

Payment Systems Regulator Annual Report and Accounts 2014/2015



Payment Systems Regulator

Annual Report and Accounts 2014-2015
(for the year ended 31 March 2015)

Presented to Parliament pursuant to paragraph 8(3) of Schedule 4 of the
Financial Services (Banking Reform) Act 2013

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HC 165

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Foreword

1 April 2015 saw the Payment Systems Regulator become fully operational, after an intense period of consultation and preparation. It is now time to move forward and to create real change in the payments industry.

The PSR has already shown it can listen to a wide range of voices and we thank the many people and organisations who have contributed so far. The policy statement showed our ambition to use these different views to encourage co-operation, promote effective competition and support innovation, while giving clear direction about the future of the industry.

I look forward to seeing the further fruits of this strong start and to reporting on how the PSR will make payment systems work well for those that use them.



John Griffith-Jones
Chairman

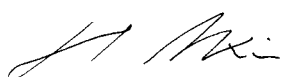


The past year has been one of concentrated activity: we have put an expert team in place and created policies, processes and our regulatory framework. We have consulted widely – both with the industry and with the people and organisations that use payment systems. And, on April 1 2015, we became a fully-fledged, independent economic regulator, and concurrent competition authority.

It is now time to fulfil our purpose and make payment systems work well for those that use them. It is an important purpose: from consumers making purchases or receiving their salary or pension, to major institutions transferring large sums of money, payment systems touch everyone – it is vital they are accessible, reliable, secure and value for money.

I am confident we can open up the industry to new players and encourage innovation which consumers and organisations will value, while promoting their interests. I believe we have the right team and the right framework in place to do this well – although, of course, we will continue to develop both.

I am proud of the work reflected in this report and, along with my team, I look forward to the task ahead of us and the undoubted challenges to come.



Hannah Nixon
Managing Director



Introduction

This is our first Annual Report. It reports on our progress for the year 2014/15, a period of intense consultation and activity which saw us becoming fully operational on 1 April 2015.

Our work in 2014/15 was very much focused on creating an effective regulator, with the right policies, processes and people in place to carry out our work well from our first day of operation. From our statutory objectives we have set our priority activities, using the information we gathered from consulting with the industry and the people and organisations that use payment services to do this.

As we are now fully operational, it is natural that we'll see a change of focus – from effective set-up to effective regulation. The work carried out in 2014/15 has given us a strong foundation to work from, guided by our overall objectives of promoting competition, innovation and the interests of service-users.

HM Treasury designated 8 payment systems: Bacs, C&C (Cheque & Credit), CHAPS, Faster Payments Scheme (FPS), LINK, Northern Ireland Cheque Clearing (NICC), MasterCard, Visa Europe (Visa)



FCA's call for input:
payment systems regulation

Initial engagement event



Engagement

5 workshops:

Regulatory approach, Access, Infrastructure, Governance & Innovation

2 questionnaires:

Access to interbank payment systems & Access to card payment systems



Objectives set in statute

- Promote competition
- Promote innovation
- Promote the interests of service-users

PSR Panel: panel of industry experts that contributes towards the effective development of PSR strategy and policy – is one of the PSR's statutory requirements



Consultation

CP 15/1: *PSR Competition concurrency guidance*: we consulted on procedural guidance relating to our competition powers.

PSR is fully
operational



Consultation

CP 14/1: *A new regulatory framework for payment systems in the UK*: we set out our proposed approach to regulating payment systems that have been designated by HM Treasury

Policy work programme

- Market review into the supply of indirect access to payment systems
- Market review into the ownership and competitiveness of infrastructure provision
- Card payment systems programme of work
- Payments Strategy Forum
- Implementation of our access and governance directions



Policy statement

PS 15/1: *A new regulatory framework for payment systems in the UK*: confirmed how we will regulate the payment systems industry from 1 April 2015, and reports on the main issues arising from Consultation Paper PSR CP 14/1



Continue building
our organisation



Ready to regulate

To build a Payment Systems Regulator (PSR) that was ready to regulate from April 1 2015, last year we focused on:

- our people
- our processes
- our policies.

Our people

Our senior leadership team is complete, with our last appointee joining us on 1 April 2015. Together our senior team brings a wealth of experience, expertise and enthusiasm to take our ambitious plans forward.

As at March 2015, we have recruited 33 full-time equivalent employees, short of our target of 50. We have filled the gap with temporary resource and consultants, which is reflected in higher than expected people costs. We are working hard to recruit the rest of our team, but equally will not compromise on the level of skills and competencies needed within the organisation.

