commitment to maintain the broad geographic spread of free-to-use ATMs. LINK has made some changes to its network as a result, to support ATMs in protected areas.

We've also begun looking in greater depth at people's attitudes to cash and their changing relationship with it. With cashless payments becoming increasingly common, it's important for us to consider our part in helping people to have the access to cash they need. We've led discussions with other regulators and interested people and organisations, working together to explore the issues, and began our own programme of consumer research in 2019. This engagement has included acting as observer on the Access to Cash review, and a programme of research with focus groups across the UK.

Our broadening scope

Another rapidly expanding area of our work is in relation to card payments, which have now overtaken cash as the most frequently used payment method in the UK. In 2018, we launched our third market review, looking at the supply of card-acquiring services. This is a major project for us, looking at an important issue in payments. We issued the final terms of reference in January 2019, followed by working papers outlining our proposed methodology. We're currently reviewing the timetable for the market review against our published plan to issue an interim report by the end of the year.

This is an example of how the scope of our activity has continued to broaden as we grow and become more established as a regulator. Having addressed our initial priorities, we're at the stage of our development where we can look at wider issues that affect everybody using payment systems. We're now putting more resources into in-depth examination of some of the issues that will shape the future of payments and assessing where we can focus our resources to have the most impact.

In June 2018, we published our discussion paper on the increased availability and commercial use of payments data, and followed it up with a roundtable event where we heard views from a range of stakeholders. We wanted to start a conversation about this vital emerging issue, and better understand how it affects consumers, innovation and competition. We've continued to assess the complex evidence we received and have now begun work on a follow-up report.

We also published our report on contactless mobile payments in July 2018. We found that we didn't need to take any action in this area at that time – but we'll continue monitoring developments.

Changes at the PSR

The PSR itself has also undergone some significant changes in the last year. We moved to our purpose-built offices in Stratford in July, giving us office space with the facilities and technology to help us to collaborate and work even more efficiently and flexibly. 2018/19 has been our first year with Charles Randell as our Chair. And in April 2019, Hannah Nixon left her post as Managing Director, having guided the organisation through our first five years. Louise Buckley and Chris Hemsley are acting as co-Managing Directors until we appoint Hannah's permanent replacement. We've also appointed our first Chief Economist, to give us a greater depth of analysis and insight as we evolve alongside the ever-changing payments industry. And the organisation has grown to deal with the things we clearly needed to focus on.

Our people have continued to be essential to driving us forward. Their engagement with our purpose and drive to make payments work well for people across the UK was a major factor in last year's successes.

We've worked to ensure UK payment systems will not be affected by the UK's withdrawal from the European Union, including preparations to onshore the Interchange Fee regulation in the event of the UK withdrawing from the EU in a range of scenarios, including where the UK leaves the EU without a withdrawal agreement (a 'no-deal scenario').

And we've been monitoring the progress of the new payments architecture that will fundamentally change the way interbank payment systems work, making them fit to cope with the payment needs of the future.

Protecting the interests of service-users

Our work has always had the people and businesses that depend on payment systems at its heart. In 2018/19 we continued tackling big issues in payments that will make a tangible difference in people's lives. We made significant steps in the fight against payment scams, with the introduction of the new code making sure major banks take proper precautions and helping victims get reimbursed. We also took action to make sure that the main UK ATM operator, LINK, delivered on its commitment regarding the ongoing availability of access to free-to-use ATMs. And we began wide-ranging research into consumer attitudes; this will help us be ready to help everyone have sustainable payment choices for their needs as new products become more popular.

Authorised push payment scams

Authorised push payment (APP) scams are a serious crime and a growing problem which remains a key area of concern for us. According to UK Finance, losses due to APP scams were £354.3 million in 2018. Many victims have lost life-changing sums of money. We've been working hard over the past two and a half years to address the devastating impact of these scams, following a super complaint from the consumer group Which? in 2016. We've worked with the industry to get robust data to better understand the issue, and to get standards in place for how banks work together when an APP scam is reported. These were among the issues that were hampering banks when scams were detected, and stopping victims being reimbursed. By taking the lead with a flexible approach, we helped the industry find the right collaborative format to make real progress.

In March 2018, we set up a steering group to develop and deliver a voluntary industry code implementing the Contingent Reimbursement Model (CRM). The CRM sets out the circumstances when PSPs would be responsible for reimbursing APP scam victims that have acted appropriately. We wanted the right people involved to make sure the CRM Code was as effective as possible. We therefore brought together industry and consumers to develop the CRM Code, led by an independent Chair. We provided expertise as observers on the group, along with the Financial Conduct Authority, the Treasury, the Home Office, the Financial Ombudsman Service and representatives from law enforcement agencies.

We set the steering group an ambitious timeframe to work to, which it met by publishing the draft CRM Code in September 2018 for consultation. The final Code was agreed and published in February 2019, and came into force on 28 May 2019. The final Code reflects our strong belief that if a consumer has done everything they can reasonably do to protect themselves from an APP scam, they should be reimbursed.

Another important protection against APP scams is Confirmation of Payee (CoP). CoP is a mechanism which checks whether the name attached to the payment recipient's account matches the name the sender has entered. To ensure it's introduced in an effective and timely manner, we proposed giving a direction that mandates the implementation of CoP. We first consulted on whether there was a need for regulatory intervention to require the six largest banking groups in the UK and PSPs to implement CoP in November 2018. After assessing the responses, we have now proposed a specific direction requiring the six largest banking groups in the UK to implement CoP by the end of March 2020. We issued our consultation on a draft specific direction in May 2019 and expect to publish our final decision in the summer.

ATMs

In 2018, the main UK ATM network operator LINK began a programme of changes to its interchange fees for cash withdrawals, to help the network continue operating efficiently in the face of falling usage and a changing economics of providing cash machines. There were concerns that LINK's proposed cuts could lead to some areas losing their free ATM services – leaving people with no local free access to their cash. We hold LINK accountable for its public commitment to preserve the broad geographic spread of free-to-use (FTU) ATMs that existed in early 2018. We gave a specific direction to LINK (Specific Direction 8, SD8), in October 2018, to ensure it does all it can to fulfil its commitments to protect isolated ATMs.

In response to SD8, LINK has developed and introduced policies to protect FTU ATMs that are more than 1km from the nearest neighbouring FTU ATM, to help ensure that free access to cash is preserved in such areas. Where such a 'protected ATM' is known to be at risk of closure, and there's no other way for people to get cash locally, LINK has established mitigation measures aimed at either keeping the ATM open, or procuring a replacement ATM if it closes. SD8 also includes a requirement on LINK to provide the PSR with monthly reporting on changes to the protected ATM estate and the impact of its policies on the wider ATM network.

As a result of our interventions in 2018 and our ongoing active monitoring, LINK has taken a number of important additional steps in recent months to help it meet its public commitments to maintain the broad geographic spread of FTU ATMs. This includes a new 'super premium' which boosts the interchange revenue payable to most protected ATMs. This additional premium seeks to keep open protected ATMs which may otherwise close due to having low usage and poor economic viability.

We continue to closely monitor developments in the LINK ATM network. We're also seeking to ensure that the network continues to meet consumers' needs, and will further intervene if those needs are not being met.

Protecting access to cash over the longer term

Over the past two years, the number of card payments in the UK has exceeded the number of cash payments for the first time. As payment habits change, the UK as a whole is starting to use cash less – and this trend seems likely to continue. However, there will continue to be people who need to use cash as a payment method in their day-to-day life. Looking at the long term, we've been considering – with other relevant organisations and stakeholders – how those needs can be met in the future. Our continuing work programme in this area aims to ensure that no one is left behind as the use of digital payments continues to increase. As part of this, we've conducted research into attitudes to cash and other payment methods with consumers and small businesses around the country. This will help inform policy development and our wider programme of engagement going forward.

Our work with other authorities and relevant people and organisations includes sharing and coordinating research and activity on these issues, and considering the findings of external reports. These include:

- the independent Access to Cash Review, chaired by Natalie Ceeney CBE, which published its final report in Match 2018

- the government's response to its Call for Evidence on Cash & Digital Payments, which it published in May 2019

Visa: Crisis communications

On 1 June 2018, Visa experienced an incident resulting in a partial failure to its ability to process and authorise card transactions. During the incident, 2.4 million transactions attempted in the UK failed.

