Payment Systems Regulator

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Annual report and accounts 2017/18

HC 1243

The Payment Systems Regulator Limited
Annual Report and Accounts 2017-2018
(for the year ended 31 March 2018)

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Forewords

This is the PSR's first annual report since I took over as Chair from John Griffith-Jones in April 2018. It's an exciting time for me to join the organisation, with so much positive change happening in the payments industry.

A completely new payments architecture is being developed, to be implemented by a new payment systems operator, with enhanced independence from existing industry players; there's an influx of new players in payments; and infrastructure provision is now more open. These are important developments. They're designed to stimulate competition and innovation, to everybody's benefit.

At the same time, there is increased awareness of the needs of consumers. As a result of our work the industry is working together, and with consumer representatives, to combat payment scams more effectively; and there is more focus on the need to maintain free access to cash, particularly for rural communities and more vulnerable consumers. We are also part of a growing debate about the risks and opportunities presented by the use of payments data.

Many of the positive changes in payments are due to the impact we've had since our launch three years ago. We've created a dynamic new environment for UK payments to take advantage of new developments in technology and a more open market. We're engaging with our stakeholders, as well as looking at payments and talking to other regulators internationally, to share our knowledge and experience and to make sure that we get the insights we need to regulate effectively.

But we know that there is more to do. It's a dynamic, changing market and we need to stay on the front foot and be alert and vigilant to ensure that, above all, our work leads to payment systems that work well for everyone who depends on them.

Charles Randell
Chair

This has been a significant year in the UK payments industry, and for the PSR. We've started to see the tangible results of our work to date, and substantial progress in vital areas. We're overhauling the payments industry, helping to protect consumers, and making real improvements for everybody that uses payment systems.

When the PSR became operational in 2015, there were three key problems in the payments industry that we wanted to solve. A lack of collaboration was hampering innovation; the interbank payments infrastructure was dominated by the big banks; and it was too hard for new players to get access to payment systems and introduce real competition in the market. This all meant that the people and organisations that depend on payment systems – in short, all of us – weren't getting the most out of the payments process.

We took on these problems with a thorough, evidence-based approach, but weren't afraid to innovate a little ourselves. We knew we'd have to shake things up to make the improvements that were needed. In the last year the work we've done has led to fundamental, landmark changes in the payments landscape. Infrastructure provision is now competitive. Access for new participants has rapidly reached record levels. And the collaborative Payments Strategy Forum – which we launched in our first nine months – has laid the foundations for a new, consolidated interbank payment system and a new architecture to support it. We're in the middle of a once-in-a-generation shift in the way payments operate in the UK, which should bring benefits for everyone.

So the change we wanted to drive is happening fast. In this annual report we describe the major developments we've overseen in the last year – some which have already produced tangible results, and some which are about to. We also cover our wider remit; as a regulator we're interested in far more than the issues I've already described. We have a number of powers and responsibilities that have brought new developments, and our commitment to consumer protection in particular has raised our profile outside the industry we regulate.

In 2017/18 we continued our work to combat authorised push payment scams, and initiated the development of an industry code to protect people who've fallen prey to them. This is another case where we've brought the industry together to solve a serious problem; I'm greatly encouraged by the progress we've made with this approach, and by the industry's collective willingness to participate. This work will put a big dent in scammers' ability to commit these crimes, and shows our commitment to helping real people with real issues.

We've also paid close attention to LINK's changes to the ATM network. Our approach to this emphasises our fundamental vision of payment systems that work well for those who use them. We've given LINK clear guidance on what we expect from it, based on the principle of protecting free access to cash for everyone in the UK.

It's been an eventful and busy year. As ever, there's much more to come and we look forward to the next phase in our industry's development with some excitement. This is also a good point to reflect on how far we've come so quickly, and to thank our staff and all of the people and organisations that have worked with us to make this happen. There are many challenges ahead, but we've already achieved a great deal. I'm confident that we've built a solid foundation for payments in the UK, so they can be fit for the future. I look forward to working with you all as we build on that foundation together.

Hannah Nixon
Managing Director

Our vision and objectives

We were created in 2014 because there was a need to change things in the payments industry, so that it could take advantage of competition and technology to make sure everybody who depends on payment systems gets 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

Promote the interests of those that use or are likely to use services provided by payment systems.

Promote effective competition in the market for payment systems and markets for services provided by payment systems.

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

All the work we do under FSBRA is designed to advance one or more of these objectives.

Our wider role

We are a concurrent competition regulator, alongside the Competition and Markets Authority (CMA), in relation to participation in any payment system and we can conduct market studies and make market investigation references under the Enterprise Act 2002.

Since we were established, we have also become the lead competent authority for monitoring compliance with the Interchange Fee Regulation (IFR) and a competent authority for monitoring compliance with aspects of the Payment Services Regulations 2017. We are also the competent authority for alternative switching schemes under the Payment Accounts Regulations 2015.

Strategic report

This annual report covers our activity in 2017/18. We explain how we've met the aims and priorities we set out in our 2017/18 annual plan and policy work programme, and how this has advanced our statutory objectives.

In our 2017/18 annual plan we said that we aimed to:

- further open up access to payment systems, so that more payment service providers (PSPs) can use them
- implement the remedies we proposed following our market review of payments infrastructure, so that infrastructure procurement would become competitive
- make sure the Payments Strategy Forum (the Forum) moves towards delivery of its new blueprint for UK payments
- drive forward our work to combat authorised push payment scams
- explore three new areas: the increasing use and value of payments data; changing competitive dynamics; and consumer protection and education

All of our work is aimed at ensuring we all have payment systems that are reliable, secure and accessible, and represent value for money. One of the key methods we use to achieve this is to open up payments markets to greater competition.

We've created an environment where it's easier for PSPs and banks to enter the market, bringing new products and greater choice to everyone (TransferWise and Ipagoo are two recent examples of new non-bank direct participants in payment systems). Record numbers of organisations are connecting directly to payment systems (seven in 2017 alone, up from just one in 2015), and new and different ways to connect mean even more organisations can offer their services (such as ClearBank and Starling Bank's new indirect access services). Where access issues have arisen, we've stepped in to resolve them.

We've also worked hard to revamp the interbank payments infrastructure – the pipes that sit behind these payments – to ensure the UK continues to benefit from leading-edge technology. This gives consumers more protection, more control and more choice in payments.

The Forum – which we set up to solve problems in the industry where collaboration was needed as well as innovation – has set out a blueprint which will deliver this vision, alongside new measures on financial crime, security and data. With the Bank of England we have created a single retail payment system operator – the New Payment Systems Operator (NPSO) – to deliver the new infrastructure competitively. The NPSO also has strong, transparent governance that further promotes competition and innovation. UK Finance will deliver the Forum's financial crime solutions.

To make sure the new infrastructure competitive tender is fair and delivers the best results, the infrastructure will be built on open international standards – and we have ensured that the banks no longer control the current infrastructure provider or the NPSO.

There has been great progress on all these strands of work. Individually and in combination, they have advanced our statutory objectives by promoting competition in payment systems and, in turn, promoting innovation. We want to see these two objectives in action because they support and advance our third objective – promoting the interests of all those that use payment systems, from individual consumers to businesses and charities, so that payment systems work as well as possible for everyone.

Throughout 2017 we worked with the payments industry and consumer bodies on an in-depth investigation into authorised push payment (APP) scams. In November 2017 we announced a number of measures the industry will implement to combat the problem. This included our consultation on a contingent reimbursement model, which aims to protect victims of APP scams. We announced our decision to implement the model in February, and expect it to be in place by September 2018.

We've also done extensive work this year to understand the ATM sector in greater detail. We know that people value the ability to access cash through a widely spread network of free-to-use ATMs. When LINK announced changes to its interchange fees, we worked with it to understand the potential impact. We then set requirements for LINK to maintain the current broad geographical spread of free-to-use ATMs, so people don't lose their existing access. We will closely monitor the progress of LINK's changes on a monthly basis to make sure it delivers on its commitments, and we're ready to use our powers to intervene if necessary.

We've also looked at our role in consumer protection in more detail, alongside our investigations into changing competitive dynamics and the use of data in payments. These have been substantial pieces of research, some of which are ongoing. We identified some data-related issues that could have an impact on our objectives and have now launched a discussion with stakeholders about what role we might play. We're continuing our research into competitive dynamics to understand how the industry is changing and how this affects people using payment systems. We will consult on any proposals arising from this work later in the year.

We've made progress in a number of other areas during 2017/18, leading the way in implementing the EU Interchange Fee Regulation, continuing our role as a competition authority and opening enforcement cases. In this way we help make sure the relevant laws and regulations have their intended effect.

Competition

Competition in the markets for payments supports our vision of payment systems that work well for everyone, by encouraging new and better services and more choice for consumers.

This year we continued our work to create a more enabling environment for competition and innovation, and saw our work with the Payments Strategy Forum evolve successfully into its next phase – the design of the new infrastructure which will complement our access work, giving consumers more protection, more control and more choice in payments. We also deepened our understanding of the competitive dynamics of the changing payments landscape.