Our processes

Transparency is important to us: we have consulted widely and drawn on sector best practice to develop clear, fair processes to support our work.

We have created separate processes for **complaints** about a breach of regulatory directions, rules or competition rules and **disputes**, with clear criteria which must be met before we investigate. We have published our **freedom of information** process on our website. We have created a process for **complaints about the PSR**, with an independent complaints commissioner.

We have set up the PSR Panel, made up of 17 industry experts drawn from operators, providers and organisations that use payment systems. They offer advice and early input, working together to help us meet our objectives.

Our policies

In the run-up to becoming fully operational, a great deal of effort and energy went into engaging our stakeholders. That focus has continued as we work to develop our policies.

Substantive consultation and engagement helped us create our policy statement, published in March 2015. It was the first time such a comprehensive set of measures had been developed to improve competition, innovation and address the needs of the people and businesses who use payment systems and the services they support. We believe it is an important step towards giving the UK's companies and consumers the world-class payment systems they deserve.

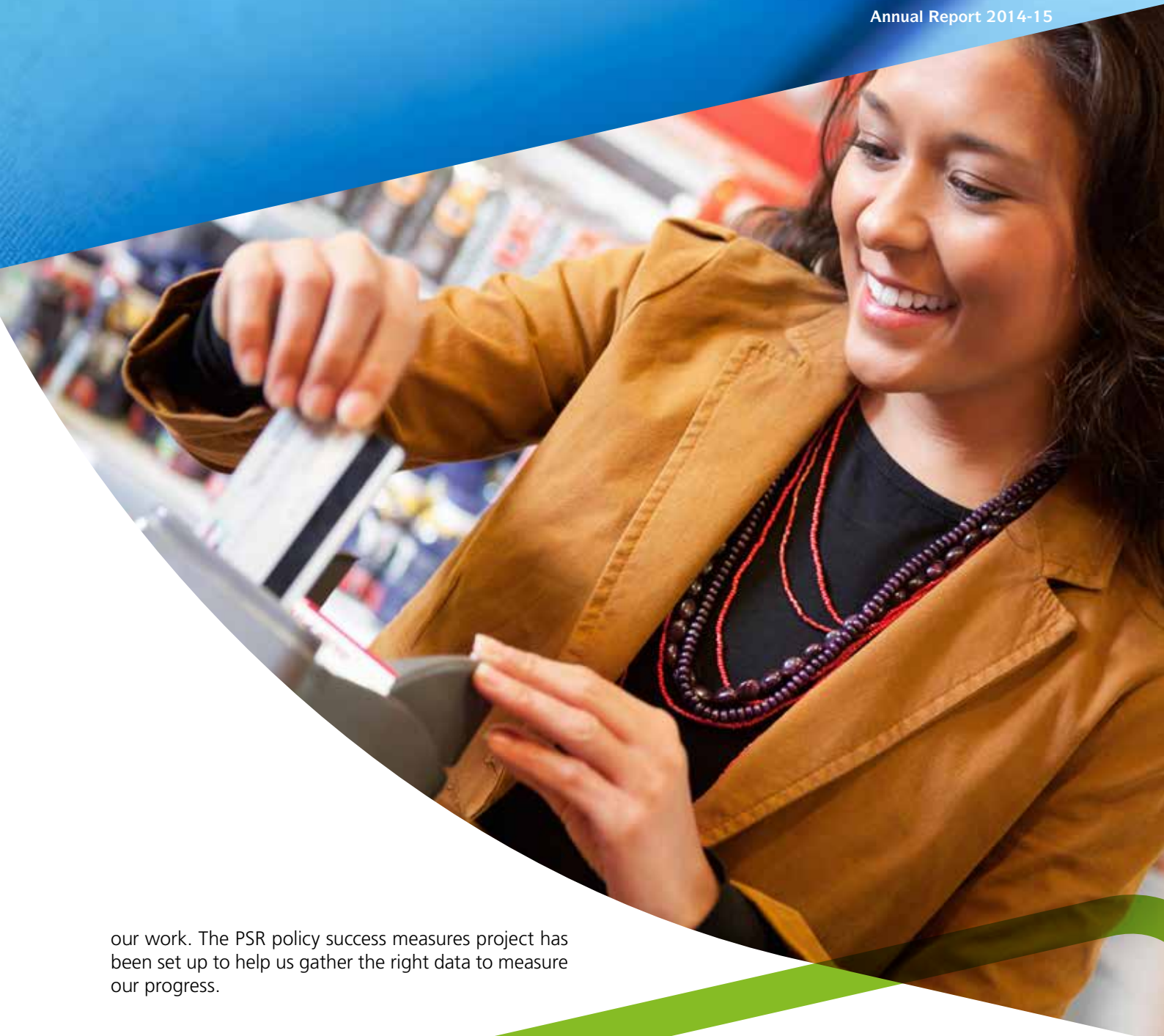
We have also made progress on a number of our priorities:

- In March 2015, we consulted on draft terms of reference for two market reviews
- We have started the consultation process on procedural guidance relating to our concurrent competition powers
- We have worked with the FCA to consult on our fees.