A subsequent independent review by Ernst & Young (EY) provided evidence that supports our view that the incident caused more disruption than necessary because Visa's communication processes were not adequate. If Visa participants do not receive effective and timely communications during incidents that affect the availability of Visa's services, they can't fulfil their own obligations for passing information on the incident to consumers and merchants.

In February 2019, we held a consultation on our proposal to give a specific direction to Visa. The direction we proposed requires Visa to test its crisis communication plan with its participants yearly, review the effectiveness of those plans following the test and revise the plan accordingly, and ensure the plan is used in the event of any future incident. We proposed that the direction should have a sunset clause of five years. Following the consultation we issued the final direction – Specific Direction 9 – in May.

Payments data

We've been continuing the work we started in 2017/18 analysing the impact of data in payment services and systems. In June 2018, we published a discussion paper which explored the opportunities and risks of increasing data use in the payments industry. We also held an industry roundtable attended by representatives from across the payments industry.

Our work in 2018 identified three key issues:

- **Customer willingness to share data:** Some people may have concerns about sharing the data attached to their payments with third-party companies. This could hamper the development of innovative products and services in payment systems, reducing user benefits.
- **Access to aggregate data:** Payment system participants may have limited access to data on transactions across a whole payment system. Access to this data could help businesses develop new payment services and tools.
- **Barriers to enhanced data:** There could be barriers to users realising the full benefits of enhanced data – new data formats that could allow users to attach more information to payments.

We received a good number of responses highlighting a wide range of perspectives and issues. The breadth and depth of these responses underline the complexity of this emerging field. We've been working through these responses and conducting further research and analysis. We plan to issue a follow-up report later in 2019.

Direct Debit

Managing refunds fairly

We continued to monitor the effectiveness and operation of changes Bacs made prior to 2018 to the Direct Debit refund process, to make sure they delivered the intended improvements for Direct Debit users.

We've also continued our work to monitor the effectiveness of Bacs' measures to prevent fraudulent refund claims. These measures – including the ability for collecting organisations to 'challenge' certain refund requests – have continued to have a positive impact.

Delivering our commitments

What we said we'd do	What we've done
New Payments Architecture Drive forward plans to introduce a contingent reimbursement model. Set up a steering group to develop an industry code implementing the model.	Working with the industry, we've gathered robust data to better understand the issue, and assist with putting standards in place for when a scam is reported. We set up a steering group that has delivered the Contingent Reimbursement Model industry code. We've consulted on the best way to ensure the Confirmation of Payee system is introduced without unnecessary delay.
ATMs Monitor LINK under Specific Direction 8.	We're holding LINK accountable for its commitment to maintain a broad geographic spread of ATMs. We've given a specific direction to ensure LINK does all it can to fulfil its commitments to protected ATMs. LINK has responded by introducing new strategies and by increasing the interchange fee for these machines.
Payments data Further explore implications of increasing data use in the payments industry, what role we might play.	We issued a discussion paper outlining key themes that could have an impact on our objectives. We followed this with engagement with interested people and organisations across the payments industry, and are working through the feedback we've received. We'll publish a report later this year.
Direct Debit Monitor the effectiveness and operation of the changes Bacs made, to make sure they're delivering the intended improvements for Direct Debit users.	We continued to monitor the effectiveness and operation of the changes Bacs made to the Direct Debit refund process before 2018.

Competition

In a rapidly changing payments environment, competition is crucial to ensuring payment systems work in the interests of everyone that uses them. We've used a range of our powers and tools to further our objectives in this area. Access to payment systems continues to expand, with the directions we issued in 2015 helping many more new players enter the market. During the last year we've revised these directions to make sure they reflect the payments landscape now and in the future.

We've continued our first Competition Act 1998 enforcement case. We've also begun our third major market review, looking at the vital area of card-acquiring services for merchants.

Access and governance

Improving access to payment systems and making the governance of payment system operators more inclusive and transparent are key priorities for the PSR. Better access is important because it can help new players enter the market, in turn bringing greater choice and innovation for consumers and businesses – ultimately boosting competition in payment services and retail banking. As such, this touches upon all three of our payment systems objectives.

Before we became involved in this area, no new banks had joined Faster Payments Scheme (FPS) since it went live in 2008, and only a handful of banks had joined Bacs. Due to the low number of direct participants in the payment systems, we considered that the market could benefit from more competition. This would stimulate innovation and give customers more choice in how they paid for things.

Our 'day one' directions have helped open up access to these payment systems, which has subsequently seen a big uptake in the number of new direct participants. Between 2015 and 2018 inclusively, there have been seven, nine and 16 new participants joining Bacs, CHAPS and FPS respectively. These are significant numbers, which continue to grow.

Before 2018, only banks could get a settlement account at the Bank of England, which they needed in order to get direct access to the interbank payment systems. Non-bank payment service providers (PSPs), such as electronic money institutions (EMIs) and payment institutions (PIs), needed an arrangement with a bank in order to connect to the systems and process payments.

We wanted non-bank PSPs to have access to their own settlement accounts. We worked with the Bank of England and the FCA to create a process for this. Subsequently, and with the help of government legislation, in 2018 five non-bank PSPs joined FPS directly. They represent more than half the new joiners over that period. We're pleased to see things improving.

We also monitor the market for indirect access, where PSPs connect to payment systems through an arrangement with a direct participant. Before we began our access work programme, there had only been four indirect access providers (IAPs) in the market. That number has grown to seven in the past two years, helping PSP customers of various types and sizes connect to payment systems.

During the last reporting year, we've been developing combined guidance in relation to our role of considering access applications under section 56/57 of FSBRA and to monitor and enforce access to payment systems under the Payment Services Regulations 2017. We intend to launch our consultation on the updated guidance in summer 2019.

Infrastructure

One of our first major pieces of work was our market review into the provision of infrastructure for the interbank payment systems, which we began in 2015. We found a lack of effective competition for the market, and imposed a range of remedies in 2017. These included specific directions requiring the operators of Bacs, FPS and LINK to undertake competitive procurements for future central infrastructure contracts (Specific Directions 2, 3 and 4 respectively).

We've been monitoring the new procurements currently under way for both LINK and the new payments architecture (NPA), which is expected to replace Bacs and FPS. We're following these closely to ensure they're properly competitive.

Our monitoring of these Directions includes:

- reviewing compliance reports submitted by the operators, and assessing their progress in running an effective competitive procurement
- assessing any application from Link Scheme Holdings Ltd (LSHL, the operator of LINK) or Pay.UK (the operator of Bacs and FPS) for extensions to their dates for compliance
- assessing any application from LSHL or Pay.UK for exemptions from one or more obligations set out in the respective Specific Directions

Based on the reports the operators gave us in 2018/19, we're satisfied that they're making progress with the procurements. We've granted applications from Pay.UK, as the operator of FPS and Bacs, to extend the compliance date in Specific Direction 3 from 1 July 2020 to 30 June 2023, and in Specific Direction 2 from 2 December 2020 to 2 December 2023. The extension requests were made under Chapter 4 of the Specific Directions. This allows us to change the compliance dates to accommodate the development of the new payments architecture, which is expected to replace these payment systems in due course.

In March 2019, in response to a request from LSHL and following consultation, we extended the date for compliance for LINK's procurement by six months, from 2 April 2021 to 2 October 2021. This will allow LINK to complete the legal processes it needs to as part of the procurement.

Market review of card-acquiring services

Card payments are an increasingly popular payment method, with debit cards overtaking cash as the UK's most frequently used payment method in 2017. For businesses to accept card payments, they need to buy card-acquiring services, and the cost of these may affect the prices and services they offer to their customers.

In July 2018, we published draft terms of reference for a market review into card-acquiring services. This was prompted by concerns raised by stakeholders that indicate the supply of these services may not be working well for merchants and, ultimately, consumers.

One of the concerns we've heard is that acquirers have not passed on to smaller merchants their savings from the caps on interchange fees introduced by the Interchange Fee Regulation (IFR). There are also concerns that the fees merchants pay to accept card payments aren't transparent, and that that they face barriers to comparing and switching acquirers.