We continually scan the market for potential competition concerns. This year we opened our first Competition Act 1998 enforcement case and carried out several searches under warrant at business premises. The inspections involved close collaboration with the Competition and Markets Authority (CMA), which provided specialist investigative and forensic support.

Access and governance

Fair and open access to payment systems for PSPs is essential to help create greater competition and innovation in payments – leading to better choice and quality of service for everyone. Since 2015 we've helped create an environment where there are more ways of getting access, with better quality services and faster joining times.

In March 2018, we published our third report on access to payment systems and the governance of interbank payment system operators in the UK. It's been another year of continuing improvements in access:

- **2017 saw a record number of new direct participants joining the interbank systems** (CHAPS, Faster Payments Scheme (FPS) and Bacs). Seven new participants joined one or more systems directly, and this trend is set to continue in 2018. We also saw the first banks joining multiple systems at once. And when the new cheque Image Clearing System went live at the end of 2017, direct participation increased from 11 to 17 participants.

- **New players are offering indirect access to PSPs, giving them more choice of provider**. ClearBank has launched a service providing indirect access to all the UK payment systems, and Starling Bank offers access to FPS and Bacs.

- **Non-bank PSPs can now be direct participants in the interbank payment systems**. Following legislative changes by the Treasury, the Bank of England changed its settlement account access policy in July 2017 to allow certain non-bank PSPs (authorised e-money institutions and authorised payment institutions) to hold settlement accounts for the first time. In April 2018 TransferWise become the first non-bank PSP to access FPS. More non-bank PSPs participating directly will lead to greater competition and innovation in payment systems and increase the products and services available to consumers.

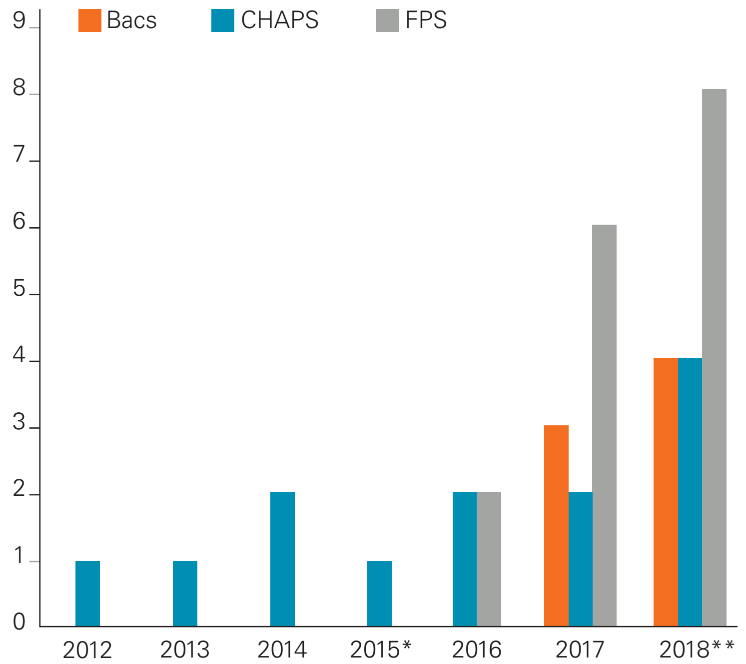
- **Joining a payment system is faster and cheaper.** The costs of joining payment systems have dropped by as much as 50% over the last three years. The time it takes to join has been cut from an average of about 18 months to 12 months, with one bank joining FPS in just seven months.

Strong, independent governance helps payment systems to operate fairly and in the interests of the people who depend on them, as well as being essential to managing risks and controls. It's also essential that the decision-making processes of the governing bodies of payment systems are transparent: this gives PSPs and other users of payment systems more certainty about future developments, so they can understand how they might benefit from opportunities to boost competition in innovation.

We take this seriously, and we took our first enforcement action on governance in 2017. We publicly censured the Cheque and Credit Clearing Company (C&CCC) for failing to publish its board minutes as soon as reasonably practicable for a number of different meetings during 2016, and for failing to provide us with a link to relevant board minutes on its website. These failures breached our General Direction 6.1. Our General Directions set out what we expect from the payment systems industry and we will take action where there have been failures, as in this case.

As a good regulator it's essential we make sure that any regulations remain up to date and fit for purpose, so they continue to work in the interests of everyone who uses payment systems. To this end we're currently reviewing our Directions. We published a consultation on potential changes in March 2018, and will publish the outcome in the autumn.

Improving access: History and projection of new participants in interbank payment systems



*PSR launched April 2015 **Figures for 2018 are projected

Access disputes

We also have powers to directly intervene in some access disputes. In 2016/17 we received our first applications from parties under sections 56 and 57 of FSBRA. These sections give us the power, following an application, to grant access to certain payment systems; or to vary the terms of agreements relating to access to some payment systems if we consider the access criteria or terms and conditions are not proportionate, objective and non-discriminatory.

In one application, a PSP had received notice that its indirect access to a payment system was going to be terminated by its provider. The PSP asked us to extend the termination deadline and take action to ensure it could maintain its service during the transition. We carried out a detailed assessment of the application. However, in November 2017 the PSP withdrew its application after the parties reached a commercial agreement. As a result, we closed our case on the matter.

In relation to another two applications, we were asked by two PSPs to order a number of indirect access providers (IAPs) to grant indirect access to payment systems after their applications had been refused by the IAPs. We carried out detailed assessments of the applications. However, in January 2018 both PSPs withdrew their applications and, again, we closed our cases on the matters.

The Second EU Payment Services Directive (PSD2)

During the last year, we carried out work to prepare for the implementation of PSD2, which came into force in January 2018, and was transposed into UK law by the Payment Services Regulations 2017 (the PSRs 2017). PSD2 introduced new rules aimed at creating opportunities for new firms to offer innovative services to consumers and businesses, complementing our existing work to improve access to payment systems to newer and smaller PSPs.

Since January we've been responsible for monitoring and enforcing payment system operators' and banks' compliance with their PSRs 2017 obligations regarding **access to payment systems and payment accounts** as well as independent ATM deployers' obligations regarding **provision of information on ATM withdrawal charges**. We confirmed how we'll monitor and enforce these new rules when we published our approach document in September 2017.

The Interchange Fee Regulation (IFR) and payment cards

EU legislation also supports our objective of opening up the market to greater competition. The Interchange Fee Regulation (IFR) aims to reduce the costs of card payments for merchants and consumers, improve transparency and strengthen competition. The IFR caps the interchange fees paid between issuers and acquirers for most consumer card payments. It also imposes a number of business rules. We are the main competent authority for the IFR in the UK.

We are being proactive in monitoring compliance with the IFR. Last year, we collected data from card schemes to help us monitor compliance with the caps. We also held compliance-focused meetings with a subset of issuers and acquirers on their approach to compliance with the caps, including the prohibition on circumvention. We also required card schemes, and a subset of issuers and acquirers, to give us information on their compliance with most of the business rules. If we find that a regulated person has failed to comply with an obligation imposed by the IFR, we have the power to take enforcement action where appropriate. This includes the power to publish details of a compliance failure or impose a financial penalty for the compliance failure and publish details of that penalty.

Last year, our payment cards work focused on monitoring compliance with the IFR. We also engaged with a variety of stakeholders, including the PSR Panel, on wider issues relating to the way the cards market works. We plan to examine these issues more closely in 2018/19. This work will give us a more detailed understanding of these issues and enable us to determine whether any action is needed to address them.

Keeping pace with an evolving market

Our continual horizon-scanning work allows us to anticipate and understand industry trends. As the payments industry rapidly evolves, changes to its competitive dynamics may have an impact on our objectives. In our 2017/18 annual plan we explained how we would investigate this issue in depth, to make sure we're fully equipped to deal with the issues that may arise in the future – and ensure that competition in payments works effectively to support people's needs.

Over the last year we've conducted internal scoping work to identify key changes and our potential role. We've also begun discussions with other regulators about the implications of data use for competition and consumer interests, and have continued to take an active role in the UK Competition Network where we share best practice and insights to help us prepare for future developments. We'll publish a summary of our work later in the year, and will consult on any proposals that arise from it.

Contactless mobile payments

An area we've been specifically looking at is **contactless mobile payments**. Contactless payments are growing rapidly, with transaction levels more than doubling in the last year. Around 470 million contactless transactions were made in July 2017.

This growth, innovation and the potential effects on consumers could be relevant to all three of our statutory objectives. As an economic regulator, it's important for us to understand the relevant changes and their potential consequences, and take appropriate action if necessary to make sure there are no adverse effects for the consumers or businesses that use these payment methods. We carried out call-for-information exercises in autumn 2016 and summer 2017, where we asked stakeholders a range of questions covering all aspects of this sector.

We have taken a particular interest in the effects that developments in this field could have on competition and innovation, and how consumers could be affected. This has been a substantial research project, and we will publish an update in the coming months.