You can find more information on our website.

Our Annual Plan and Budget 2014/15 described the workstreams set up to develop our regulatory framework and initial priorities. As that work is now complete, the way we organise our people and our work has changed – our policy work programme has more detail on this and our priorities for the year ahead.

To be transparent, we must gather evidence to show how well our policies and approach work. This is important for the industry we regulate, the people and organisations which use payment systems and services and the continuing development of our people and



our work. The PSR policy success measures project has been set up to help us gather the right data to measure our progress.

In our Annual Plan and Budget 2014/15 we explained we would regulate UK payment systems which were 'designated' by the Treasury. The Treasury designates a system based on legislative criteria set out in the Financial Services (Banking Reform) Act 2013. Broadly speaking, these criteria allow the Treasury to designate any payment system that is of significance to the UK payments market and in particular those consumers and businesses who use the services provided by those payment systems. Designation takes into account the volume and value of transactions the system processes, and the extent to which other systems rely on it for their own operations. Taken as a whole, these criteria ensure the PSR only regulates those

systems whose deficiencies or disruption would have the greatest impact on service users.

We now regulate the main interbank payment systems in the UK: Bacs, CHAPS, Cheque & Credit, Faster Payments Scheme, LINK and Northern Ireland Cheque Clearing, as well as those of MasterCard and Visa Europe, the two largest card payment systems in the UK. We will undertake reviews of the markets for payment systems and services and will assist the Treasury in ensuring that appropriate payment systems are designated and therefore regulated. We now hold full competition powers in relation to the participation in any payment systems in the UK.

Objectives and priority activities



Promote competition

Looking forward

Our aims and priorities were published in our indicative policy work programme on 1 April 2015. The consultation and planning of 2014/15 informs the decisions we have made about our focus and advancing our objectives.

Our objectives and priority activities

Promote competition

- Market review into the supply of indirect access to payment systems
- Market review into the ownership and competitiveness of infrastructure provision
- Code of conduct for indirect access to UK payment systems
- Card payment systems programme of work
- Regulatory directions on access
- Finalise guidance on how we will exercise our concurrent competition powers, and how we will carry out our regulatory market reviews
- Setting up decision making committees (Competition Decisions Committee and Enforcement Decisions Committee)

We published draft terms of reference for both market reviews on 25 March 2015.

Industry is developing a code of conduct for indirect access to UK payment systems, and we expect to see it in place by 30 June 2015, coming into full effect by 30 September 2015.

Our card payment systems programme of work will review the impact of the new European Interchange Fee Regulation and work with the Treasury to monitor and enforce it.

Access is important, both in terms of new entrants to the industry and how the industry involves users in decision making. We are also working with industry to implement our access and governance directions and policies. We will then evaluate the effectiveness of our initial set of directions.

The enforcement of competition law will form an important part in our work promoting competition. We will be finalising our guidance and processes in relation to this work in the next year.

Promote innovation

- Payments Strategy Forum

A working group was set up and has developed the terms of reference for the Payments Strategy Forum.

In addition, much of our work detailed under 'promote competition' is aimed at reducing barriers to innovation.

Promote the interests of service-users

- Conducting investigations
- PSR Panel

Promote innovation



Promote the interests of service-users



- Regulatory directions on governance

The PSR Panel is made up of 17 industry experts drawn from operators, providers and organisations that use payment systems. They offer advice and early input, working together to help us meet our objectives.

We have issued six general directions, covering relationships with the PSR, access, and governance of regulated payment systems.

More information about our key aims and activities can be found in our Annual Plan and Budget 2015/16.

Working with other regulators and competition authorities

A number of authorities regulate the organisations that make payment systems work, notably the Bank of England, the Prudential Regulation Authority and the Financial Conduct Authority. We have developed and published a Memorandum of Understanding with these organisations.