We published the final terms of reference for the market review in January 2019. In February, we issued the first working paper of the review, seeking views on our proposed approach to our pass-through analysis – assessing how the level of fees that merchants pay have responded to changes in interchange fees and scheme fees. We also started gathering evidence and information from a range of stakeholders. We're currently reviewing the timetable for the market review against our published plan to issue an interim report by the end of the year.

Competition Act 1998 case

This year we continued investigating our first Competition Act 1998 (CA98) case.

In line with the competition concurrency regime, we've been cooperating 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 expertise.

The Interchange Fee Regulation and payment cards

The IFR is an EU regulation that is directly applicable in the UK and has brought major changes to the way that the main card schemes operate. The aim of this regulation is to reduce the costs of card payments for merchants and, ultimately, consumers by capping interchange fees paid by acquirers to issuers for most consumer card payments. We're the main UK competent authority for monitoring compliance with the IFR in the UK and for taking enforcement action where appropriate. We cooperate with other competent authorities in other EU member states and in the UK, including the FCA.

The IFR also aims to improve competition in the cards market – for example, by requiring acquirers to give merchants detailed information about the charges they pay to accept card payments. This reduces information asymmetry, allowing merchants to shop around more efficiently for the best deal when choosing an acquirer.

In the past year, we've continued our monitoring work by collecting and assessing information from regulated parties. We do this through our annual compliance monitoring and through complaints submitted by industry participants. As a result of our monitoring work on the IFR we opened investigations into seven suspected compliance failures (see the Enforcement section on page 32.)

We also entered into a Memorandum of Understanding with seven EU national competent authorities that sets out how we'll work with those EU authorities to monitor compliance with Article 7 of the IFR, which requires card schemes to separate their processing activities from their scheme's activities, and its Regulatory Technical Standards Regulation (RTS Regulation).

As part of the preparations for the UK leaving the EU, including a 'no-deal scenario', we've worked with the Treasury to onshore the IFR, making sure that it continues to function after exit day in the event the UK leaves without a deal. In March 2019 we published the EU Exit instrument onshoring the RTS Regulation.
We will be responsible for maintaining the RTS Regulation going forward if the UK leaves the EU without a deal.

Review of 'day one' Directions

In March 2015, we issued General Directions 1 to 6 and Specific Direction 1 – the majority of which were intended to improve access to, and the governance of, payment systems in the UK.

These 'day one' Directions focused on:

- ensuring that regulated participants dealt with us in an open and cooperative way and disclosed relevant information to us (GD1)
- improving service-user representation in the decision-making processes of payment system operators, improving transparency of decision-making through publication of minutes, and avoiding conflicts of interest through any director of certain payment system operators also being a director of the central infrastructure provider to the same operator (the 'governance package' comprising GDs 4, 5 and 6)
- opening up direct access to certain regulated payment systems by ensuring that their access requirements were objective and risk-based (or otherwise in line with EU law on payment system access) and that information on access options, including indirect access services, was publicly available (the 'access package' comprising GDs 2 and 3, and SD1)

Since then, there have been various market and legislative changes, and so in 2018, we started a review to ensure our Directions continue to be fit for purpose in a changing payments landscape.

Overall, we've seen real benefits flow from our Directions and don't consider that we need to radically rethink our approach. They've helped to open up access and make governance more transparent, as we intended. However, we will make some changes to ensure they remain relevant and proportionate, and to tailor our requirements to market realities, legislative changes and expected future developments. This also reflects the regulatory principles in FSBRA.

We issued a consultation paper on our proposals in March 2018. During the consultation period, we met with 25 stakeholders through small roundtable discussions and various bilateral meetings. We also received 15 written submissions.

Following this, in March 2019, we issued our Policy Statement, along with the proposed revised Directions for consultation.

Some of the changes to the Directions include: improved clarity and application to a greater scope of parties for GD1, aligning GD2 test wording with PSRs 2017, issuing GD3 under PSRs 2017, consolidating GD4 and GD6 into a new GD4, clarifying GD5 and expanding SD1 to cover all indirect access providers.

We plan to issue the new Directions later in 2019.

Contactless mobile payments

Contactless mobile payments (CMPs) continue to rise significantly in the UK. According to Worldpay, the value of contactless mobile payments rose by 122% between October 2017 and October 2018.

In July 2018, following a call for information, we published a report summarising our understanding of the sector. We examined how competition, innovation and the interests of people and organisations that use payment systems could potentially be affected by the way CMPs are offered and operate in the UK. We also looked at whether there were any restrictions affecting the provision of tokenisation services (a technology used to keep users' details secure when making CMPs). We didn't find anything preventing innovation, or any practices in tokenisation service provision that would require us to make an in-depth assessment of the issues at that point.

We're aware that CMPs, while still a relatively new development, are a fast-growing feature of the payments sector. We continue to keep the sector under observation, retaining the option to investigate and to act as we believe necessary to address any problems we may identify or that may be brought to our attention in the future.

The Second EU Payment Services Directive (PSD2)

PSD2 is an EU harmonisation directive that aims to promote competition, enhance consumer protection and encourage innovation in payments. It was implemented into UK law by the Payment Services Regulations 2017, which came into force, for the most part, in January 2018. We're responsible for monitoring and enforcing the parts of the Regulations concerning access to payment systems, indirect access to designated systems and access to bank accounts. We're also responsible for enforcing the regulation of information that should be provided to consumers each time they withdraw cash from an ATM.

We've been actively monitoring compliance with those Regulations as part of our annual access programme. For example, we review complaints and notifications we receive from PSPs relating to the refusal or withdrawal of access to a payment system. We often ask further questions where insufficient reasons were supplied or we have additional queries relating to the reasons given for the refusal or withdrawal.

Payment Accounts Regulation 2015 (PARs)

We are the UK competent authority for designating alternative account switching schemes (switching schemes that are independent of the banks involved). We must also ensure these schemes meet the criteria set out in the PARs – that the scheme is clearly in the consumer's interest, that it doesn't impose any additional burdens on the consumer, and that the procedure is completed in 12 working days.

We're ready to consider any applications for schemes to be designated as alternative switching services, but as of April 2019 we had received no new applications.

As part of the annual monitoring and PARs assessment process, we review information and evidence submitted by Pay.UK in relation to the Current Account Switch Service (CASS). In September 2018, we published a statement that we're satisfied that CASS continues to meet the PARs criteria for designation as an alternative switching scheme. We'll review this again in 2019.

Direct Debit facilities management switching

Facilities Management (FM) providers collect Direct Debit payments from customers on behalf of organisations that don't have a direct connection to Bacs. In January 2018, we gave a specific direction to Bacs (Specific Direction 7) to make sure organisations could switch their FM provider easily. We required Bacs to ensure that a customer of a commercial FM provider can use Bacs' Bulk Change Process (BCP) to help ensure a smooth switch of its business to another FM Provider, or to bring its FM activities in-house.

In May 2018, we approved Bacs' plan in response to Specific Direction 7, which required all commercial FM providers to become accredited via a new accreditation scheme. This scheme creates a direct contractual relationship between Bacs and each accredited commercial FM provider. It places certain requirements on those providers, including to agree to customer requests to use the BCP as part of switching to an alternative FM provider.

We continue to engage with Bacs as to how it will ensure that all FM providers comply with these requirements.

Enforcement

During 2018/19 we continued our proactive monitoring of compliance with the IFR and identified a number of potential compliance failures. In deciding the most appropriate course of action to address a suspected compliance failure, we consider all the relevant circumstances of the matter against the factors set out in our Administrative Priority Framework, which sets out how we use our resources in the most efficient and effective way.

In relation to the potential IFR compliance failures we identified, we engaged, in appropriate cases, in discussions with the parties concerned with a view to ensuring that compliance was achieved. These discussions resulted in the parties resolving eight separate potential compliance failures during 2018/19. As a result we decided that no further action was required. We continue our consideration of other potential compliance failures, and have the option to use our formal statutory powers to address any concerns.

Separately, we opened seven enforcement investigations into other potential IFR compliance failures. These investigations are currently ongoing. If an investigation demonstrates that a regulated person has failed to comply with an obligation imposed by the IFR, we have the power to take enforcement action. This includes the power to publish details of the relevant compliance failure, or to impose a financial penalty for the compliance failure and publish details of that penalty.