Our perceptions survey

We're committed to seeking and taking on board the views of our key stakeholders to inform our policy and future strategy – and importantly, to hear how we're doing in delivering what we said we would do. In this annual report we have again included statistics from our regular survey of stakeholders. This survey is completed by an independent market research company, BritainThinks.

This year stakeholders told us that we are continuing to make progress against our core objectives. We've seen a particular improvement in how people see our work improving competition in payment systems. We're also happy to note that the professionalism of our staff is acknowledged by stakeholders, and our communications are received positively.

We've published a summary of the key findings from this survey, and our response to it, in a separate report.

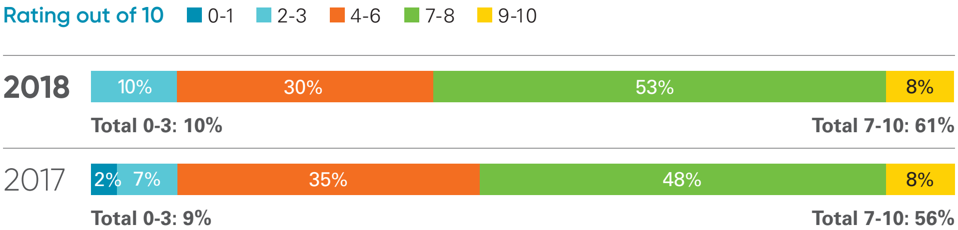
Perceptions survey

Access continues to improve

We continue to see annual improvement in the number of stakeholders feeling positive about the ease of gaining access to payment systems.

Availability of information about getting direct access

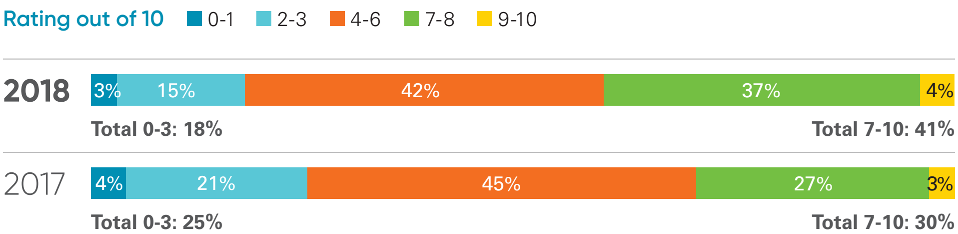
Rating of availability of information about how to access payment systems directly.



Sample sizes: 80 in 2018, 107 in 2017. These exclude those who answered 'I don't know'. Figures are rounded to the nearest 1%.

Ease of gaining direct access

Rating of ease of gaining direct access to designated payment system operators.



Sample sizes: 79 in 2018, 107 in 2017. These exclude those who answered 'I don't know'. Figures are rounded to the nearest 1%.

Infrastructure

In 2015 we launched a comprehensive market review of the state of competition in the provision of infrastructure for Bacs, FPS and LINK, which we followed by consulting on remedies to issues we identified. We were concerned that the banks' ownership and control might be hindering competition and innovation in the interests of consumers. In June 2017 we published our final decision on these remedies which addressed our concerns:

- Bacs, FPS and LINK must run competitive procurement exercises when they buy central infrastructure services.
- Bacs and FPS must introduce common messaging standards for infrastructure providers in the future.

We had originally proposed a third remedy to address ownership-related competition problems. However, these were addressed when Mastercard acquired Vocalink, the central infrastructure provider for all three systems, in April 2017.

The purpose of these remedies is to introduce competition in the market for central infrastructure for Bacs, FPS and LINK for the first time. These changes should allow new infrastructure providers to enter the market, leading to new and innovative products and services. This should benefit all users of payment systems, from large PSPs to consumers, with the benefits being seen from 2020. We are overseeing the implementation of these remedies.

Infrastructure timeline

Infrastructure market review launched	Interim report – initial remedies proposed	Final report and consultation on remedies	Consultation on design of remedies	Remedies implemented	First competitive infrastructure procurement, using common messaging standards
March 2015	**February 2016**	**July 2016**	**December 2016**	**June 2017**	**By 2020**

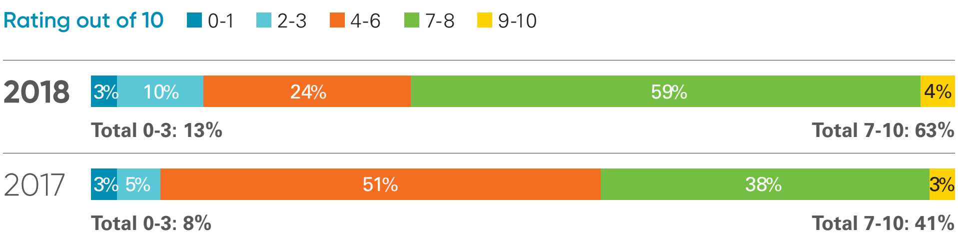
Perceptions survey

Payment systems are more competitive

A majority of stakeholders agree that we are promoting effective competition – a significant increase from last year.

Meeting our competition objective

Extent to which the PSR promotes effective competition in the markets for payment systems and services



Sample sizes: 100 in 2018, 94 in 2017. These exclude those who answered 'I don't know'. Figures are rounded to the nearest 1%.

Delivering our commitments

What we said we'd do	What we've done
Regulatory directions on access Review our regulatory directions on access and governance and consult on any proposed changes.	In March 2018 we published our consultation, seeking views on whether, and if so how, to take forward changes to the Directions. This will help us make sure they continue to be fit for purpose and support our objectives, so that payment systems are run in the interests of the people and organisations that use them.
Card payment systems programme of work Implement and monitor compliance with IFR.	We've gathered information from regulated parties so we can monitor compliance with the IFR. This regulation aims to stimulate competition and reduce costs of card payments for merchants and customers.
Contactless mobile payments Publish a progress update in autumn 2017 following re-engagement with stakeholders.	Following our first round of interaction with stakeholders, we decided to continue the engagement to deepen our understanding of this new and growing area, and will publish a report on our work in the coming months. Our knowledge will help us ensure people benefit as much as possible from innovation and accompanying competition.
PSD2 Implement the requirements of PSD2.	We published our approach to monitoring and enforcing the requirements before it came into force in January 2018. This provides guidance to people using payment systems, and those responsible for complying with the requirements, on what we expect, and how they can bring a complaint to us about any failure to comply with the regulations.
Implement the remedies from our infrastructure market review	We published our final decision, implementing the two remedies we had consulted on. These remedies are designed to make infrastructure procurement competitive, which should ultimately lead to new and better services for people using payment systems.
Further open up access Continue to monitor the impact of our work to open up access, and report on this through our annual access and governance report.	We published our report in March 2018. Access continues to become faster and cheaper, with more options available to those seeking it. This should ultimately lead to benefits for everyone, including more choice in the way we pay for things and potentially cheaper services.
Continue to develop our roles as an effective enforcement regulator and as a competition authority	We took our first enforcement action on governance in 2017, publicly censuring the Cheque and Credit Clearing Company for breaching General Direction 6. We opened our first Competition Act 1998 case this year, have continued to engage as appropriate with other regulators, and have acted on our various policies for monitoring and enforcing different requirements for which we're the competent authority.
Changing competitive dynamics Explore the issues and our role in relation to the changing competitive structure of the market.	We've continued our exploratory work to stay up to date with the changing payments landscape. This will help us be prepared for future developments that could affect our objectives and have an impact on people using payment systems.

Innovation

With the current speed and depth of progress, we're witnessing a modern technological revolution. Given the right environment, this has the potential to deliver many innovations for the payments market to the benefit of those who use payment systems.

We've continued to work to ensure the right conditions exist to support innovation, through increasing our knowledge of payments innovations and their potential, by taking regulatory action where appropriate, and by supporting the work of others such as the Payments Strategy Forum (the Forum) and the NPSO.

The Payments Strategy Forum and the New Payment System Operator

We set up the Forum in 2015 as a major initiative to promote innovation in payments where collaboration is needed. The Forum included experts from across the payments industry and representatives of those who use payment systems such as consumers, retailers and the government. We tasked the Forum with developing a strategy for collaborative innovation in payments within 12 months of its first meeting. And it delivered this.

The Forum published its final strategy in December 2016, setting out some bold changes to the way payments operate in the UK. One of the central shifts was the consolidation of three interbank payment systems – Bacs, FPS and the new cheque image clearing system (now expanded to include all of Cheque and Credit). Instead of having their own independent operators, these systems would now come under the control of a single body – the New Payment System Operator. This would be the first step towards the Forum's vision of a new payments architecture (NPA).

We welcomed the proposal: it should increase the capability and capacity of the existing systems, and support our open access agenda by promoting more harmonisation of rules across all three.

It will also help open up access even more by providing a single point of entry for PSPs that want to join these systems. And the transition to a new international messaging standard, ISO20022, will further reduce the barriers to entry. This will enable more competition among PSPs, with new services and choice on offer for consumers.