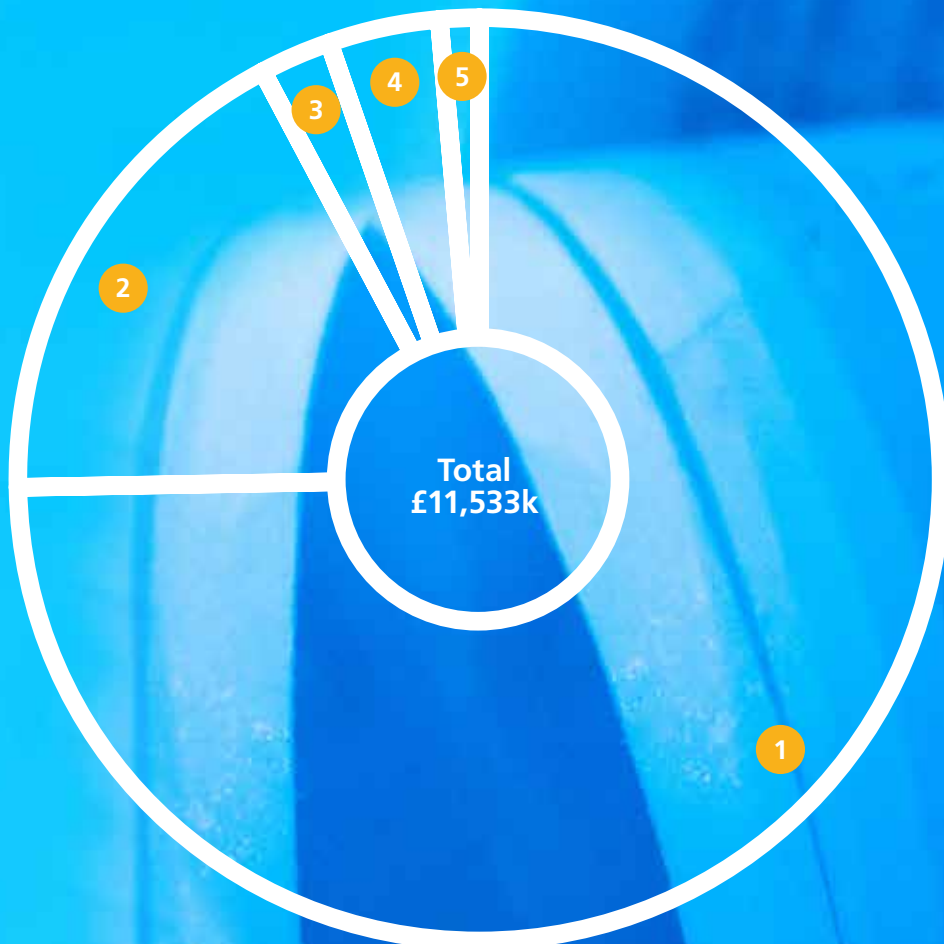
We published a joint research paper with Ofcom on payment innovation in November 2014, and now participate in the UK Competition Network and the UK Regulators' Network.

For 2015/16, our priorities include developing a second Memorandum of Understanding with the Competition & Markets Authority.

Strategic Report

- 1 Staff costs
£8,641k
- 2 Professional fees
£2,163k
- 3 Information systems costs
£270k
- 4 Accommodation
and office services
£404k
- 5 Other non-staff costs
£55k

Analysis of performance during the year



The Financial Services (Banking Reform) Act 2013 set out the creation of the Payment Systems Regulator (PSR) and details our statutory objectives. The PSR was incorporated on the 1 April 2014 as a wholly-owned subsidiary of the FCA, incurring set-up costs of £11.5m. The PSR became fully operational on 1 April 2015.

Business model

The PSR is the new independent economic regulator for the £75 trillion payment systems industry in the UK. Our purpose is to make payment systems work well for the people and organisations that use them and the services they support.

Based in the same building in Canary Wharf, we have shared the FCA's resources and infrastructure wherever appropriate. A Provision of Services Agreement exists between the FCA and PSR, which sets out services that are supplied by the FCA and the costs of those services.

The fees for the PSR have yet to be levied. Until it does the PSR continues to be funded by the FCA.

Staff costs were our largest operating expense at £8,641k.

This included:

- £4,392k for **other staff costs** – the cost of FCA employees working on the set-up of the PSR
- £2,350k in **short term resources** – costs for contractors whilst we recruited permanent staff
- £1,899k in **permanent staff** costs.

As at March 2015, we had recruited 33 full-time equivalent employees, reducing our reliance on temporary staff from both the FCA and contractors.

We are working hard to recruit the remaining permanent employees needed to bring our team up to full strength, without compromising on the skills and competencies we need within our organisation.

Professional fees of £2,163k, consisted mainly of consultant costs during the PSR's set-up period.