Delivering our commitments

What we said we'd do	What we've done
Access and Governance Work with the Bank of England and Pay.UK to allow non-banks to join interbank payment systems directly. Issue final guidance on our approach to receiving applications under sections 56 and 57 of FSBRA, considering PSD2.	We, together with the Bank and Pay.UK, have delivered the process for non-bank participants to access the Bank's RTGS system. By the end of 2018, five non-bank PSPs had joined FPS directly. Preparation for the launch of a consultation on the updated guidance for applications made under sections 56 and 57 of FSBRA and complaints under PSD2, in summer 2019.
Infrastructure Monitor compliance with the directions we introduced following our infrastructure market review.	We've been monitoring the new procurements currently under way for both LINK and the new payments architecture (NPA), to ensure they're properly competitive and are not unduly delayed. We've granted extensions to the compliance dates for the relevant specific directions, to allow legal procedures to be completed appropriately and enable the successful procurement of the NPA project.
Competition Act 1998 case Continue investigating our first case.	We've continued to engage as appropriate with other regulators, and have acted on our various policies for monitoring and enforcing different requirements that we're the competent authority for.
Interchange Fee Regulation Monitor caps and rules, consider complaints.	We've gathered information from regulated parties so we can monitor compliance with the IFR. This has led to us opening seven enforcement investigations into potential compliance failures.
Review of our existing directions Ensure the Directions are advancing our objectives as well as taking account of recent changes in the market and legislative developments.	We issued an initial consultation on draft changes, meeting stakeholders to discuss the changes. Since then, we have issued a final consultation on the changes. We expect to issue the new Directions later in 2019.

Contactless mobile payments Publish a summary of our work to better understand the sector.	In July 2018, we published the report which summarised the outcome of our understanding of the sector. We found no reason to conduct a more in-depth assessment of the sector.
PSD2 Monitor the approach payment system operators and credit institutions take to requests for access.	We've monitored compliance with PSD2 obligations as part of our annual access programme. We investigated complaints from PSPs and notifications from banks that refused or withdrew access, and we are reminding PSPs of the requirements in this area.
Payment Accounts Regulations (PARs) Consider applications from schemes to be designated as alternative switching services, monitor the Current Account Switch Scheme (CASS).	We've been ready to consider applications for alternative switching schemes, but have received no new applications. We've reviewed CASS and are satisfied that it meets the criteria to be an alternative switching scheme.
Direct Debit facilities management (FM) switching	In May 2018, we approved Bacs' plan in response to Specific Direction 7, which required all commercial Facilities Management providers to become accredited via a new accreditation scheme.

Innovation

Payments is an innovative field, and new technology, services and products are constantly being developed. One of the most fundamental changes is the new payments architecture, and we've been keeping a close eye on its development.

New Payments Architecture

The new payments architecture (NPA) is a new infrastructure proposed for the UK's retail interbank payment systems, which is currently in development. It was first proposed by the Payments Strategy Forum we set up in 2015, to resolve historical issues of restricted innovation within the interbank payment systems. In December 2017, the Forum handed over responsibility for developing and delivering the NPA to the New Payment Systems Operator, now called Pay.UK.

In January 2018, we published an open letter setting out our expectations and priorities for Pay.UK and its programme of work. This enabled Pay.UK to consider the key issues we identified and manage them as it embarked on its programme. Over the last year we've been closely monitoring Pay.UK's progress – both in relation to establishing itself as an organisation, and in relation to the delivery of the NPA – and will continue to do so.

Pay.UK has successfully completed the consolidation of the governance of Bacs Payment Services Ltd, Cheque and Credit Clearing Company Ltd, and Faster Payments Ltd.

The consolidation increases the capability and capacity of the payment systems, supports our open access agenda, and is a key step towards the NPA. Furthermore, Pay.UK implemented its Target Operating Model in March 2019.

Pay.UK began its procurement of the NPA central infrastructure in December 2018 with the launch of the Pre-Qualification Questionnaire to identify potential suppliers. We're monitoring the procurement process to ensure it's being conducted in line with our Infrastructure Market Review remedies. The completion date for this process is expected to be 2020.

Market intelligence and analysis

We regularly undertake horizon scanning work, meet with stakeholders, and conduct desk-based research to identify potential industry trends and changes. One example of a changing field that we're watching is retail payment services. While cards feature prominently at present, PSD2 and Open Banking have made possible new ways of making interbank retail payments.

We're monitoring the impact of these changes in light of our payment systems objectives and in relation to our functions under other statutory frameworks – for example, competition issues or factors that may affect the interests of service-users.

We've also been looking into changes in competitive dynamics in the payments sector. We carried out research throughout the 2018/19 financial year, and are currently assessing the need for further work in this space.

This is an area that we intend to focus on more in 2019/20. To support this aim, in December 2018 we appointed Matthew Cherry as our Chief Economist – a new role in the PSR. Matthew's brief is to focus on our market intelligence and analysis activity, and to make sure we remain at the forefront of economic thinking.

Delivering our commitments

What we said we'd do	What we've done
New payments architecture Work with Pay.UK to ensure it implements the NPA in a way that advances our objectives.	We've been closely monitoring Pay.UK's work and engaging with them regularly to ensure that our objectives are advanced where reasonably possible. We've worked closely with the Bank of England throughout the NPA procurement process and will continue this coordination.
Market intelligence and analysis Monitor and research new business models.	We've carried out regular horizon scanning, identifying industry trends and potential future changes. These include looking at the effects and implications of new interbank methods of retail payments, changes in competitive dynamics, and the use of distributed ledger technologies and digital currencies. We've also appointed a Chief Economist to make sure we're at the forefront of economic thinking.

Building our organisation

Our people

As an organisation, we're driven by the people who work here: all the progress we've made is thanks to their dedication and expertise. Over the course of 2018/19 we've continued to build our team, building in the right places to deliver our aims and objectives. We believe that having a flexible workforce and multi-skilled teams is essential for us to adapt to meet new challenges.

Good corporate citizenship and corporate responsibility are important parts of our identity, both as an employer and as a regulator. We continue to be a Living Wage Employer. We also have a strong commitment to diversity and inclusion and looking after the well-being of our people. Our policies and procedures aim to ensure that we create a safe and inclusive working environment for our staff. And we're committed to continually improving our policies and practices. We have a staff volunteering programme which supports our local community. Since the beginning of the year we've been working with local charity Ambition, Aspire, Achieve to help raise some much-needed funds in support of disadvantaged, vulnerable and at risk children and young people across Newham.

Creating a diverse environment where our people can feel secure, respected and valued will always be a high priority for us. As a proud signatory of the Women in Finance Charter in 2017, we pledged our commitment to support the progression of women into senior roles, and we set targets for both our gender and black, Asian and minority ethnic (BAME) representation. More than half our senior leadership are women; we aim to maintain a balance of 50% of women across the leadership and management team. We also committed to achieving at least 8 to 15% BAME representation across our senior leadership team by 2025. Our current BAME representation at this level is 13%. Feedback from our recent Employee Survey indicates that our people view the PSR as an employer that values and recognises diversity and inclusion.

We're also committed to achieving gender pay balance. We have fewer than the 250 employees required to make gender pay reporting mandatory, but have voluntarily committed to report our gender pay data. This is the second year we've done this. Our gender pay gap figures are based on a snapshot taken on 31 March 2019 and relate to our pay data from 1 April 2018 to 31 March 2019.

Our mean pay gap has increased slightly by 2.9% to 6.9%, while our mean bonus pay gap has reduced by 8.3% to 7.5%. We continue to narrow the median pay and bonus pay gaps – the median pay gap has decreased by 6% to 22.5% and the median bonus pay gap has also decreased by a similar amount to 32.3%.

Due to our size, small changes in our population can lead to significant changes in these calculations. Just a few people joining, leaving or being promoted can make a big difference in percentage terms across our corporate grades. For example, in the year to March 2019 the number of female managers reduced by two – bringing the percentage of women down from 60% to 50% at this level.

The PSR participates in the Great Place to Work survey, encouraging our people to provide feedback on our culture and workplace to help us identify areas which we can work on each year to ensure that this is a great place to work. During 2018/19 we've been working on a range of activities relating to our 2017 to 2020 People Strategy, which focuses 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 the PSR Capability Framework
- continuing to embed the PSR Values

In February 2019, we were delighted with our latest employee survey results. We moved from 'Good' to 'Great' in the Great Place to Work survey, creating a high performing organisation which encourages the development of new skills, and enables us to adapt our processes and improve our ways of working.