When it's successfully implemented, the NPA will provide modern and efficient processes and infrastructure that will allow UK systems to stay at the forefront of innovations in payments – so that we all get the benefit of the latest developments and possibilities.

In 2017/18 we worked with the Bank of England to set up a Payment System Operator Delivery Group (PSODG), which created an implementation plan and recommended a design for the NPSO. The NPSO company was created in July with its first chair, Melanie Johnson, appointed in September.

We've continued to engage with relevant stakeholders to support the process. In January 2018 we published an open letter to the NPSO setting out our initial priorities for it to consider as it develops its target operating model and plans for the design and delivery of the NPA.

Our priorities include:

- Effective stakeholder engagement
- Transparent decision-making, with stakeholders playing a key role in setting strategy
- Competitive procurement of the NPA's central infrastructure
- Effective engagement to develop the NPA's initial rules, with robust governance and stakeholder support and engagement for future modifications
- Clarification of the NPSO's 'market catalyst' role
- Effective risk management

In March the NPSO responded to our letter, confirming that our priorities align with its own thinking and setting out its timeline for its work. The NPSO took on operational control of FPSL (the operator of FPS) and Bacs in May, with Cheque and Credit and UK Payments Administration Limited (UKPA) due to follow in July.

The Forum also set out collaborative industry solutions to address financial crime, which UK Finance is implementing. We're working with UK Finance to make sure these initiatives lead to better protection for businesses and consumers.

NPSO and NPA timeline

Forum final strategy proposes creation of NPSO and NPA	PSODG set up for initial work	NPSO created	Consolidation complete	NPA implementation begins
December 2016	**October 2017**	**July 2017**	**June 2018**	**2020**

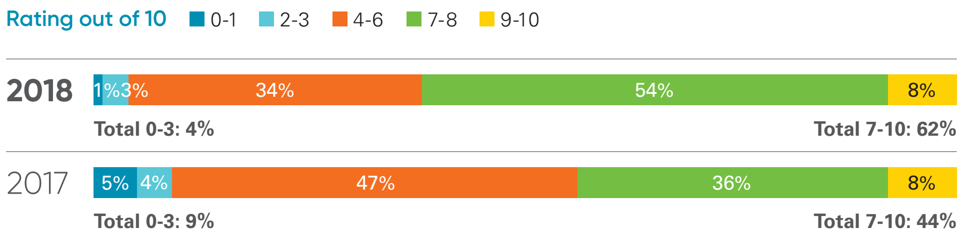
Perceptions survey

We're supporting innovation

More stakeholders than ever before believe we're successfully promoting innovation in payments, particularly the infrastructure that supports them.

Meeting our innovation objective

Extent to which the PSR promotes innovation in payment systems, and particularly the infrastructure that supports them.



Sample sizes: 101 in 2018, 94 in 2017. These exclude those who answered 'I don't know'. Figures are rounded to the nearest 1%.

Delivering our commitments

What we said we'd do	What we've done
Payments Strategy Forum Continue to provide secretariat support to the Forum and make sure that it moves towards delivery of its strategy.	We supported the Forum in handing over implementation of the NPA to the New Payment System Operator (NPSO), and its solutions to address financial crime to UK Finance. Since then we've worked with both bodies to ensure that these initiatives are implemented in a way that advances our objectives – making payments in the UK fit to serve everybody's needs in the future.
Consolidation of payment system operators Continue to monitor developments to ensure the process is smooth and orderly and aligned with our objectives.	We wrote to the NPSO in January 2018, setting out our expectations for its work across a range of its functions. It has confirmed that it will incorporate our priorities in its design for the NPA. These will help the new infrastructure deliver modern, reliable payment services for everyone.

Service-users

Our statutory objective to promote service-users' interests reflects the guiding principle behind everything we do – making sure payment systems work well for people and organisations. This year has seen a more obvious emphasis on issues that affect consumers directly, with authorised push payment scams and free ATMs in the spotlight.

We've worked with various stakeholders to develop measures to prevent scams and help victims; assessed the implications of changes to the ATM market and laid down guidelines to protect people's access to free-to-use ATMs; and intervened to ensure Direct Debit services are run fairly. And we continued with our ongoing programme of engagement and research to make sure we understand the issues that could affect all the people and organisations that use payment systems.

Authorised push payment scams

In the last year we've led a range of initiatives to prevent authorised push payment (APP) scams – where a fraudster tricks you into transferring your money to their account. In September 2016 the consumer group Which? submitted a super-complaint to us about the problem. We issued our initial response and analysis of the issue in December 2016. Since then we've worked with the Financial Conduct Authority (FCA), the financial services industry and consumer bodies to develop prevention measures and support victims when scams do happen. This has combined work we and the Forum were already doing on financial crime with new initiatives.

In May 2017 we published a call for input from PSPs on the role of payment systems operators in relation to APP scams, and in November we published an update on the work we had led. We outlined a number of measures which were already launched or are being developed to recognise and prevent scams, therefore minimising the potential harm to consumers. Taken together, these measures should make it harder for scammers to commit these crimes in the first place.

The measures include:

- consumer awareness campaigns
- Confirmation of Payee – where you can check your money is going to the right person
- improved analysis of payments data and sharing among banks – to make it quicker and easier for them to spot and stop fraudulent actions and accounts

We also proposed introducing a contingent reimbursement model – a system to make sure scam victims can get their money back if they acted appropriately when they made the payment. If a PSP hasn't taken certain steps to guard against APP scams, it will be responsible for reimbursing the victim. We consulted on the proposed model in November 2017, and published our decision to implement it in February 2018.

We think that industry is best placed to lead the development of the model, and UK Finance has committed to implementing new best practice standards that PSPs will follow when a victim reports an APP scam.

We set up a steering group to develop an industry code, which will set out those standards and the rules of the model. We appointed an independent chair, Ruth Evans, who previously chaired the Forum with great success. The steering group contains consumer and industry representatives, and we provide oversight and support. Other relevant regulatory and government bodies are also involved as observers.

We set a timetable for the steering group that balances the need to protect consumers with the logistics of making sure the industry code is robust and effective at reducing the harm caused by APP scams. We expect the group to issue an interim code in September, which the Financial Ombudsman Service can take into account in its relevant considerations for future victims of APP scams. The steering group will publicly consult on the code, and publish the final code in early 2019. It will also decide on the governance model for the code. We expect the code to continually evolve to ensure the preventative measures are up to date. We'll monitor its progress, and will look to take any necessary steps to ensure consumers' interests are protected.

APP scams timeline

Date	Event
September 2016	Which? super complaint
December 2016	Our initial response
Throughout 2017	Work with industry and consumer groups
November 2017	Update published, explaining range of initiatives to combat APP scams
February 2018	Consultations on contingent reimbursement model
September 2018	Interim reimbursement code introduced
February 2019	Final reimbursement code

ATMs

Cash is an important payment method, accounting for more than 40% of all payments made by consumers. We know that people value the widespread network of free-to-use ATMs, and around 2.7 million people in the UK rely solely on cash. However, the ATM sector is changing as consumers choose to make payments in different ways. The number of cash withdrawals has started to fall, and this has implications for the ATM sector.

During this year we conducted extensive work to gain a more detailed understanding of this sector, including how changes could affect consumers. In January 2018 we published summaries of two independent studies which we commissioned as part of that work. We engaged with LINK during its consultation on a proposal to change its interchange fees, to ensure it addressed consumers' interests adequately in its final decision. We made it clear to LINK that we want it to ensure that consumers will continue to have widespread free access to cash.

We required it to:

- do whatever it takes to protect the current broad geographical spread of free-to-use ATMs
- ensure that any cuts it makes to its interchange fees are incremental and accompanied by close monitoring by LINK to understand the impact of each cut and take immediate positive action if there's a negative impact for consumers
- bolster its Financial Inclusion programme to continue to fill gaps in the free-to-use ATM network

We were pleased that LINK committed to meeting our requirements.

We have set out additional requirements for LINK to report to us each month on the impact of its changes, and on the action it takes to address any negative impact. We will intervene if LINK doesn't keep its promise to protect free-to-use ATMs where they're needed.

Direct Debit

In 2017/2018 we worked on two areas of concern relating to the UK Direct Debit scheme operated by Bacs.

Managing refunds fairly

Bacs has implemented changes to help ensure that refunds claimed under the Direct Debit Guarantee are handled fairly, and that inappropriate claims can be identified. We're monitoring the effectiveness and operation of these changes to make sure they're delivering the intended improvements for Direct Debit users. We want to ensure that there continues to be strong consumer protection offered by the Direct Debit Guarantee, but with a continued focus on preventing fraudulent refund claims. The evidence so far shows that potentially fraudulent claims are being dealt with more rigorously and consistently by PSPs, and that this may be helping to deter such fraudulent claims.