Financial position at the end of the year

The PSR's **accumulated deficit of £11,533k** at 31 March 2015 is represented by an inter-company loan payable to the FCA of £11,032k, and the balance being amounts due to trade creditors.

We will recover our set-up costs through **fees paid in 2015/16** by the organisations we regulate. In late 2014, we supported the FCA's consultation on PSR fees and will report the conclusions of this in due course.

Principal risks and uncertainties facing the PSR

The PSR's key risk is that payment systems will not work well for the people and organisations that use them. The PSR's Annual Plan and Budget 2015/16 sets out its key risks below:

- Payment systems are not open, transparent and accessible;
- Payment systems are not fast, easy to use, secure, reliable and value for money;

- Payment systems are not responsive to current and future needs and do not promote innovation and competition;
- There is no improvement in the representation of the people and organisations that rely on services provided by payments systems;
- Payments systems do not function in the best interests of the people and organisations that use them and the services they support.

Other key risks

The PSR and FCA have shared key risks:

- **Internal Operational Risk:** Like any organisation, the PSR faces significant operational risks which may result in financial loss or disruption. This can result from human factors (people risks); inadequate or failed internal processes, governance or systems including the availability, resilience and security of our core IT systems;
- **Reputational Risk:** The risk of damage to the reputation of the PSR where it limits or impacts the organisations' credibility and constrains their ability to deliver against their objectives; or reputational risk arising from inappropriate judgements, decisions and actions taken (or inaction) perceived by stakeholders as inappropriate;
- **Environmental Risk:** The risk in the operating environment for the PSR, in particular, political, legislative or socio-demographic change.

The key financial risks (liquidity, credit, counter-party and final salary pension scheme risk) are set out in more detail in the following section.

Going Concern

The PSR does not currently have its own credit facilities and is dependent on the FCA to fund its operations. The directors have considered the following risks and uncertainties in assessing the PSR as a going concern.

1. Liquidity risk: The PSR's liquidity risk can be assessed by looking at the following three key areas:

- a. the FCA's strong fee covenants are underpinned by the statutory powers granted to it to raise fees to fund its and the PSR's regulatory activities. Of the firms on which the FCA currently levies its fees, the top **one hundred** are responsible for 53.9% of those fees;
- b. the FCA's current liquidity position reflects the fact that it is funding cumulative scope change costs for consumer credit (£44.9m) and the PSR (£11.5m), which will start to unwind from 2016/17 for consumer credit and in 2015/16 for the PSR as its set-up costs are recovered from its fee-payers;
- c. the FCA is well placed from a liquidity perspective, with an available overdraft facility of £50m.

2. Credit risk: The PSR's credit risk falls into two main categories:

- a. the collection of fees from the payment systems industry: the FCA has a strong record in terms of collecting fees with bad debt experience averaging less than 0.2% of fees receivable over the last three years; and
- b. the placement of those fees as deposits with various counter-parties: the FCA only invests with financial institutions that meet its minimum credit rating as assigned by credit rating agencies. The FCA also spreads its deposits across a number of counter-parties to avoid the concentration of credit risk.

3. Significant Accounting Judgements and Key Sources of Estimate Uncertainty:

There are no significant accounting judgements for the directors to consider at this early stage in the PSR's operations.

Having regard to the above, it is the directors' opinion that the PSR is financially dependent on the FCA presently and for the foreseeable (short to medium term) future. However, the directors have concluded that the FCA is itself sufficiently well positioned from a liquidity perspective (with a £50m overdraft from Lloyds Banking Group) to be able to continue to support the operations of the PSR for the foreseeable future.

The directors therefore conclude that using the going concern basis is appropriate in preparing its financial statements as there are no material uncertainties related to events or conditions that may cast significant doubt about the PSR's ability to continue as a going concern.

By Order of the Board

S Pearce
Secretary
18 June 2015

Directors' Report

The directors present their report for the year ended 31 March 2015.

The directors use the Strategic Report (page 12) to explain how they have performed their duty to promote the success of the Payment Systems Regulator (PSR) under section 172 of the Companies Act 2006.

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; and
- 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 disclose, 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; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and distribution of financial statements may differ from legislation in other jurisdictions.

Qualifying indemnity provisions

Qualifying third party indemnity provisions for the purposes of section 232 of the Companies Act 2006 were in force during the course of the financial year ended 31 March 2015 and remain in force at the date of this report.

Auditor

The Financial Services (Banking Reform) Act 2013 requires the Company's accounts to be examined, certified and reported on by the Comptroller and Auditor General. Accordingly the National Audit Office was auditor throughout the year.