Identifying career development opportunities continues to be a focus. We've worked with colleagues in other authorities, such as the FCA, the Bank of England (the Bank) and the Competition and Markets Authority, sharing our knowledge and experience through shared training sessions and ensuring efficient and effective coordination across the sectors we regulate. In addition to our regular networking meetings and discussions, during 2018/19 we've actively supported 12 outward and inward secondments between ourselves, the Bank, FCA, The Money Advice Trust and Pay.UK.

We're keen to ensure that as we develop as an organisation, we continue to attract high quality talented people to the PSR who can deliver policies which provide positive changes to the payments industry, help to protect consumers, and make real improvements for everybody using payment systems. Having moved into our purpose-built offices in Endeavour Square, Stratford in July 2018, we now have office space, facilities and technology which meet our needs and enable us to collaborate and work even more efficiently and flexibly.

Measuring our performance

We conduct a periodical survey among our stakeholders to get their views on both the current state of the payments industry and our own objectives and role as a regulator. In addition to our ongoing dialogue with stakeholders throughout the year, this formal independent survey helps us see where we're having a positive impact and where we could do more. It also helps us track any changes in stakeholder perceptions over time alongside changes in the wider payments sector. We'll publish a summary of the survey in a separate report.

Working with other authorities

We continue to coordinate certain regulatory functions with the other UK financial regulators – the Bank of England (the Bank), the Prudential Regulation Authority (PRA) and the FCA. This is a statutory duty that helps us share and enhance our knowledge and work more effectively and efficiently.

As well as our regular ongoing engagement with our stakeholders, our work includes collaboration in several key areas in the UK and abroad.

We engage regularly with the Bank, the PRA and the FCA about payment systems, their evolution and regulation. For example, we worked with the Bank in relation to the establishment of the New Payment System Operator (NPSO).

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 worked closely with the FCA to develop our approach to applying Regulation 105, including developing a protocol which sets out how we'll work together to monitor and enforce this Regulation.

We continue to work closely with them as we monitor compliance. We are the competent authority for 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 other national competent authorities to increase the effectiveness of our IFR monitoring work.

We engage regularly with the Bank and the FCA to monitor developments in the industry and identify areas of common interests that cut across our respective regulatory perimeters. These include policy discussions on, for example, access to cash, APP scams and merchant acquiring. We also work with the Bank, the FCA and the Treasury to consider if our regulatory perimeter continues to be relevant for achieving our objectives in a changing environment.

A statutory memorandum of understanding between the UK financial authorities 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.

During the last year, we've continued to engage regularly with the CMA and other sector regulators in the UK Competition Network to share expertise and insights into the identification and effective delivery of competition cases. We also participate actively in the European Competition Network. 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. We are also members of the Organisation for Economic Cooperation and Development's (OECD's) Network of Economic Regulators, which advises the OECD Regulatory Policy Committee.

The UK's withdrawal from the European Union

Our work to prepare for the UK's withdrawal from the EU has primarily involved working with the Treasury and the FCA to make sure relevant EU legislation continues to operate effectively once the UK leaves the EU, including in a 'no-deal scenario' – this is referred to as 'onshoring'. Such legislation includes:

- the Payment Account Regulations 2015
- the Payment Services Regulations 2017
- the Interchange Fee Regulation and the accompanying Regulatory Technical Standards (RTS) Regulation

We were given the power to make technical standards and onshore the RTS Regulation by the Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018. With Treasury approval, we made the Technical Standards (Interchange Fee Regulation) (EU Exit) Instrument 2019, which onshores the RTS Regulation.

We've also worked with the Treasury to adapt the following relevant domestic legislation so that it continues to operate effectively once the UK leaves the EU:

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

Given the cross-cutting nature of the regulatory and supervisory landscape in the payments sector, we've also been working with the FCA, the Bank of England and the Treasury to prepare for the potential impact of the UK's withdrawal. We'll continue monitoring developments and working with the industry to ensure that risks remain well managed.

PSR fees

We introduced a new process for PSR fees last year to help ensure that they will be collected and allocated in a simple, proportionate and sustainable way. The new method, which we designed following a year-long consultation, reflects changes in the industry and removes the need to consult on the method each year. This will make the process more efficient and remove a regulatory burden from fee-payers in future years. The 2018/19 fees were gathered using this method.

Developing our Financial Penalty Scheme

We published our approach to the Financial Penalty Scheme in March 2017. For any financial penalty resulting from our enforcement actions, we retain an amount to cover our enforcement costs before passing on the remainder of the penalty to the Treasury. 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.

The Business Impact Target

Following changes introduced by the Enterprise Act 2016, we must report on our performance against the Business Impact Target (BIT). The BIT is a monetary figure for the savings businesses will make because of deregulatory measures that the government has taken. This year's report covered the period 21 June 2018 to 20 June 2019; in this period we did not have any qualifying regulation adding to the burden of business regulation. We'll continue to report annually.

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 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 off the scale, scope and established practices of the FCA where appropriate. In July 2018 we moved to the International Quarter in Stratford, along with the FCA.

Analysis of performance during the year

	2019 £m	2018 £m	Increase/ (Decrease)
Gross fees	14.9	12.0	2.9
Reserves utilisation	(1.0)	(4.2)	(3.2)
Net fee income	**13.9**	**7.8**	**6.1**
Other income	0.2	0.1	0.1
Total income	**14.1**	**7.9**	**6.2**
Staff costs	(8.1)	(7.2)	0.9
Administrative costs	(4.4)	(3.7)	0.7
Total operating costs	**(12.5)**	**(10.9)**	**1.6**
Profit/(loss) for the year	**1.6**	**(3.0)**	**4.6**
Accumulated surplus	**4.0**	**2.4**	**1.6**

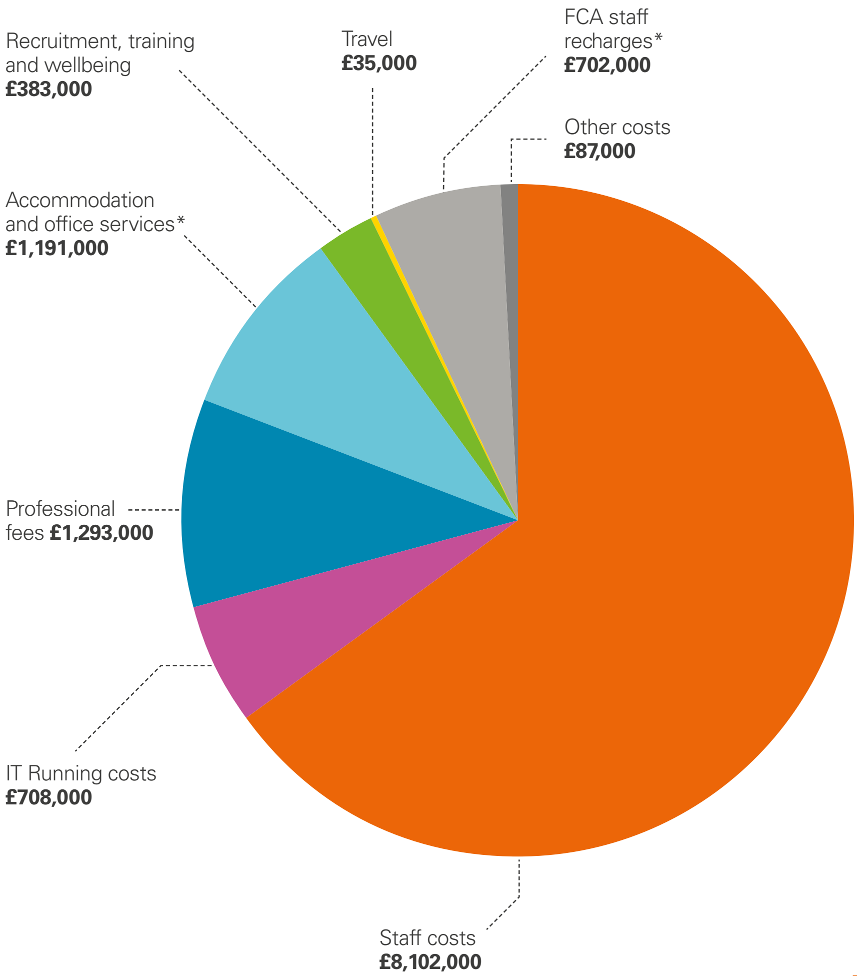
For 2018/19 we set a budget of £14.9 million but only collected £13.9 million after allowing for £1 million utilisation of reserves, and we spent £12.5 million. The reduced spend (against budget) is largely due to slower than anticipated recruitment over the year to bring the team up to its target operating model, as well as savings we've made against our budget in some areas.