Direct Debit 'Facilities Management' switching

In 2017 we investigated and consulted on some potential rule changes regarding Facilities Management (FM) arrangements – where an FM service provider administers and collects funds using Direct Debit for a customer organisation (an 'FM client'). Our investigation was prompted by a complaint, which pointed out that an incumbent FM provider could create barriers that would effectively prevent its clients switching to new providers. We ran a consultation from August to September. In January 2018 we used our statutory powers to issue a Specific Direction to Bacs to ensure that it addresses the concern and makes switching easier for FM clients. This should facilitate the growth of a more competitive FM provider market. Bacs has started to implement changes to address the concerns, and we're monitoring the implementation to make sure the changes are effective and work for FM clients.

Image-based cheque clearing

The Image Clearing System reduces the time it takes a cheque to clear by up to five working days – with funds being available the next working day. The system was launched in some banks in October 2017, with a phased rollout happening during 2018. Over the last year we've kept engaged with the programme and are keen to ensure it supports our objectives and delivers its intended benefits for cheque users, including faster availability of funds and more options for paying in cheques, and that it meets our expectations regarding easy and open access for PSPs.

Account switching schemes

The Payment Accounts Regulations 2015 (the PARs) are designed to help consumers switch their current accounts between providers more easily. The aim is to promote competition and ensure that switching schemes operate in consumers' best interests.

Under the PARs we are the competent authority for alternative account switching schemes (these are schemes that are independent of the banks involved). In 2016 we designated the Current Account Switch Service (CASS) as an alternative switching scheme. We monitor its compliance with the designation criteria annually, and in September 2017 we confirmed it continues to meet these requirements.

We also monitor how CASS measured against a set of key performance indicators (KPIs) set by the Treasury. The KPIs are intended to ensure that CASS continues to be developed with effective participation from a wide range of relevant stakeholders, and operated in the interests of customers. The Treasury set the KPIs as recommended by the Competition and Market Authority's (CMA) remedies following its retail banking investigation. We reported to the Treasury after assessing CASS in September 2017, having found that it had met the KPIs for the year.

Payments data

The data associated with payments is becoming increasingly important, and its use is growing fast. Over the last year we carried out an in-depth examination of this area to understand the impact it is likely to have on the payments industry, on consumers and on our statutory objectives. We've built up a detailed overview of data issues through desk-based research, informal discussions with payments industry stakeholders and discussions with other UK regulators.

Our ultimate aim was to consider whether there are any data-related areas we should play a role in, in order to further our objectives and ensure there are no negative effects on consumers and businesses. We pinpointed three key areas that could directly affect our objectives:

- **Some people may be reluctant to share the data attached to their payments** with third-party companies providing other payments-related services ('overlay services'). This can slow the development of innovative products and services, meaning people using payment systems are less likely to see the benefits.

- **Potential providers of new payment services may have limited access to data about transactions across a whole payment system** ('global' datasets), which may make it more difficult to develop new ways to fight fraud and other financial crimes within the system.

- **There are potential barriers that could stop consumers and businesses getting the benefits from additional 'enhanced' data attached to transactions.** This data could make processing payments cheaper and more efficient.

We published a discussion paper detailing our findings in June 2018 so that we could get stakeholders' views on these issues. This will help us understand what role we might play to help ensure the increased use payments data works for everyone. We'll publish an update and outline our next steps in the autumn.

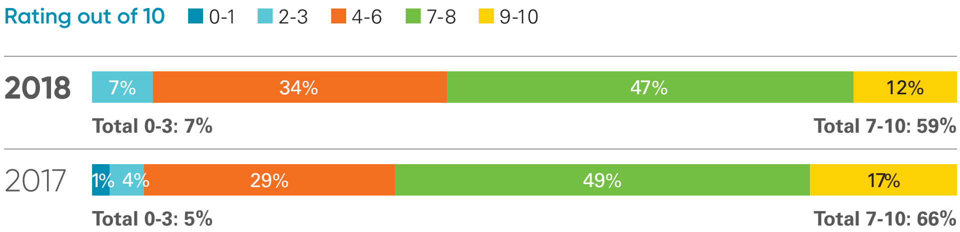
Perceptions survey

Meeting the needs of those who use payment systems

A majority of stakeholders continue to feel that payment systems work to meet the needs of end-users, with a slight dip from last year. However, an increased majority feel that we are ensuring that payment systems are operated in the best interests of the people and businesses that use them.

Payment systems effectively meeting consumer needs

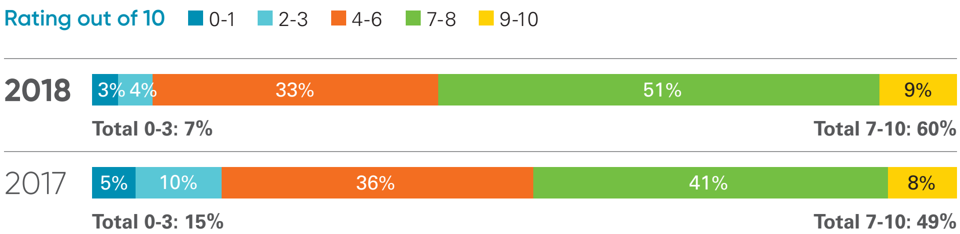
Extent to which payment systems effectively meet the needs of their end users such as consumers, businesses and other organisations.



Sample sizes: 100 in 2018, 130 in 2017. These exclude those who answered 'I don't know'. Figures are rounded to the nearest 1%.

Meeting our service-user objective

Extent to which the PSR ensures that payment systems are operated and developed in the best interests of the businesses and consumers that use them.



Sample sizes: 102 in 2018, 95 in 2017. These exclude those who answered 'I don't know'. Figures are rounded to the nearest 1%.

Delivering our commitments

What we said we'd do	What we've done
Cheque imaging Monitor industry progress on the migration to cheque imaging.	We've kept engaged with the industry programme to develop a new, image-based cheque clearing system for the UK. This will reduce the time it takes cheques to clear.
Consumer protection and education Continue to examine the area of consumer protection and education.	In May 2017 we published a call for input on the issue of APP scams, and in November we published an update on the work that we, the FCA and the payments industry had been doing to stop scams happening. We set up a steering group to develop an industry code, which will set out the rules of a contingent reimbursement model and best practice standards to protect victims of these scams.
Payments data Explore the issues and our role in relation to the greater availability and use of payments data.	We've conducted desk-based research and engaged with payments industry stakeholders and other UK regulators. We have now issued a discussion paper and are consulting on the key issues to see what role we should play in this area, to help ensure the increased use of payments data works for everyone.
Payment Account Regulations (PAR and CASS) Implement and monitor the PARs; report annually to the Treasury on the key performance indicators set for CASS by the CMA's retail banking remedy.	We conducted our annual assessment and concluded that CASS continues to meet the criteria for designated alternative switching schemes. We also reported to the Treasury on KPIs set for CASS. Our work helps make sure alternative account switching schemes work for consumers in accordance with the requirements of the PARs.

Building our organisation

We have met all of the commitments made in our annual plan and policy work programme regarding buildingour organisation.

Our people

The payments industry's evolution and changes in technology continue at a fast pace. In order to adapt to meet new challenges, we believe that having the ability to flex our team is essential. As a result, we have continued to build the PSR into an organisation which has multi-skilled teams with the flexibility and the capability to be agile, and to meet our aims and objectives. In 2018/19 we plan to increase our headcount from 80 to around 100, with approximately 15% being flexible resources.

Creating a diverse environment where our people can feel secure, respected and valued has also been a high priority for us. In October 2017 we signed the Women in Finance Charter, pledging our commitment to support the progression of women into senior roles, and we set targets for both our gender and BAME representation. More than half our senior leadership are women; as a small organisation, our target is to maintain a balance of 50% of women in the leadership team and to continue to develop a balanced pipeline of talent.

We are also committed to achieving a range of 8 to 15% BAME representation across our senior leadership team by 2025. Our current BAME representation is 8%. We're really encouraged that feedback from our people indicates that they view the PSR as an employer that values and recognises diversity and inclusion.

We have also continued to focus on delivery of our People Strategy for 2017 to 2020 by creating an environment which encourages our people to develop new skills, adapt our processes, and improve our ways of working. In particular, we have concentrated 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

We have also been keen to maximise career development opportunities by working closely with colleagues in other authorities, in particular the FCA, the Bank of England (the Bank) and the CMA, sharing knowledge and experience and ensuring efficient and effective coordination across the sectors we regulate. In addition to regular networking meetings and discussions, during 2017/18 we actively supported both outward and inward secondments between ourselves, the Bank, FCA and the NPSO.

This year we have been planning for the move to our new offices in Endeavour Square, Stratford, making sure we have the right facilities and technology to meet our future needs. In April we moved to more modern and fit-for-purpose technology, and we moved to our new offices at the start of July 2018. In the coming year we'll embrace new ways of working, with a particular focus on increased efficiency and even greater collaborative working.

We continuously listen to stakeholders about how we communicate and engage with them. This year this led to a refresh of our identity, responding to stakeholder and staff feedback to reflect who we are now as an organisation and how we do things. The most noticeable change is in the design of our communications – we're keeping what works and updating what doesn't to make our vision and identity clear for our stakeholders. We'll continue to support this with clear and engaging communications.

