

comments in relation to PSR Stakeholder Survey and Consumer Research and that a more in-depth review of the feedback would be provided in the next Managing Director's report.

4 Report from the Managing Director

4.1 The Board received and discussed the report from the Managing Director.

- There had recently been good engagement with a range of key stakeholders including the Economic Secretary to the Treasury. A clear and consistent message had been that the PSR was having a positive impact on its regulatory space and it was hoped that the momentum would continue.
- An update was provided on the meetings held by the PSR Managing Director and Chair with the CEOs of retail banks regarding the work of the PSR. The general message was one of support and approval, and a recognition that a lot more work needed to be done on the detail. Some concerns were raised with respect to interaction with the ring-fencing project, but most agreed that the onus was on the banks to work through timing and synergies. The Board discussed the possible impact of the project on the PSR, including the changes to sort codes that the project would entail.
- The Board was provided with an update of the current status of the People Programme.
- The PSF was to publish its final strategy on the 29 November. It was noted that the strategy was in line with the draft published in July, although in some areas more details had been added. It was further noted that the PSF had agreed on the key aspects of the New Payments Architecture (NPA) although the method of delivery was still to be decided.
- A number of "Thought Leadership" discussion lunches on competition vs. collaboration, and innovation had been held with positive results. Participants had included representatives of industry, businesses, academia, and policy makers. The aim had been to stimulate thinking and debate.
- The Mastercard/VocaLink merger had been referred to the Competition and Markets Authority (CMA). The CMA's Phase 1 consultation in October had elicited a large number of responses which could mean a more detailed Phase 2 investigation with a decision not likely until June 2017.
- The Board noted that improving the Governance of Current Account Switching Service (CASS) was one of the remedies identified in the CMA's Retail Banking Market Investigation. Work was being done with the CMA and Treasury to enable effective monitoring and oversight of CASS performance by the PSR, against CASS's undertakings to the CMA and the Key Performance indicators agreed with HMT.

5 Specific items of business

5.1 Payments Strategy Forum (PSF) – Payment Systems Operator Consolidation and the New Payments Architecture.

The Board considered the issues around Payment Systems Operator (PSO) consolidation, as well as the New Payments Architecture (NPA) vision, including the options for the size and structure of any central infrastructure, e.g. a fully distributed model or a model with some centralised infrastructure. The Board discussed the different possible degrees of infrastructure centralisation ("thick" or "thin" model) and the risks around a monopolistic provider in the centre, as well as the scope for

competition for overlay services such as direct debit. The Board discussed the potential impact of each option on competition, innovation, and services users. The Board also noted the interaction with the proposed remedies for the Infrastructure Market Review

The Board was advised that the PSF's stakeholder consultation on PSO consolidation had indicated widespread support for the proposed consolidation, including from small 'challenger' banks and fintechs.

The Board noted that a PSO Delivery Group, comprising a representative range of stakeholders and an independent Chair, would develop recommendations on the design of the PSO consolidation and an implementation plan. The PSR (through a co-ordination group with the Bank of England) would have regular engagement with the PSO Delivery Group to ensure that the consolidated PSO's operating principles and objectives were aligned to the PSR's regulatory objectives.

The Board agreed in principle to support the PSO consolidation subject to the final consolidation proposals being effectively designed and implemented to deliver the benefits identified (including those resulting from the NPA), and not being inconsistent with competition law, and the PSR objectives.

5.2 Payments Strategy Forum (PSF) – the proposed process

The Board discussed the proposed process for the PSF, and requested that the PSR Executive ensure that the directors are kept informed of any signs of emerging problems as soon as they are detected.

5.3 PSR draft annual plan and budget and follow up from the Board away day

The Board reviewed a paper identifying the key themes and priorities that will form the basis of the PSR's annual plan and budget for 2017/18.

It was noted that a draft Annual Plan and Budget 2017/2018 would be submitted to the January 2017 Board meeting for formal approval followed by final sign-off in March 2017.

5.4 Infrastructure Market Review – remedies consultation sign off

The Board considered the consultation on the Infrastructure Market Review (IMR) remedies. The Board noted that the consultation comprised two remedies: Competitive Procurement (for BACS, Faster Payments System (FPS), and LINK) and Messaging Standards (for BACS and FPS) (IMR Remedies). It also included further analysis on the ownership of VocaLink and the proposed MasterCard/VocaLink merger. The Board noted that together these aimed to promote effective market competition in the provision of central infrastructure services.

The Board considered the consultation and discussed the merits of the measures proposed and their potential impact on competition.