We had an accumulated surplus of £4 million at 31 March 2019 (2018: accumulated surplus of £2.4 million plus the £1.6 million underspend from this year). We'll use around £0.9 million of our accumulated underspend to partially fund our IT costs over a four-year period, and will hold the remainder in reserves in case we need to draw on funds in response to changing business demands.

The chart on this page shows a breakdown of our operating costs. Overall operating costs have increased by £1.6m to £12.5 million (2018: £10.9 million). Staff make up 65% of our cost base and are key in delivering our objectives. We had an average of 81 full-time-equivalent employees during the year, compared to 70 in 2017/18. We continue to recruit permanent employees to bring the team up to its target operating model.

The year-end cash position is £8.4 million (2018: £9.6 million). The FCA collects fees on our behalf and pays the balance over on a weekly basis. At 31 March 2019, the FCA had collected £2.6 million of on account fees for 2019/20, which it remitted to us in April.

Analysis of operating costs by year



*These costs include operational support from the FCA through our provision of services agreement.

Principal risks and uncertainties facing the PSR

Our overriding purpose is to make sure that payment systems work well for the people and organisations that use them. We achieve this by delivering our statutory objectives, planning well for the future and protecting the payments environment from any harmful impact caused by uncertainty. This relies not only on our ability to influence the culture and conduct of the industry we regulate but also on our own internal operational environment and performance.

Our approach to our management of risk ensures that we have the best insight and information to inform our work and make high quality decisions at the right time. The payments environment key sector risks of harm are set out in detail in our Annual Plan 2019/20 alongside the key cross-sector priorities, as we work to eliminate or reduce any detrimental effect. These risks include:

1. Demographic trends and longevity
2. Technology and innovation
3. Smart data, digitization and data analytics
4. Cyber security and resilience
5. EU withdrawal

Key environmental and operational risks

As a recipient of operational services from the FCA, we share many of its key risks associated with their operating environment.

1. **Environmental and strategy risk:** This includes political or legislative change. While it's set out in statute that we're an operationally independent organisation, we remain subject to changes in legislation and scope by the UK government that can ultimately affect the size, activities and complexity of our organisation. These include the terms of the UK's exit from the EU, which could have a further impact on the scope and scale of our regulated activities.

2 **Regulatory and legal risk:** This relates to the execution of our regulatory approach, policies and activities, which could cause consumer detriment through poor development of payment systems, with a lack of consideration for service-users' needs and lack of competition and innovation in payment systems. This also includes a failure to positively influence the regulatory environment for which we're responsible and influence the behaviour of those markets and businesses we regulate.

3 **Operational risk:** Like any organisation, we face operational risks which may result in financial loss, disruption or both. We've summarised these risks below:

- **People risk:** This includes risks associated with the capacity of our staff to deliver our business plan and the changing capability needs of the organisation. We continue to mitigate these risks as part of our People Strategy and through careful project management.

- **Process risk:** Including risks from inefficient, inadequate or failed internal processes. We have significant focus on the management of our processes to ensure we're efficient, as this is key to delivering value for money.

- **Systems and technology risk:** Including the availability, resilience, recoverability and security of core IT systems. Cyber risk continues to be a major focus for both the PSR and the FCA, with a significant increase in investment as we work together to respond to the evolving threat level.

4. **Reputational risk:** This includes constraints to our ability to deliver against our objectives due to diminished levels of public trust, a reduced ability to influence key stakeholders and/or a reduction in our credibility and standing as effective regulators.

By Order of the Board on 26 June 2019

Simon Pearce
Secretary

Directors' report

Directors' report

The directors present their report for the year ended 31 March 2019.

Details of the directors during the year are in Table 1 in the corporate governance statement (page 53). The directors use the strategic report (pages 14 to 47) and the corporate governance statement (pages 50 to 60) 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

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

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 European Union. 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:

- select suitable accounting policies and then apply them consistently

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

The directors are responsible for keeping proper accounting records that show, with reasonable accuracy at any time, the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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:

- there is no relevant audit information of which the company's auditor is unaware
- 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

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.

Events after the reporting period

There were no material events after the reporting period.

Qualifying indemnity provisions

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 2019 and remain in force at the date of this report.

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

The Financial Services (Banking Reform) Act 2013 (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 26 June 2019.

Simon Pearce
Secretary

Corporate Governance

Corporate governance statement for the year ended 31 March 2019

Introduction

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

We are 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 Financial Services (Banking Reform) Act 2013 (FSBRA). We consult with users and participants on general policies and practices and how our objectives may be best achieved, including through engagement with the PSR Panel (see page 57).

We are committed to meeting high standards of corporate governance. 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 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. Consistent with the obligations set out in FSBRA, the board liaises with the Financial Conduct Authority (FCA) to take such steps that are necessary 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 (and in the interim, the Acting Managing Directors) 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's role includes:

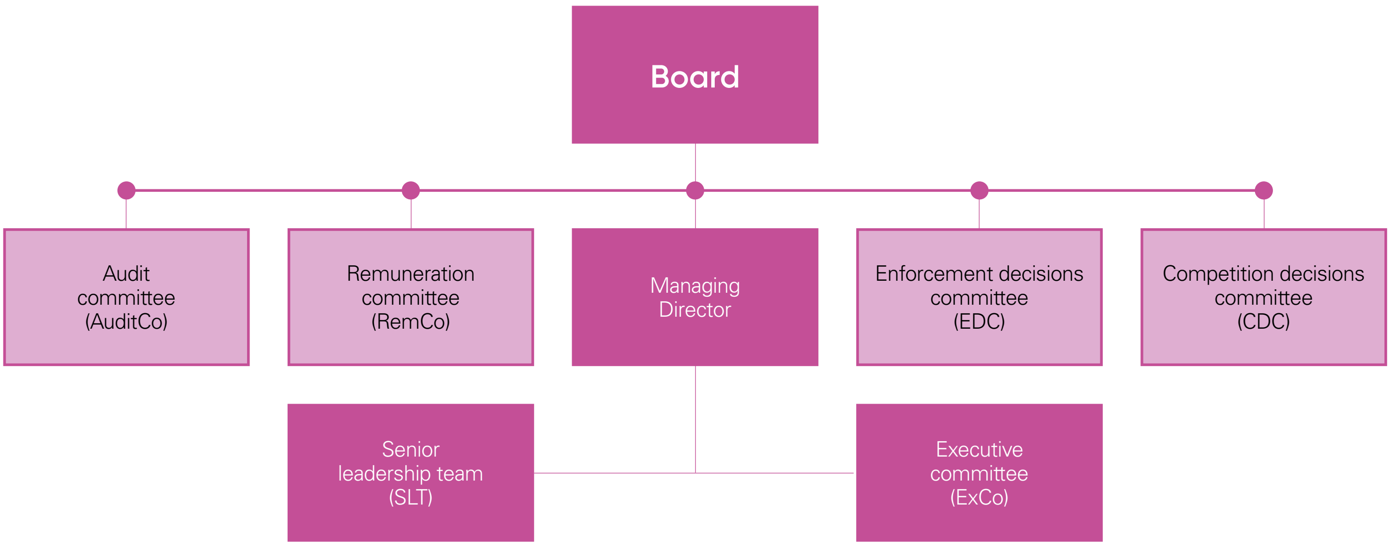
- deciding which matters it should make decisions on, including exercising our legislative functions and other matters as set out in the Schedule of Matters Reserved to the Board
- making strategic decisions about our future operation

- overseeing the executive management of our day-to-day business
- setting appropriate policies to manage risks to our operations and the achievement of our regulatory objectives
- seeking regular assurance that our system of internal control is effective in managing risks
- maintaining a sound system of financial control
- taking specific decisions, that are not expressly included in the Schedule of Matters Reserved to the Board, but the board or executive management consider are novel or contentious, or so significant that the board should take them
- 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
- establishing and maintaining the accountability for decisions made by committees of the board and executive management