By Order of the Board

S Pearce

Secretary
18 June 2015

Corporate governance statement for the year ended 31 March 2015

The PSR is committed to meeting high standards of corporate governance and this report sets out how the PSR is governed in line with the principles of the UK Corporate Governance Code (the Code). The PSR Board considers that the PSR complies with the Code as far as it is appropriate during its first year of operation.

The PSR is funded by the payments industry through statutory fee-raising powers exercised by the FCA. It is independent of Government, but accountable to Government and Parliament through obligations set out in the Financial Services (Banking Reform) Act 2013. The PSR consults with users and participants on general policies and practices and how its objectives may be best achieved, including through engagement with the PSR Panel.

The PSR Board ensures the necessary financial and human resources are in place for the PSR to meet its statutory objectives. It provides leadership of the organisation within a framework of prudent and effective controls which enables risk to be assessed and managed. Membership of the PSR Board is stipulated by the Financial Services (Banking Reform) Act 2013 and, consistent with those requirements, is made up of:

- a chair, appointed by the Financial Conduct Authority (FCA) with the approval of HM Treasury
- a managing director, appointed by the FCA with the approval of HM Treasury
- four other members, who are all non-executive directors, appointed by the FCA.

Mary Starks was the interim managing director for the first three months of the reporting period until Hannah Nixon was appointed on 14 July 2014.

Aside from Hannah Nixon, all directors were appointed to the PSR Board with effect from 1 April 2014.

All directors were appointed for a three-year term. The managing director had a continuous employment contract with the FCA, subject to the following notice period:

Director	Notice period
Hannah Nixon	6 months

In order to discharge its duties effectively, the PSR Board met regularly during the year and details of the number of meetings held and attendance at those meetings are set out in Table 1.

Table 1

Board Attendance

Name	Scheduled PSR Board Meetings	Expiry of current term/date membership ceased
Amelia Fletcher*	9/9	31 March 2016
John Griffith-Jones*	8/9	31 March 2018
Hannah Nixon	7/7	13 July 2017
Brian Pomeroy*	9/9	31 March 2016
Mary Starks	2/2	14 July 2014
Martin Wheatley*	7/9	31 March 2016
Christopher Woolard	7/9	31 March 2017

*also a member of the FCA Board

There is a clear division of responsibility between the running of the PSR Board and the executive running of the organisation. John Griffith-Jones as chair, leads the PSR Board and ensures its effectiveness, and Hannah Nixon as managing director, is responsible for developing and delivering the strategic objectives agreed with the PSR Board.

The non-executive directors have a variety of skills and experience that are appropriate for the requirements of the PSR. Where a conflict of interest arose during the year, appropriate steps were taken to protect both the director and the PSR and to ensure that all decisions were taken without any suggestion of undue influence.

The chair and company secretary ensure that the PSR Board's agendas are set in line with the PSR's priorities. Papers for PSR Board and Committee meetings are normally circulated one week before meetings.

Each director has access to the advice and services of the company secretary, who also advises the PSR Board on aspects of governance matters. The company secretary is also responsible for providing access to external professional advice for directors if required.

During the year, the company secretary arranged an induction for new directors. Members of the PSR Board also received ongoing briefings on relevant issues.

Under Financial Services (Banking Reform) Act 2013, the PSR has the benefit of an exemption from liability in damages for anything done or omitted in relation to the exercise or purported exercise of its statutory functions. Accordingly, the PSR does not currently purchase Directors and Officers Liability Insurance.

The PSR was incorporated on 1 April 2014 and received its statutory powers on 1 April 2015. A full effectiveness review will be conducted one year after that date. Since incorporation the PSR Board has reviewed and amended its governance arrangements to ensure that it had clear oversight of risks to the PSR.

Governance and committee structure of the PSR

The PSR is a wholly owned subsidiary of the FCA. The PSR shares operational functions and operational support with the FCA via a services agreement and all PSR staff are employees of the FCA. This enables the functions of the PSR's Audit Committee and the Remuneration Committees to be carried out by the members of the Audit Committee and Remuneration Committee of the FCA in the context of the group. During the year, Brian Pomeroy was Chair of the FCA's Audit Committee and John Griffith-Jones a member of the FCA Remuneration Committee. Information on the issues considered by the Committees can be found in the FCA's Annual Report.

The PSR Board as a whole reviews the risks to the PSR on a regular basis. Further information on the principal risks and uncertainties facing the PSR can be found in the Strategic report (page 12).

Remuneration Report

This section of the Remuneration Report is not subject to audit.

