

# The Payment Systems Regulator Ltd

## Minutes

Meeting:	PSR Board	
Date of Meeting:	27 November 2015	
Venue:	25 The North Colonnade, Canary Wharf, London E14 5HS	
Present:	Carole Begent	Hannah Nixon
	Amelia Fletcher	Sir Brian Pomeroy (via telephone)
	John Griffith-Jones (Chair)	Christopher Woolard
In attendance:	Set out in Annex A	

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### Quorum and Conflicts

The Meeting noted there was a quorum present and proceeded to business.

### 1 Minutes and Matters Arising

#### 1.1 Minutes of the Board meeting held on 30 September and 22 October 2015

The minutes of the Board meeting held on 30 September and 22 October 2015 were approved as a correct record of the meetings.

#### 1.2 Matters arising

The Board noted the progress in respect of the matters arising from previous meetings.

John Griffith Jones reported that he was exploring the possibility of recruiting an additional non-executive director with relevant expertise. He expected that if this went ahead the process would begin in the new year and the specification would be circulated to the PSR Board. Discussions would also be held with the FCA Board and the Treasury.

#### 1.3 Minutes of the ExCo meetings held on 9 September 2015, 22 September 2015, 6 October 2015 and 20 October 2015

The Board noted the minutes of the ExCo meetings.

### 2 Board Committee Reports

The Board noted that the Audit Committee had considered the audit planning report on the 2015/16 financial statement audits for the PSR. The Board also noted that the Remuneration Committee had reviewed the objectives of the executives on the PSR Board.

### 3 Report from the PSR Panel

The Board received and discussed the report from the Panel. The Board noted the following:

- the PSR and PSR Panel had been working closely to get the right balance to enable meaningful and appropriate involvement of the Panel;
- the Panel had expressed an interest in further engagement outside of scheduled meetings. Hannah Nixon and Stephen Locke were asked to consider appropriate engagement with the PSR Panel;
- the planned effectiveness review of the Panel. The Board agreed to invite Stephen Locke to the Board to present the findings of the review;
- the work of the Panel in relation to payment systems. It was noted that this work was also relevant to the FCA and consideration should be given to how the FCA and PSR Panels could work together to consider cross-cutting payment services matters;
- the relationship between the PSR Panel and the Payment Strategy Forum was being developed. The Board agreed to invite Ruth Evans, the newly appointed Chair, to a future meeting.

#### **4 Report from the Managing Director**

The Board received and discussed the report from the Managing Director and noted the following points:

- the PSR was operating in an increasingly mature state and fully dispatching its core functions;
- the momentum and strategic thinking in the payments industry was increasing as a result of the engagement by the industry and also the PSR's involvement;
- the approach to risk and Second Line of Defence to the PSR. The PSR Board would continue to review PSR risks; and
- the changing governance structure at LINK.

#### **5 Specific items of business**

##### **5.1 Senior Managers Regime**

The Board considered the individual statements of responsibility and the responsibilities map, which would be developed and considered alongside the FCA's Senior Managers Regime.

##### **5.2 PSR 2016/17 PSR Work Programme and Annual Plan for 2016/17**

The Board considered the details of the PSR's proposed 2016/17 work programme and annual plan to deliver against agreed objectives and the following points were noted:

- The PSR had demonstrated its commitment to the better regulation agenda in 2015/16 through proportionate, evidence-based regulation and would continue this in 2016/17;
- The PSR would work with the Better Regulation Executive and HM Treasury to demonstrate that PSR's work was pro-competition;

- Proposed projects for 2016/17 would be based on the broad themes of promoting competition and innovation, building on the PSR's first year and the PSR Business;
- Where appropriate, there should be joint working between the FCA and PSR on matters of shared relevance; and
- The handling of market sensitive information in the PSR Annual Plan would be consistent with the procedure followed by the FCA.

Following discussion, the Board was content with the direction of Plan and approved the PSR Work Programme and Annual Plan for 2016/17, subject to confirmation of working assumptions by the FCA. The final Annual Plan incorporating the Work Programme and the Budget would be submitted to the Board for final approval in January. The Annual Plan and the Budget would be submitted to the FCA Board for approval in February.

### 5.3 PSR 2016/17 Fees

The Board considered the methodology for how PSR fees were raised in 2015/16 and noted that in 2016/17 the PSR would have functions in addition to those set out in FSBRA. These would be functions under the Interchange Fee Regulation (IFR), which would come into effect in December 2015, and the Payment Accounts Directive (PAD), which would come into effect in mid-2016.