In relation to Messaging Standards, the Board considered what the impetus would be for all Payment System Providers (PSP) to adopt ISO20022 as the common messaging standard, and noted that there would not be any regulatory or mandatory requirement. It was envisaged that all PSPs would have to move to a common messaging standard to enable full functionality, which would likely only happen if required by the PSF, or otherwise. It was also noted that the Bank of England would be adopting ISO20022 for its Real Time Gross Settlement system (RTGS), the next generation, which could be a further encouragement for PSPs to move to this.

The Board noted that the Bank would remain in close contact with PSR and the PSF on both the RTGS and NPA projects to manage risks, including in relation to design

competitive tendering, transition, and settlement methodology and options. The Bank stressed the importance of ensuring that any new retail payments infrastructure could continue to settle effectively in central bank money. Given that the Bank's own systems were shortly to be rebuilt a lot of work would have to be done in a short time for the NPA to interact with the Bank effectively.

Following due consideration, the Board approved the:

- a) remedies consultation, and
- b) delegated authority to Paul Smith to sign-off the final draft of the Consultation Paper including any changes discussed at this meeting.

5.5 Discussion of risks and review of operation of the 1st and 2nd line of defence

The Board noted and discussed the risks outlined in the Strategic Risk Register including the risk appetites, and the operation of PSR's 1st and 2nd lines of defence. The following points were noted:

- Management of innovation risks had progressed well with positive feedback from PSF and stakeholders.
- The Board was concerned with and queried how PSR managed cyber risks to payment systems and its operational structure. Ms Nixon explained that a report on Cyber Security, robustness, and effectiveness of checks and balances had been produced in the past in conjunction with the Bank and FCA, and agreed to provide an updated report to the January 2017 Board meeting.
- The Board discussed the potentials risks relating to the PSF and PSO consolidation and requested that a risk dashboard together with a project plan outline is provided at the January 2017 Board meeting.

5.6 Senior Managers Regime responsibility for risk oversight in the PSR

The Board was requested to consider and if thought fit, approve the appointment of Louise Buckley as the named person responsible for the provision of PSR risk and compliance oversight for the purposes of the Senior Management Regime (SMR) which had been adopted by the PSR.

Following due consideration, the Board approved the appointment subject to:

- a) Ms Buckley having a dotted reporting line to the PSR Chair to raise issues and concerns;
- b) The Chair's right to consult and raise any concerns with Barbara Frohn, Fod Barnes and Magnus Falk;
- c) Fod Barnes continues in his advisory capacity, and
- d) Ms Buckley's regular engagement with Barbara Frohn, and the ability to draw on FCA's resources as required, and
- e) Ms Buckley undertaking the training and support as recommended by the Board.

5.7 Which? Super complaint

The Board received a report on the Super complaint received from Which? and the key considerations and components of the proposed response.

The Super complaint concerned how the banks and other providers could better protect customers who were scammed into making authorised push payments to fraudsters. Which? had requested PSR to consider the banks' scope to change their conduct and possible changes to legislation, which could incentivise banks and PSOs to better manage scam risks.

The Board noted that Which? had proposed two remedies: make banks liable for losses in the absence of fraud or gross negligence by the consumer, or introduce mandatory standards of risk management at the point of execution of authorised push payments, of which failure to meet would make the banks liable for losses. Both remedies meant that banks would have to reimburse consumers (although under different circumstances).

Since receiving the complaint, PSR Executives had engaged with Which? and a number of stakeholders, including banks, to gather information on the scale of the consumer harm and ascertain current best practice in relation to the execution of authorised push payments.

The Board considered and discussed the key aspects, and the focus of the proposed response including any potential developments in legislation and technology that could help address the issue. The Board then requested that a report on the scale of the potential fraud be provided at the meeting in December at which the PSR response to the Which? Super complaint would be considered.

6 Papers for noting

- 6.1 The Board noted the PSR ExCo minutes of 5 July 2016.
- 6.2 The Board noted the forward agenda.

There being no further business, the meeting closed.

Marion Ameresekere
Assistant Company Secretary

Annex A: Attendees

Marion Ameresekere	Assistant Company Secretary
Simon Pearce	Company Secretary
Louise Buckley	Head of Department, Communications and Operations
Paul Smith	Head of Department, Regulatory Strategy and Policy
Fod Barnes	Senior Advisor, Risk & Compliance Oversight (for item 5.5 & 5.6)
Philippa Broadway	Manager, Early Intervention (for item 5.7)
Dora Guzeleva	Manager, PSR (items 5.1, 5.2 & 5.3)
Andrew Hauser	Executive Director for Banking, Payments and Financial Resilience, Bank of England (for item 5.4)
Jana Mackintosh	Manager, PSR (item 5.1)
Toby Parker	Manager, PSR (items 5.1 & 5.7)
John Spicer	Manager, PSR (item 5.4 & 5.7)
Grahame Tinsley	Manager, PSR (item 5.3 & 5.6)

Relevant associates and technical specialists also attended the meeting