The Remuneration Table (page 19), sets out the pay, incentives and other benefits for the directors.

The PSR follows the same remuneration principles as the FCA. The Remuneration Committee determined the remuneration of the Managing Director. To help with this, the Committee received information on,

and assessment of, their individual performance. Performance was measured against the achievement of the objectives by reference to the Business Plan, the objectives relating to the director's areas of responsibility and assessment of their leadership abilities. In considering executive remuneration, the Remuneration Committee took advice from the Director of Human Resources and market data from Towers Watson, its external consultants. Further information on the remuneration principles is available in the FCA's Annual Report.

Directors' remuneration

The following table is provided in accordance with statutory and/or regulatory requirements. The information set out on page 19 has been audited by the National Audit Office. The table sets out the remuneration paid or payable to the directors in respect of the year to 31 March 2015. Where directors have served for part of the year only, the remuneration figures are shown as pro-rated.

The Board of the PSR

John Griffith-Jones
Chairman



Hannah Nixon
Executive director



Remuneration Table

	Basic Salary 2015 £'000	Performance related pay 2015 £'000	Other benefits 2015 £'000	Total Remuneration (excluding pension) 2015 £'000	Pension 2015 £'000	Total Remuneration 2015 £'000
Chairman						
John Griffith-Jones ⁵	–	–	–	–	–	–
Executive Directors						
Mary Starks ¹	11	–	2	13	2	15
Hannah Nixon ^{2,3}	144	26	15	185	19	204

Full Year Equivalent
Fee awarded
2015
£'000

Non-Executive Directors

Amelia Fletcher ⁵	–
Sir Brian Pomeroy ⁵	–
Christopher Woolard ⁴	–
Martin Wheatley ⁵	–

Amelia Fletcher

Non-executive director

**Christopher Woolard**

Non-executive director

**Sir Brian Pomeroy**

Non-executive director

**Martin Wheatley**

Non-executive director

**Notes****Executive directors**

- Mary Starks was appointed as an executive director from 1 April 2014 to 14 July 2014. During this time Mary was an FCA employee working for the PSR one day a week. The remuneration she received for this is disclosed above.
- Hannah Nixon was appointed as an executive director (managing director) on 14 July 2014. The Remuneration Committee agreed her salary of £200,000 per annum with effect from 14 July 2014.
- Hannah Nixon is a member of the FCA's Pension Plan.

Non-executive directors

- Christopher Woolard was appointed a non-executive director of the PSR on 1 April 2014. He does not receive a separate fee for his services.
- John Griffith-Jones, Martin Wheatley, Amelia Fletcher and Sir Brian Pomeroy were all appointed non-executive directors of the PSR on 1 April 2014. They do not receive a separate fee for their non-executive director roles on the PSR Board. Their full remuneration is included in the FCA Annual Report.

Financial Statements

For the period ended 31 March 2015

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

I certify that I have audited the financial statements of the Payment Systems Regulator (PSR) for the year ended 31 March 2015 under the Financial Services (Banking Reform) Act 2013. The financial statements comprise: the Statements of Comprehensive Income, Financial Position, Cash Flows, Changes in Equity; and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the directors and auditor

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. My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services (Banking Reform) Act 2013. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. This includes an assessment of: whether the accounting policies are appropriate to the PSR's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the PSR; and the overall presentation of the financial statements.

Company Number 8970864

In addition I read all the financial and non-financial information in the Annual Report and Strategic Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income 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.

Opinion on regularity

In my opinion, in all material respects the expenditure and income 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.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the PSR's affairs as at 31 March 2015 and of the deficit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union;
- the financial statements have been properly prepared in accordance with the Companies Act 2006.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General

Date: 23 June 2015

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Statement of comprehensive income for the period ended 31 March

	Notes	Total 2015 £'000
Administrative costs ¹	3	(11,479)
Interest on borrowings		(54)
Net costs for year		(11,533)
Fee income		–
Total comprehensive loss for the year		(11,533)

¹ The 2015 figures includes pre incorporation costs of £886,766

Statement of changes in equity for the period ended 31 March

	£'000
At 1 April 2014	–
Total comprehensive loss for the year	(11,533)
At 31 March 2015	(11,533)

Statement of financial position for the period ended 31 March

Company Number: 8970864

	Notes	Total 2015 £'000
Current assets		
Cash and cash equivalents	5	1
Total assets		1
Current liabilities		
Trade and other payables	6	(502)
Intercompany payable	6	(11,032)
Total liabilities		(11,534)
Total assets less total liabilities		(11,533)
Accumulated deficit		(11,533)

The financial statements were approved and authorised for issue by the PSR Board on 18 June 2015, and were signed on its behalf by:

John Griffith-Jones Chairman

Hannah Nixon Managing Director

Statement of cash flows for the period ended 31 March

	Notes	Total 2015 £'000
Net cash used by operating activities	7	55
Investing activities		
Interest paid		(54)
Net cash used in investing activities		(54)
Net increase in cash and cash equivalents		1
Cash and cash equivalents at the start of the year		–
Cash and cash equivalents at the end of the year		1

Notes to the financial statements**1. General information**

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

The registered office is 25 The North Colonnade, Canary Wharf, London, E14 5HS.