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), which came into force in March 2016, does not formally apply to us. However, as best practice, we've 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

Aspects of our board's membership are stipulated by FSBRA and, consistent with those requirements, the board currently comprises:

- the Chair, appointed by the FCA with the approval of the Treasury
- three executive directors, including the two Acting Managing Directors, appointed by the FCA with the approval of the Treasury
- five 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
Andrew Bailey Non-Executive Director	01/07/16	30/06/21
Carole Begent Executive Director – General Counsel and Head of Regulatory and Competition Enforcement	01/07/15	Until such time as a permanent Managing Director is appointed
Amelia Fletcher Non-Executive Director – Senior Independent Director	01/04/14	31/03/20[1]
Bradley Fried Non-Executive Director	01/04/16	30/06/18
Noel Gordon Non-Executive Director	01/05/16	01/05/22[2]
Hannah Nixon Executive Director – Managing Director	14/07/14	05/04/19
Charles Randell Chair	01/04/18	21/03/23
Simon Ricketts Non-Executive Director	01/07/17	30/06/20
Christopher Woolard Non-Executive Director	01/04/14	31/03/20

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

Carole Begent was reappointed as an executive director with effect from 31 March 2019 until such time as a permanent Managing Director is appointed.

Hannah Nixon left office on 5 April 2019.

Louise Buckley and Christopher Hemsley were appointed as executive directors on 6 April 2019, for the duration of their tenures as Acting Managing Directors. Their terms will end when a permanent Managing Director is appointed.

Nick Stace was appointed as a NED for a three-year term with effect from 1 April 2019.

A majority of our board members are NEDs. Five of whom, including the Chair, also serve 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 meets the 33% target figure for the boards of UK FTSE 350 companies proposed by the Hampton-Alexander review.

The executive members of the board have a continuous employment contract with the FCA, subject to notice periods set out in Table 2.

Table 2: Notice periods

Executive Director	Notice period
Carole Begent	3 months
Hannah Nixon	6 months

Board meetings and activities of the board

There is a clear division of responsibility between the running of the board and the executive running of the organisation. 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. It held seven meetings during the year, including a strategy meeting.

Details of the number of meetings held and attendance at those meetings are set out in Table 3.

Table 3: Attendance at board meetings for 2018/19

Name	Scheduled board meetings
Andrew Bailey	4/7
Carole Begent	7/7
Amelia Fletcher	6/7
Bradley Fried	1/2
Noel Gordon	7/7
Hannah Nixon	7/7
Charles Randell	7/7
Simon Ricketts	7/7
Christopher Woolard	7/7

During the year, our non-executive directors met privately, both with and without the Chair and without members of the executive present.

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

Board members provide rigorous challenge on strategy, performance, responsibility and accountability to 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 the impact of the UK's withdrawal from the EU withdrawal, both internally and on the payments sector; strategic policy development including the long-term future of cash; authorised push payment scams; the new payments architecture; twice-yearly discussions of all risks; implementation of legislation including GDPR; consideration of the annual report and accounts, a review of the organisation's strategy and development of the business plan; a three-year strategic internal audit plan and a review of our Powers and Procedures Guidance.

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.

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.

Under 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 FCA for the protection of individual employees, including directors. Accordingly, we do not currently purchase Directors and Officers Liability Insurance.

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 are given an induction pack which includes information on our governance arrangements, the board's role and responsibilities, its committees and officers and other relevant information.

Board effectiveness

In accordance with the UK Corporate Governance board effectiveness is reviewed annually, with an externally led review every two years. During the year, the board commissioned Independent Audit to facilitate a self-assessment based review of its effectiveness. The scope of the 2018/19 review included the effectiveness of the board and its committees.

The board commissioned an external review of its effectiveness in 2017-18 and so, in accordance with best corporate governance practice, an internal review has been conducted this year.

The review took the form of a questionnaire compiled by the Chair and the Company Secretary that was completed by all board members and other senior managers who work closely with the board. The results were collated by Independent Audit, acting as an external facilitator, to ensure that the anonymity of the responses was maintained and any issues would emerge objectively.

The board considered the findings from the effectiveness evaluation at its meeting in June 2019, allowing it to review the year as a whole. The main themes emerging from the review were:

a. senior management succession planning

b. interaction with the FCA

c. embedding of cultures and behaviours

d. clearer definitions of success

The Chair and Company Secretary are now working with board members to develop the way in which the board and its committees operate, so as to enhance their effectiveness in the areas highlighted by the evaluation.

Conflict of interests

All directors are required to declare relevant interests. Where any potential conflict of interest arose during the year the board took appropriate steps to manage it. The Company Secretary maintains a register of interests.

Governance and committee structure of the PSR

The PSR is a wholly owned subsidiary of the FCA. We share operational functions and operational 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.

During the year, Ruth Kelly continued as Chair of the Audit Committee and Baroness Hogg continued as Chair of the Remuneration Committee. Simon Ricketts was also appointed to the Audit Committee on 1 March 2019.

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

The board as a whole 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 44)

Our website has more details on our governance arrangements: www.psr.org.uk/corporate-governance-psr-limited.

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.

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 other legislation (for example, FSBRA or 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 26 June 2019.

Simon Pearce
Secretary

Remuneration report

Table 4 sets out the remuneration paid or payable to any person that served as a Director during the years ending 31 March 2019 and 2018. The remuneration figures shown are for the period served as Directors.

The PSR follows the same remuneration principles as the FCA. Further information is available in the FCA's annual report.

Table 4: Directors' remuneration

	Basic Salary		Performance -related pay		Other benefits		Total remuneration (excluding pension)		Pension		Total remuneration	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Chair												
John Griffith-Jones[1]	-	-	-	-	-	-	-	-	-	-	-	-
Charles Randall[1,4]	20	-	-	-	-	-	20	-	-	-	20	-
Executive Directors												
Hannah Nixon[2,3]	411	225	38	36	46	25	495	286	41	23	536	309
Carole Begent[3]	163	160	25	22	23	23	211	205	17	17	228	222

	PSR Fee Paid	
Non-Executive Directors[5]	**2019 £'000**	**2018 £'000**
Andrew Bailey[6]	-	-
Amelia Fletcher[8]	8	8
Christopher Woolard[6]	-	-
Bradley Fried[7]	2	8
Noel Gordon	15	15
Simon Ricketts	15	11

Notes

Chair

1 John Griffith-Jones' term as Chair ended on 31 March 2018. John was succeeded by Charles Randell, who took office from 1 April 2018.

Executive directors of the PSR

2 Hannah Nixon resigned as CEO of the PSR and from the Board on 5 April 2019. In accordance with her contract, she will continue to be employed until 31 December 2019. This includes a necessary transition period to 30 June 2019. The period from 1 July to 31 December is a contractual notice period with no formal responsibilities which is required to protect all parties against any actual, or perceived, conflict of interest. Of the £536,000 presented in the remuneration table, £322,000 relates to her remuneration for 2018/19, and £214,000 relates to the contractual amount payable for the nine months to 31 December 2019. Hannah's base salary is £235,000.

3 Hannah Nixon and Carole Begent are members of the FCA Pension Plan. They both receive annual pension contributions equivalent to 12% of their salaries. They elected to have £10,000 of their employer pension contribution paid into the Pension Plan and the remaining employer contributions paid as a non-pensionable cash supplement at a rate of 9% of their salary. The total amount is included under 'Pension' in Table 4.

Non-Executive directors of the PSR

4 Charles Randell is paid a fee of £20,000 per annum as Chair of 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, except for non-executive directors serving on both the FCA and PSR boards for whom the fee for serving on the PSR board is £7,500 per annum (in addition to fees received for serving on the FCA board).

6 Andrew Bailey 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 Bradley Fried resigned as a non-executive director on 30 June 2018. He received a fee of £1,875 for his role on the PSR board.

8 Amelia Fletcher received a fee of £7,500 for her role on the PSR board.

Table 6: Senior pay disclosure

The table below sets out the remuneration paid or payable to any additional voting members of the Executive Committee during the year ended 31 March 2019.