We're keen to ensure that as we develop as an organisation, we continue to deliver positive changes to the payments industry, help protect consumers, and make real improvements for everybody using payment systems, while maintaining an environment which continues to attract high-quality, talented people to the PSR.

Measuring 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 the 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've published a summary of this survey in a separate report.

Working with other authorities

We continue to coordinate certain regulatory functions with the other UK financial regulators – 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 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 have worked closely with the FCA to develop our approach to applying Regulation 105, including developing a protocol which sets out how we will work together to monitor and enforce this Regulation. We continue to work closely with it 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.

A statutory memorandum of understanding between the UK financial regulators is in place which describes the role of each regulator in relation to matters of common regulatory interest and how the regulators intend to cooperate. The memorandum is reviewed annually.

During the last year we've continued to engage regularly with other concurrent 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.

We've also been working with the Treasury to prepare for Britain's withdrawal from the European Union.

We have launched three consultations for the year-long review. We have already made significant progress in simplifying regulatory fees collection by direct billing, easing administrative burdens on payment system operators and payment service providers. We have also introduced a new fees allocation methodology which is more direct, proportionate and sustainable. We will use it to calculate regulatory fees from 2018/19.

Reviewing our regulatory fees regime

In the summer of 2017 we began a review of our regulatory fees regime, following previous feedback from stakeholders and in response to industry developments. We want to identify a way of collecting and allocating PSR fees that is simple, proportionate and sustainable.

Establishing 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 will retain an amount to cover our enforcement costs before passing on the remainder of the penalty to the Treasury. We will use this retained amount to reduce the regulatory fees we collect from firms that were not liable to pay a penalty. There have been no penalties issued for 2017/18.

In the last year, we started to explore the operational aspects of the scheme to enable us to accurately capture enforcement costs and to apply reductions to regulatory fees for eligible firms. We have also started to assess the adaptations we will need to make to the scheme in light of our new regulatory fees collection method. We continue to engage with the Treasury to discuss further details of the scheme.

The Business Impact Target

Under the Enterprise Act 2016, we are within scope for the Business Impact Target (BIT) – a monetary figure for the savings that businesses will make because of deregulatory measures that the government has taken. We must report to the government on our performance against the BIT. This year's report covered the period 9 June 2017 to 20 June 2018; in this period we did not have any qualifying regulation adding to the burden of business regulation. We will continue to report annually.

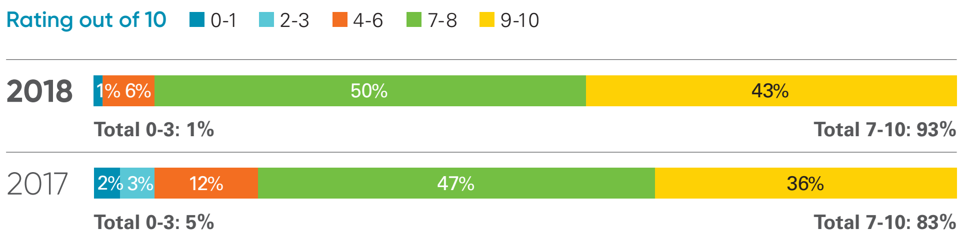
Perceptions survey

We're seen as a highly professional organisation

Our staff are viewed as professional by the overwhelming majority of our stakeholders (93%).

Our professionalism

Agreement that the PSR conducts itself professionally as an organisation.



Sample sizes: 100 in 2018, 97 in 2017. These exclude those who answered 'I don't know'. Figures are rounded to the nearest 1%.

Financial overview

Business model

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 enable us to operate efficiently and effectively. Along with the FCA, we recently moved to the International Quarter in Stratford in July 2018. The move to Stratford gives us a quality building, excellent facilities and the right infrastructure to meet our future needs, and provides value for money.

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 is given 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.

Analysis of performance during the year

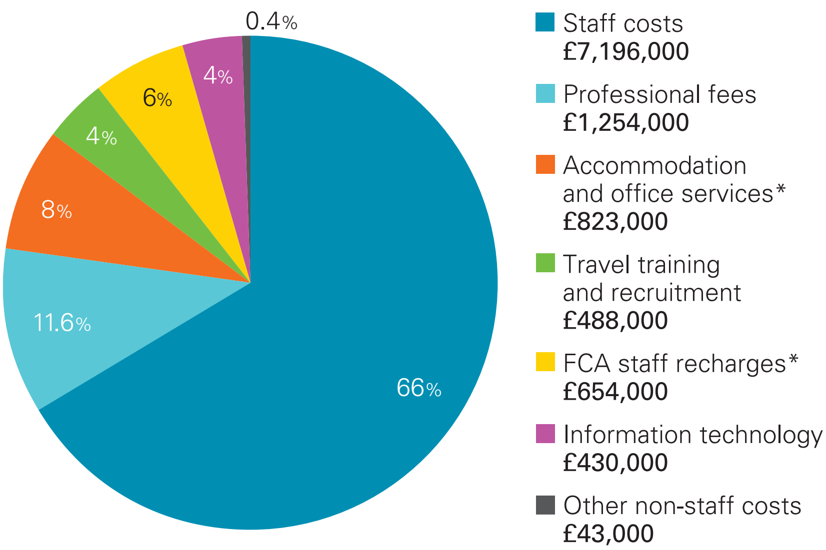
Total	2018 £'000	2017 £'000	Increase/ (Decrease)	% change
Fee income	7,809	10,208	(2,399)	-24%
Other income	74	48	26	54%
Total income	**7,883**	**10,256**	**(2,373)**	**-23%**
Staff costs	(7,196)	(7,087)	109	2%
Administrative costs	(3,692)	(3,795)	(103)	-3%
Total operating costs	**(10,888)**	**(10,882)**	**6**	**<1%**
Loss for the year	**(3,005)**	**(626)**	**2,379**	**380%**

We set a budget of £12 million for 2017/18, and spent £11 million. The reduced spend is partly due to us stretching our recruitment programme over a longer period to use our resources efficiently, as well as savings we've made against our budget in some areas. We continue our commitment to paying due regard to the costs of regulation and offering value for money. We'll use our accumulated underspend to return the saving to fee payers in 2018/19. We recently consulted on how we'll do that, and confirmed our approach in a policy statement in June 2018.

Overall operating costs have remained flat at £10.9 million (2017: £10.9 million). Staff costs make up 66% of our cost base and are key in delivering our objectives. We continue to recruit permanent employees to bring the team up to its target operating model. We had an average of 70 full-time-equivalent employees during the year, compared to 69 in 2016/17. The chart on this page shows a breakdown of our operating costs.

The year-end cash position is £9.6 million (2017: £13.3 million). The decrease is due to the rebate, collecting £4.2 million less in 2017/18 fees. We had an accumulated surplus of £2.4 million at 31 March 2018 (2017: accumulated surplus of £5.4 million). As noted above, we propose to provide a further £1m rebate to fee payers, which would reduce the reserves to £1.4 million.

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 payment systems work well for the people and organisations that use them. The most material risks and trends that could pose a risk to our objectives in the coming years are set out below (more detail can be found in our *Annual plan and budget 2018/19*):

1. Demographic trends and longevity
2. Technology and innovation
3. UK withdrawal from the European Union
4. Smart data, digitisation and data analytics
5. Cyber security and resilience

Key environmental and operational risks

We have shared key risks with the FCA:

- **Environmental risks:** These include risks associated with the operating environment – in particular, political or legislative change. While it is set out in statute that we are 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. For example, the terms of the UK's exit from the EU remain subject to negotiation and may impact the scope and scale of regulated activities.

- **Execution risks:** These relate to the execution of our regulatory strategy and arise when we fail to deliver our business activities as intended. When execution risks materialise, this usually means that the PSR has failed to achieve a reduction/prevention in harm that would otherwise have been possible.

- **Internal operational risks:** Like any organisation, we face significant operational risks which may result in financial loss, disruption or both. These risks are summarised below:

  - **People risks:** These include risks associated with the capacity of our staff to deliver our business plan, and the changing capability needs of the organisation such as cyber security and data analytics expertise. We continue to mitigate these risks as part of our People Strategy.

  - **Process risks:** These include risks from inadequate or failed internal processes, including identifying, monitoring and managing potential risks in order to minimize the negative impact they may have on an organisation.

  - **Governance risks:** These include failings of not setting the right direction in optimising risks and resources, and monitoring performance and compliance to achieve the organisation's objectives. The introduction of the Senior Managers & Certification Regime has strengthened governance, controls and decision-making.

  - **Systems risks:** These include the availability, resilience, recoverability and security of core IT systems. Cyber risk continues to be a major focus for both organisations, with a significant increase in investment as we respond to the evolving threat level.

- **Public confidence risks:** These include risks which could constrain our ability to deliver against 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. This could result from inappropriate judgements, decisions and actions taken (or inaction) which may be perceived by stakeholders as inappropriate; inconsistent or inaccurate messages being communicated externally; and not clearly defining our objectives and remit so that public expectations are set and managed appropriately.