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

2. Significant 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

i) New and amended standards adopted:

There are no new or amended IFRS or International Reporting Interpretations Committee (IFRIC) interpretations that would be expected to have a material impact.

ii) New standards, amendments and interpretations issued but not effective for the financial year 1 April 2013 and not early adopted:

There are no other IFRS or IFRIC interpretations not yet effective that would be expected to have a material impact.

c. Statement of comprehensive income

The format of the statement of comprehensive income has been designed to show net costs before fees levied to cover these costs. It is considered that this format best represents the nature of the activities of the PSR, which involve carrying out statutory functions and levying fees to meet the net cost of those functions.

d. Revenue recognition

After consultation with the PSR fee payers it was agreed that the £11.5m set-up costs incurred to 31 March 2015 will be recovered towards the end of 2015 along with the budgeted 2015/16 fees.

e. Financial instruments

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

Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

f. Retirement benefit costs**Money Purchase Section (defined contribution)**

The Money Purchase Section of the Plan is 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. Administrative Expenses

The administrative costs for the period ending 31 March 2015 have been arrived at after charging the following:

	Notes	Total 2015 £'000
Permanent staff costs	4	1,899
Short term resource costs	4	2,350
Other staff costs		4,392
Professional fees		2,163
IT costs		270
Accommodation and office services		404
Other non-staff costs		1
Total		11,479

Auditors

The Comptroller & Auditor General was appointed as auditor on the 1 April 2014 under Financial Services (Banking Reform) Act 2013. The auditor's total remuneration for audit services is set out below:

	12 months to 31 March 2015 £'000
Fees payable to the National Audit Office for the audit of the PSR's annual accounts	23

4. Employee information

The average number of full-time equivalent employees during the year to March 2015 was 19.

As at 31 March 2015, the PSR had 33 full-time equivalent employees on its payroll.

Staff Costs comprise of:

	Total 2015 £'000
Gross salaries and taxable benefits	1,574
Employer's national insurance costs	182
Employer's defined contribution costs	143
Permanent staff costs	1,899
Temporary	114
Secondees	129
Contractors	2,107
Short term resource costs	2,350
Total staff costs	4,249

5. Current assets

	Total 2015 £'000
Cash equivalents	1

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.

6. Current liabilities

	Total 2015 £'000
Trade creditors and accruals	502
Intercompany payable – FCA	11,032
Total current liabilities	11,534

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade payables is 26 days. The directors consider the carrying amount of trade payables approximates to their fair value.

Intercompany payable is based on a provision of services agreement between the FCA and the PSR which sets out the services that are supplied and their respective costs. These costs are based on charges the FCA incurs.

7. Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Key management personnel includes executive board members. This includes senior management acting in the role of director for more than 3 months.

	Total 2015 £'000
Short-term benefits	199
Post-employment benefits	20
Termination benefits	–
	219

Transactions with the FCA

The FCA provides certain services to the PSR, which are set out in the provision of service agreement. Below are the transactions with the FCA.

	Total 2015 £'000
Other staff costs	3,939
IT costs	160
Accommodation and office services	404
Interest on borrowings	1
	4,504

The PSR is currently funded by the FCA through inter-company debt and at 31 March 2015, the inter-company payable due from the PSR to the FCA was £11.0m as set out in note 6 above. The PSR anticipates recovering its set-up costs from fee payers in 2015/16. The £0.5m relating to trade creditors and accruals (also set out in note 6) will be settled by the FCA and will then become payable by the PSR to the FCA.

8. Notes to the cash flow statement

	Note	Total 2015 £'000
Deficit for the year from operations		(11,533)
Adjustments for:		
Interest payable on borrowings		54
Operating cash flows before movements in working capital		(11,479)
Increase in payables	6	11,534
Net cash used by operations		55

9. Events after the reporting period

There are no events to note after the reporting period.



FINANCIAL CONDUCT AUTHORITY
PAYMENT SYSTEMS
REGULATOR®

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