	Basic Salary	Performance-related pay	Other benefits	Total PSR Remuneration (excluding pension)	Pension	Total PSR Remuneration
	2019	2019	2019	2019	2019	2019
Name	£'000	£'000	£'000	£'000	£'000	£'000
Christopher Hemsley	43	5	9	57	6	63
Louise Buckley	144	27	21	192	20	212

*Christopher Hemsley joined the PSR in November 2018.

The PSR board

Charles Randell
Chair

Louise Buckley
Executive Director

Chris Hemsley
Executive Director

Carole Begent
Executive Director

Andrew Bailey
Non-Executive Director

Amelia Fletcher
Non-Executive Director

Noel Gordon
Non-Executive Director

Simon Ricketts
Non-Executive Director

Nick Stace
Non-Executive Director

Christopher Woolard
Non-Executive Director

Financial statements

For the year ended 31 March 2019

Company Number: 8970864

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

Opinion on financial statements

I have audited the financial statements of the Payment Systems Regulator for the year ended 31 March 2019. These comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, 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 International Financial Reporting Standards as adopted by the European Union, and the Financial Services (Banking Reform) Act 2013. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of the surplus for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union.
- have been prepared in accordance with 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 of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) 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 2016. I am independent of the Payment Systems Regulator in accordance with the ethical requirements that are relevant to my audit and 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.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Payment Systems Regulator's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities for the Annual Report and Accounts Statement, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
- assessing the company's ability to continue as a going concern, disclosing, If applicable, matters relating to going concern and using the going concern
- basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

As part of an audit in accordance with ISAs (UK), I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Payment Systems Regulator's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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

Other information

Directors are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion on that information. 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, 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 prescribed by the Companies Act 2006

In my opinion:

- the parts of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 2006

- in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report, or the Directors' Report

- the information given in the Strategic and Director's 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

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to 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 part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company

Gareth Davies

Comptroller and Auditor General (Statutory Auditor)
3 July 2019

National Audit Office

157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Statement of comprehensive income for the year ended 31 March 2019

	Notes	Total 2019 £'000	Total 2018 £'000
Income			
Fee income		13,902	7,809
Other income		184	74
Total Income	4	**14,086**	**7,883**
Operating costs			
Staff costs	5	(8,102)	(7,196)
Administrative costs	6	(4,399)	(3,692)
Total operating costs		**(12,501)**	**(10,888)**
Total comprehensive profit/(loss) for the year		**1,585**	**(3,005)**

Statement of changes in equity for the year ended 31 March 2019

	£'000
At 1 April 2017	**5,391**
Total comprehensive loss for the year	(3,005)
At 1 April 2018	**2,386**
Total comprehensive profit for the year	1,585
At 31 March 2019	**3,971**

Statement of financial position for the year ended 31 March 2019

Company Number: 8970864

	Notes	Total 2019 £'000	Total 2018 £'000
Current assets			
Cash and cash equivalents		8,350	9,561
Trade and other receivables		41	46
Intragroup receivable		1,658	-
Total assets	7	**10,049**	**9,607**
Current liabilities			
Trade and other payables		(6,078)	(6,355)
Intragroup payable		-	(866)
Total liabilities	8	**(6,078)**	**(7,221)**
Total assets less total liabilities		**3,971**	**2,386**
Accumulated surplus		**3,971**	**2,386**

The financial statements were approved by the board on 26 June 2019, and were signed on its behalf by:

Charles Randell Chair

Chris Hemsley Acting 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 2019

	Notes	Total 2019 £'000	Total 2018 £'000
Net cash used by operating activities	3	**(1,280)**	**(3,761)**
Investing activities:			
Interest received on bank deposits		69	42
Net cash generated in investing activities		**69**	**42**
Net decrease in cash and cash equivalents		(1,211)	(3,719)
Cash and cash equivalents at the start of the year		9,561	13,280
Cash and cash equivalents at the end of the year		**8,350**	**9,561**

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

a. 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.

b. Changes in accounting policy

There are no new or amended IFRS or International Reporting Interpretations Committee (IFRIC) interpretations that have been adopted.
The PSR adopted IFRS 9 - Financial Instruments in 2017/18. Its adoption had no material impact on the Financial Statements.

c. Income

The core principle of IFRS 15 – Revenue from Contracts with Customers (adopted in 2017/18) 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 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 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. 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 their statutory function.

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.

d. 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 2019 £'000	Total 2018 £'000
Profit/(loss) for the year from operations		1,585	(3,005)
Adjustments for:			
Interest received on bank deposits	4	(69)	(42)
Operating cash flows before movements in working capital		**1,516**	**(3,047)**
(Increase) in receivables	7	(1,653)	(21)
(Decrease) in payables	8	(1,143)	(693)
Net cash used by operations		**(1,280)**	**(3,761)**

4. Income

The Financial Services (Banking Reform) Act 2013 (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 2019 £'000	Total 2018 £'000
Fee income	13,902	7,809
Interest on bank deposit	69	42
Other income	115	32
Total income	**14,086**	**7,883**

5. Staff information

Staff costs (including executive directors) comprise:

	Total 2019 £'000	Total 2018 £'000
Gross salaries and taxable benefits	6,210	5,503
Employer's national insurance costs	727	627
Employer's defined contribution pension costs	560	475
Permanent staff costs	**7,497**	**6,605**
Secondees	179	76
Contractors	426	515
Short term resource costs	**605**	**591**
Total staff costs	**8,102**	**7,196**

Staff numbers comprise:
The average number of full-time equivalent employees (including executive directors and fixed-term contractors) during the year to 31 March 2019 is presented below:

	Total 2019 £'000	Total 2018 £'000
Permanent staff	76	65
Short term resource	5	5
Total	**81**	**70**

As at 31 March 2019, there were 84 full-time equivalent employees (2018: 73) and 5 short-term resources (2018: 5).

6. Administrative costs

Administrative costs include:

	Total 2019 £'000	Total 2018[3] £'000
IT running costs	708	430
Professional fees	1,293	1,254
Accommodation and office services	1,191	823
Recruitment, training and wellbeing	383	434
Travel	35	54
FCA staff recharges	702	654
Other costs	87	43
Total	**4,399**	**3,692**

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

	Total 2019 £'000	Total 2018 £'000
Fees payable to the National Audit Office for the audit of the financial statements	20	20

3 The 2018 figures have been restated. Travel, training and recruitment has been split between 'Travel' and 'Recruitment, training and wellbeing'.

7. Current assets

	Total 2019 £'000	Total 2018 £'000
Cash at bank	3,850	7,061
Cash deposits	4,500	2,500
Cash and cash equivalents	**8,350**	**9,561**
Prepayments and accrued income	41	35
Trade debtors	-	11
Intragroup receivable - FCA	1,658	-
Total current assets	**10,049**	**9,607**

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.

	Total 2019 £'000	Total 2018 £'000
Fees in advance	4,894	5,219
Trade creditors and accruals	1,184	1,136
Trade and other payables	**6,078**	**6,355**
Intragroup payable – FCA	-	866
Total current liabilities	**6,078**	**7,221**

Trade creditors and accruals
principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 27 days (2018: 27).

Intragroup payable
is based on a provision of services agreement between the FCA and PSR which sets out the services that are supplied and their respective costs. These costs are based on charges the FCA incurs without margins.

9. Related party transactions

Remuneration of key management personnel

	Total 2019 £'000	Total 2018 £'000
Short-term benefits	586	536
Post-employment benefits	41	40
Total related party transactions	**627**	**576**

Other relationships

One non-executive member of the board, Bradley Fried, was a Senior Independent Director on the Court of the Bank of England, which has taken over operation of the CHAPS payment system which is regulated by the PSR.

During the year Simon Ricketts carried out a consulting assignment on behalf of the FCA, for which he received a fee of £10,000.

Transactions with the FCA

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

	Total 2019 £'000	Total 2018 £'000
Accommodation and office services	1,181	802
Staff costs	702	654
IT costs	563	430
Other costs	73	211
	2,519	**2,097**

As at 31 March 2019, the inter-company receivable due from the FCA was £1,658,000 (2018: due to the FCA £866,000) as disclosed in notes 7 and 8.

10. Events after the reporting period

There were no material events after the reporting period. The board authorised these Financial Statements for issue on 3 July 2019.

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