The Board agreed the following proposals should be consulted on:

- The PSR's FSBRA annual funding requirement would be allocated using the same methodology used in 2015/16 of equally allocating fees across all FSBRA regulated pan-UK payments systems, and using the same fee calculation and collection methodology with operators acting as collection agents and billing their payment service providers (PSP) direct members, acquirers and card issuers operating in the UK. Fees invoiced by operators were to be based on PSP's relevant UK transaction volumes realised through each regulated payment system, or shareholdings in the operator in the case of Northern Ireland Cheque Clearing;
- For the PSR's IFR annual funding requirement, allocation to individual IFR card payment systems will depend on the scale of the relevant UK presence of each card payment system subject to the IFR, with three tiers based on UK transaction volumes:
  - for large IFR card payment systems, a similar method would be used for allocation of the PSR's IFR Annual Funding Requirement (AFR) as that used in 2015/16 for the FSBRA AFR, namely equal allocation across all the relevant card payment systems;
  - an adjustment, where card payment systems with limited UK presence would each pay a modest flat fee of 0.5% of the IFR AFR;
  - for IFR card payment systems with very limited UK presence, no PSR IFR fee would be levied on the system or its participants;
- the minimum threshold used in 2015/16 for FSBRA card systems would be used in 2016/17 for both FSBRA and IFR card payment systems, and would apply to individual acquirers and card issuers operating in the UK – below the minimum

threshold. An acquirer or card issuer is exempted from paying the relevant PSR fee for participation in that FSBRA or IFR card payment system.

The Board noted that based on the current PAD draft statutory instrument, the PSR would be permitted to recover fees for its work under PAD only from the relevant switching scheme operators, and that a consultation on PAD fees would take place in 2016.

The Board delegated authority to the Managing Director to make any final changes to the 2016/17 PSR fees consultation paper before publication.

#### 5.4 Infrastructure Market Review: Initial Findings

The Board considered the summary of responses from the infrastructure market review and the initial findings and emerging issues.

#### 5.5 Indirect Access Market Review: Initial Findings

The Board considered a summary of the findings of the market review to develop a deeper understanding of the supply of indirect access to interbank payment systems.

#### 5.6 Interchange fee regulation

The Board reviewed a paper outlining the proposed approach to publishing the draft Guidance alongside a consultation on the PSR's approach to monitoring and enforcing compliance with the IFR. The Board noted the PSR's role as a competent authority for the Interchange Fee Regulation (IFR) and that some IFR provisions come into force on 9 December.

The Board considered the proposal and associated risks of the proposals in the supporting papers and agreed:

- the publication of a consultation and draft Guidance before 9 December;
- the better view of the law was that commercial cards were those that were paid off directly from the employer's bank account and the PSR's Guidance should reflect this; and
- the better view of the law was that the Diners Club International scheme was a four-party scheme and was subject to the interchange fee caps, and the PSR's Guidance should reflect this.

The Board noted that the above decisions would not affect the consultation on IFR fees allocation for 2016/17.

#### 5.7 Competition between Operators

The Board considered a paper on the potential for competition between interbank operators. It noted the key findings and principles and the specific characteristics of these operators. The Board noted the following:

- the greatest potential gains from competition in payment systems were at the infrastructure level;

- different arrangements at operator level under which competition between infrastructure providers could be facilitated; and
- potential for competition between operators, alongside the work on collaboration and consolidation would be taken forward by the Payments Strategy Forum.

The Board supported the principles in the paper and requested that “facilitating direct access to markets” be added as an additional principle for competition between interbank operators. The Board agreed that the PSR should take a neutral stance on the future number of interbank operators and the specific characteristics of those operators subject to the developments being consistent with those principles.

## **6 For information**

### **6.1 Consumer Redress**

The Board noted the report and the on-going dialogue with the FCA about the arrangements for consumer protection and in particular to the extent to which there was a cascade of liabilities through the system. The Board emphasised the need for all forms of failure to be covered under consumer redress.

The FCA and PSR were asked to continue to discuss the arrangements to reach an agreement.

### **6.2 Minutes of the PSR Away Day held on the 30 September 2015**

The Board noted the minutes of the PSR Away Day held on the 30 September 2015.

## **7 Decisions of the Board**

The Board noted the decisions made outside the meeting in relation to the Interchange Fee Regulation.

## **8 Any Other Business**

The Board discussed whether the governance arrangements for approving market reviews remedial actions were appropriate and agreed that the different options to do this should be considered.

Assistant Company Secretary

**Annex A: Attendees**

Louise Buckley	Head of Department, PSR
Dora Guzeleva	Manager, PSR (items 5.1-9)
Nancy Johnson	Manager, PSR (items 5.3 and 5.5)
Jana Mackintosh	Manager, PSR (item 5.5)
Claire Strong	Deputy Company Secretary
Grahame Tinsley	Manager, PSR (item 5.2)

Relevant associates and technical specialists also attended the meeting.