As far as **financial risk** is concerned, we have adequate resources (cash liquidity and the support from the FCA) to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

By Order of the Board on 27 June 2018.

Simon Pearce
Secretary

Directors' report

The directors present their report for the year ended 31 March 2018. Details of the directors during the year are in Table 1 in the corporate governance statement (page 50). The directors use the strategic report (pages 12–45) and the corporate governance statement (pages 48–55) 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 which 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.

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 2017 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 27 June 2018.

Simon Pearce
Secretary

Corporate governance

Corporate governance statement for the year ended 31 March 2018

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 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 55).

Our board is 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.

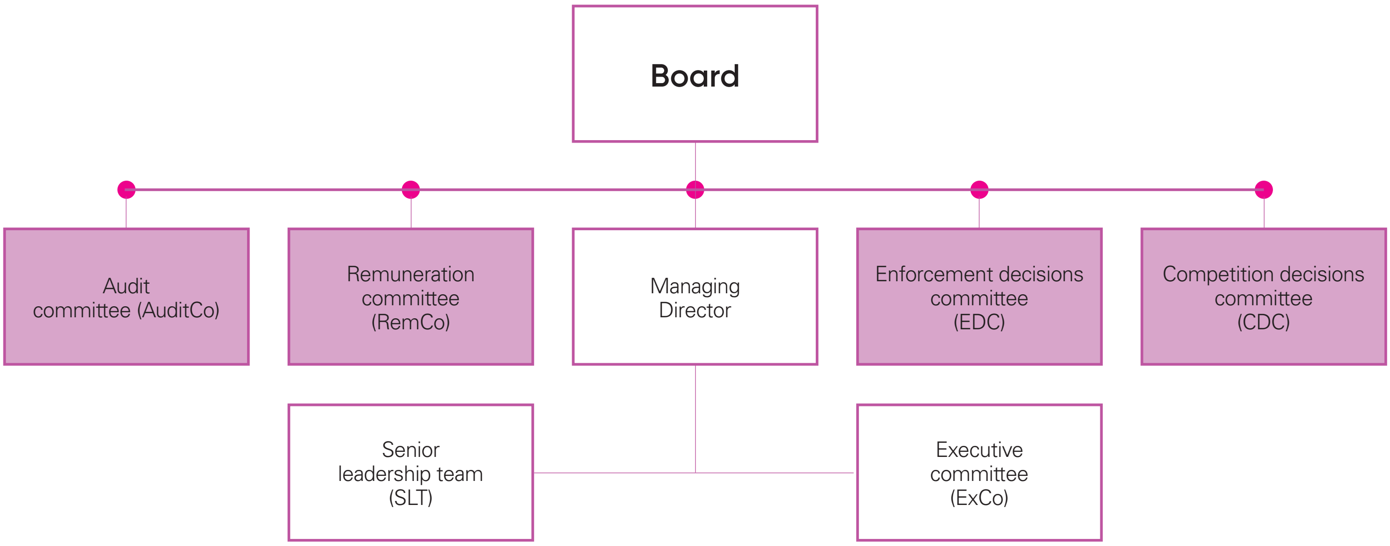
The role of the board

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 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

Our governance framework



- 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 Markets Authority
- establishing and maintaining the accountability for decisions made by committees of the board and executive management

The board is supported by its principal committees. We provide more details of the committees' activities later in the report.

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.

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 have set out a formal description of the core responsibilities of members of our board and those carrying out senior management functions. Our website has more details on how we apply the SM&CR to ourselves: www.psr.org.uk/aboutpsr/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
- two executive directors, including the Managing Director, appointed by the FCA with the approval of the Treasury
- six 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	30/06/19
Carole Begent Executive Director – Head of Legal	01/07/15	30/06/18
Amelia Fletcher Non-Executive Director – Senior Independent Director	01/04/14	31/03/19[1]
Bradley Fried Non-Executive Director	01/04/16	31/03/19[2]
Noel Gordon Non-Executive Director	01/05/16	30/04/19
John Griffith-Jones Non-Executive Director – Chair	01/04/14	31/03/18[3]
Hannah Nixon Executive Director – Managing Director	14/07/14	13/07/20[4]
Simon Ricketts Non-Executive Director	01/07/17	30/06/20
Christopher Woolard Non-Executive Director	01/04/14	31/03/20[5]

1 Reappointed for an additional two-year term from 1 April 2017
2 Bradley stood down from the board on 30 June 2018
3 Reappointed for an additional one-year term from 1 April 2017
4 Reappointed for an additional three-year term from 14 July 2017
5 Reappointed for an additional three-year term from 1 April 2017

Simon Ricketts was appointed as a NED with effect from 1 July 2017 and Hannah Nixon was reappointed as an executive director with effect from 14 July 2017.

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

A majority of our board members are NEDs. Five of them, including the Chair, also serve on the board of the FCA. Our NEDs bring a variety of skills and experience that are 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. 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 six meetings during the year, including a strategy meeting, and held one additional meeting to deal with specific matters which required attention between scheduled meetings.

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

Table 3: Attendance at board meetings

Name	Scheduled board meetings	Additional board meetings
Andrew Bailey	4/6	1/1
Carole Begent	6/6	1/1
Amelia Fletcher	6/6	1/1
Bradley Fried	4/6	1/1
Noel Gordon	6/6	1/1
John Griffith-Jones	6/6	1/1
Hannah Nixon	6/6	1/1
Christopher Woolard	5/6	1/1
Simon Ricketts	5/5	0/0

During the year, our NEDs 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: approving organisational budget and business plans; monitoring major policy initiatives; reviewing organisational governance; monitoring organisational performance; and approving the annual report and accounts for the year ending 31 March 2018.

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. Meetings are arranged with a range of key people from across the organisation on a structured basis to assist with induction.

Members of the board also receive ongoing professional development training and briefings on relevant issues. During the year the Chair met with the NEDs to review their performance.

The board programme includes regular briefings from management and informal meetings which increase the non-executive directors' understanding of the business and the sector.

Board effectiveness

In June 2017 the board commissioned Independent Audit Limited to undertake a review of its effectiveness. The review was conducted over the summer and autumn and the board considered the findings at its meeting in January 2018.

The review highlighted many board strengths and set out various things to consider (termed 'things to think about'), which were discussed within the following broad themes:

- the composition of the board
- strengthening links between board members and the wider organisation
- exercising oversight of a broad range of technologically demanding matters
- increasing engagement with the relevant sub-committees that perform duties on behalf of the PSR
- maintaining strong collaborative relationships with the FCA

The board welcomed the review and accepted all of the above broad themes as being areas for potential further improvement.

The review is published on our website: www.psr.org.uk/psr-publications/news-announcements/PSR-board-effectiveness-review

Conflicts of interest

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

Our governance and committee structure

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.

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 42-45).

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

The PSR Panel

The PSR 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 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 our behalf 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) acts as decision-maker where we propose to impose a sanction under other legislation (for example, FSBRA, the Payment Services Regulations 2017 or the Payment Card Interchange Fee Regulations 2015).

In individual cases, an EDC panel comprising three EDC members will be appointed to decide on our behalf 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 27 June 2018.

Simon Pearce
Secretary

Remuneration report

Directors' remuneration (audited)

The table below sets out the remuneration paid or payable to any person that served as a Director during the years ending 31 March 2018 and 2017. 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.

	Basic Salary		Performance -related pay		Other benefits		Total Remuneration (excluding pension)		Pension		Total Remuneration	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Chair												
John Griffith-Jones[1,5]	–	–	–	–	–	–	–	–	–	–	–	–
Executive Directors												
Hannah Nixon[2,3]	225	222	36	36	25	24	286	282	23	22	309	304
Carole Begent[3]	160	155	22	16	23	21	205	192	17	16	222	208

	PSR Fee Paid	
Non-Executive Directors[4]	2018 £'000	2017 £'000
Andrew Bailey[5]	–	–
Amelia Fletcher[6]	8	7
Christopher Woolard[5]	–	–
Bradley Fried[6]	8	7
Noel Gordon	15	14
Simon Ricketts[7]	11	–

Chair

1. John Griffith-Jones' tenure as Chair ended on 31 March 2018.

Executive directors of the PSR

2. Hannah Nixon was re-appointed to the PSR board on 14 July 2017.
3. Hannah Nixon and Carole Begent are members of the FCA Pension Plan. They elected to have £10,000 of their employer pension contribution paid into the Pension Plan and the remaining employer contribution of £13,000 and £7,000 respectively paid as a non-pensionable cash supplement. The total amount is included under 'Pension' in the table above.

Non-executive directors of the PSR

4. The FCA is responsible for determining the remuneration of non-executive directors. The fee for non-executive directors remains unchanged at £15,000 a year except for non-executive directors serving on both the FCA and PSR boards, for whom the fee is £7,500 a year. No fees were paid to non-executive directors prior to 1 May 2016.
5. John Griffith-Jones, 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.
6. From 1 May 2016 Amelia Fletcher and Bradley Fried received a fee of £7,500 for their role on the PSR board. Their full remuneration is included in the FCA Annual Report.
7. Simon Ricketts was appointed as a non-executive director of the PSR on 1 July 2017.

The PSR board

Charles Randell
Chair

John Griffith-Jones
Outgoing Chair

Hannah Nixon
Executive Director

Carole Begent
Executive Director

Andrew Bailey
Non-Executive Director

Amelia Fletcher
Non-Executive Director

Bradley Fried
Non-Executive Director

Noel Gordon
Non-Executive Director

Simon Ricketts
Non-Executive Director

Christopher Woolard
Non-Executive Director

Financial statements

For the year ended 31 March 2018

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 Payment Systems Regulator for the year ended 31 March 2018. These comprise the statements of comprehensive income, financial position, cash flows and changes in equity, and the related notes (including the significant accounting policies). The financial reporting framework that has been applied in their preparation is applicable law, the Financial Services (Banking Reform) Act 2013 and the International Financial Reporting Standards as adopted by the European Union. 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 2018 and of the loss for the year then ended

- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union

- have been prepared in accordance with the Companies Act 2006 and the Financial Services (Banking Reform) Act 2013

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.

Responsibilities of the Directors for the financial statements

As explained more fully in the statement of Directors' responsibilities, 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 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.

- 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. 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.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the company audit. I remain solely responsible for my audit opinion.

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

The 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), and the financial statements and my auditor's report on them. 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 it 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 part of the remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006 and the Financial Services (Banking Reform) Act 2013

- 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 report, financial overview, directors' report and corporate governance statement 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 by the Payment Systems Regulator, 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 company

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
18 July 2018

National Audit Office

157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Statement of comprehensive income for the year ended 31 March

	Notes	Total 2018 £'000	Total 2017 £'000
Fee income		7,809	10,208
Other income		74	48
Total Income	**4**	**7,883**	**10,256**
Operating costs			
Staff costs	5	(7,196)	(7,087)
Administrative costs	6	(3,692)	(3,795)
Total operating costs		**(10,888)**	**(10,882)**
Total comprehensive loss for the year		**(3,005)**	**(626)**

Statement of changes in equity for the year ended 31 March

	£'000
At 1 April 2016	**6,017**
Total comprehensive loss for the year	(626)
At 1 April 2017	**5,391**
Total comprehensive loss for the year	(3,005)
At 31 March 2018	**2,386**

Statement of financial position for the year ended 31 March

Company Number: 8970864

	Notes	Total 2018 £'000	Total 2017 £'000
Current assets			
Cash and cash equivalents		9,561	13,280
Trade and other receivables		46	25
Total assets	**7**	**9,607**	**13,305**
Current liabilities			
Trade and other payables		(6,355)	(7,082)
Intragroup payable		(866)	(832)
Total liabilities	**8**	**(7,221)**	**(7,914)**
Total assets less total liabilities		**2,386**	**5,391**
Accumulated surplus		**2,386**	**5,391**

The financial statements were approved by the board on 27 June 2018, and were signed on its behalf by:

Charles Randell Chair
Hannah Nixon 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

	Note	Total 2018 £'000	Total 2017 £'000
Net cash (used)/generated by operating activities	**3**	(3,761)	5,695
Investing activities:			
Interest received on bank deposits		42	46
Net cash generated in investing activities		**42**	**46**
Net (decrease)/increase in cash and cash equivalents		(3,719)	5,741
Cash and cash equivalents at the start of the year		13,280	7,539
Cash and cash equivalents at the end of the year		**9,561**	**13,280**

Notes to the financial statements

1. General information

The Payment Systems Regulator (PSR) was incorporated in the United Kingdom 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

The PSR has early adopted the following new standards: IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments. The nature and the effect of the changes are further explained below:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces the existing standard, IAS18 Revenue, for the period beginning on or after 1 January 2018.

The core principle of IFRS 15 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. Finally, revenue can only be recognised when (or as) the entity satisfies a performance obligation.

Management assessed the implication of adopting IFRS 15 directly, however given the nature of the PSR's activities and that IFRS 15 relates to commercial organisations it was not considered appropriate. Accordingly, management have 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. 'A 'contract' in this circumstance would be the underlying statutory framework set out in FSBRA. This enables the group to raise fees to recover the costs of carrying out their statutory functions.

The standard also introduces the concept of identifying performance obligations which are promises in a contract to transfer goods or services that are distinct. The performance obligation for the PSR is granting a firm the ability to operate and remain authorised during the year. FSBRA provide the enforceability of the performance obligation.

The transaction price is the amount of consideration that an entity expects to be entitled to in exchange for transferring promised goods or services to a customer. The transaction price has been determined to be as set out in the Fees Schedule of the FCA handbook. The group'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.

In summary, based on management's assessment, the transition from IAS 18 to IFRS 15 has not had a material impact on the Group's financial statements and comparatives for 2017 financial year do not require restatement.

IFRS 9 Financial Instruments

The new standard is based on the concept that financial assets should be classified and measured at fair value, with changes in fair value recognised in profit and loss as they arise, unless restrictive criteria are met for classifying and measuring the asset at either amortised cost or fair value through other comprehensive income. The PSR's own financial instruments (Trade Receivables), whose classifications are not affected by the adoption of IFRS 9, are held at amortised cost.

The PSR has applied the simplified approach to impairment of financial assets by providing for expected credit losses on trade receivables as described by IFRS 9. This requires the use of lifetime expected credit loss provision for all trade receivables. These provisions are based on an assessment of risk of default and expected timing of collection, and an allowance for loss is made for potentially impaired receivables during the year in which they are identified based on a periodic review of all outstanding amounts. Allowance losses are recorded within administrative costs in the Statement of Comprehensive Income.

Due to the nature of its financial instruments, the transition from IAS 39 to IFRS 9 has not had a material impact on the PSR's financial statements and comparatives for 2017 financial year do not require restatement.

c. 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 2018 £'000	Total 2017 £'000
Loss for the year from operations		(3,005)	(626)
Adjustments for:			
Interest received on bank deposits		(42)	(46)
Operating cash flows before movements in working capital		**(3,047)**	**(672)**
Increase in receivables	7	(21)	(15)
(Decrease)/increase in payables	8	(693)	6,382
Net cash (used)/generated by operations		**(3,761)**	**5,695**

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 and is recognised in the year it is levied and measured at fair value.

	Total 2018 £'000	Total 2017 £'000
Fee income	7,809	10,208
Interest on bank deposit	42	46
Other income	32	2
Total income	**7,883**	**10,256**

5. Staff information

Staff costs (including executive directors) comprise:

	Total 2018 £'000	Total 2017 £'000
Gross salaries and taxable benefits	5,503	4,816
Employer's national insurance costs	627	565
Employer's defined contribution pension costs	475	413
Permanent staff costs	**6,605**	**5,794**
Secondees	76	–
Contractors	515	1,293
Short term resource costs	**591**	**1,293**
Total staff costs	**7,196**	**7,087**

Staff numbers comprise:

The average number of full-time equivalent employees (including executive directors and fixed-term contractors) during the year to 31 March 2018 is presented below:

	Total 2018	Total 2017
Permanent staff	65	58
Short term resource	5	11
Total	**70**	**69**

As at 31 March 2018, there were 73 full-time equivalent employees (2017: 60) and 5 short-term resources (2017: 11).

6. Administrative costs

Administrative costs include:

	Total 2018 £'000	Total 2017 £'000
Professional fees	1,254	1,248
Accommodation and office services	823	798
Travel, training and recruitment	488	642
FCA staff recharges	654	634
IT costs	430	391
Other non-staff costs	43	82
Total	**3,692**	**3,795**

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 2018 £'000	Total 2017 £'000
Fees payable to the National Audit Office for the audit of the financial statements	20	22

7. Current assets

	Total 2018 £'000	Total 2017 £'000
Cash at bank	7,061	10,280
Cash deposits	2,500	3,000
Cash and cash equivalents	**9,561**	**13,280**
Prepayments and accrued income	35	25
Trade debtors	11	–
Total current assets	**9,607**	**13,305**

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.

8. Current liabilities

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

	Total 2018 £'000	Total 2017 £'000
Fees in advance	5,219	6,080
Trade creditors and accruals	1,136	1,002
Trade and other payables	**6,355**	**7,082**
Intragroup payable – FCA	866	832
Total current liabilities	**7,221**	**7,914**

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 (2017: 33).

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 2018 £'000	Total 2017 £'000
Short-term benefits	536	518
Post-employment benefits	40	–
Total related party transactions	**576**	**518**

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.

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

Transactions with the FCA

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

	Total 2018 £'000	Total 2017 £'000
Accommodation and office services	802	782
Staff costs	654	634
IT costs	430	351
Other costs	211	202
	2,097	**1,969**

As at 31 March 2018, the inter-company payable due from the PSR to the FCA is £866,000 (2017: £832,000) as set out in note 8 above.

10. Events after the reporting period

The financial statements were authorised for issue on the date of the Comptroller and Auditor General's signature.

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