
Terms of Reference

PSO Delivery Group – Phase 2: Transition to the NPSO

APRIL 2017

1. Background

Following proposals in the strategy of the Payments Strategy Forum, the Bank of England (the Bank) and the Payment Systems Regulator (PSR) set up the Payment System Operator Delivery Group (DG) in November 2016. The DG had a brief to consider key issues relating to the potential consolidation of the governance structures of three interbank payment system operators (PSOs). The PSOs in scope for potential consolidation are BPSL, FPSL and C&CCCL.

The DG was required by the Bank and PSR to develop options and make recommendations relating to aspects of the proposed consolidation. It was also required to develop an implementation plan setting out how the consolidation would be substantially completed by the end of 2017. In accordance with its Terms of Reference, in March 2017 the DG delivered its recommendation report and implementation plan¹.

Now that the DG's report and plan have been developed, the Bank and the PSR have amended these terms of reference to reflect a new set of tasks for the DG reflecting the plan that has been developed. This work is aimed at ensuring that there is continued momentum and coordination of the work required to deliver that consolidation in a way which is compatible with the objectives of the Bank and the PSR. It is expected that the DG will cease to exist around the time a functioning NPSO Board is appointed.

2. Purpose and Scope

The implementation plan developed by the DG will enable effective consolidation of the three PSOs over the course of the remainder of 2017 (i.e. completion of stage 2 of the implementation plan). It is expected that the existing PSOs, their shareholders and, ultimately, the NPSO will deliver much of the implementation plan. However, to support the initial stages of the implementation plan the DG will coordinate work to oversee the establishment of the NPSO corporate entity and the initial stages of the programme of work in the implementation plan.

The DG shall conduct its affairs in such a manner that it can, and will, hand over responsibility for execution of the implementation plan to the NPSO. It is anticipated that the hand-over to the NPSO will be substantially complete by **the end of July 2017**. The period between 31 March 2017 and the handover to the NPSO is called the "Transition Phase".

In addition to the tasks set out below for the DG, we note that the implementation plan envisages a range of activities for the three PSOs (e.g. engagement with their Boards on signoff of the consolidation, engagement with the CMA on merger clearance, etc.). We expect the DG to ensure that this work is carried out in line with the plan.

The work described in this Terms of Reference should be undertaken in such a way that is consistent and compatible with the implementation plan.

¹ <https://www.psr.org.uk/psr-focus/payment-system-operator-delivery-group>

3. Tasks and Activities

The DG will oversee the tasks to be completed during the Transition Phase, including:

- Work relating to this matter undertaken by the PSOs and others. The DG will seek to ensure that these tasks are carried out in a manner which supports the timely delivery of the NPSO. This could include, for example, the work the PSOs need to undertake to ensure a successful CMA merger clearance (if required).
- Engagement with the anticipated group of funding providers to secure initial funding. This will enable the NPSO to be established and the consolidation to be completed as planned.
- Creation of the NPSO corporate entity at such a point that enables the appointment of the Chair of the NPSO.
- Production of the articles of association and other constitutional documents for the NPSO. We would expect the DG to propose how key design issues considered through its recommendation report and other regulatory requirements are reflected through the articles. The following areas are likely to be considered:
 - Conditions of membership of the NPSO
 - Limitations on the distribution of profits
 - Objects and powers of the NPSO
 - Governance framework for the NPSO
 - Principles of funding the activities of the NPSO
- The DG should also consider the appropriate processes for the future management of amendments to the articles (e.g. 'provisions for entrenchment').
- An appropriate group of members of the DG² will establish and execute an open and credible leadership selection process which results in the appointment of a Chair and CEO of the NPSO. It is expected that the Chair of the DG will lead the selection panel recruiting the NPSO Chair.

The DG should ensure that there is appropriate communication with key stakeholders throughout its work.

The DG should undertake these tasks and activities in a way which will assist the NPSO Board to complete Stage 2 of the implementation plan (as set out in the Report) by **31 December 2017**.

4. Requirements for the DG during the Transition Phase

In conducting its affairs during the Transition Phase, the DG will continue to have a strong regard to the objectives of the Bank and PSR, and will consider the extent to which particular arrangements are likely to further those objectives. In particular the DG will have regard to:

² Any member considering applying for the position of Chair or CEO of the NPSO must recuse themselves from these discussions.

- The need for the NPSO to support the robustness and resilience of the financial system, comply with relevant regulatory requirements, and seek to minimise risk arising during, and as a result of, the transition.
- The need for the NPSO to be able to take forward work developed by the Payments Strategy Forum on the New Payments Architecture (NPA). It is expected that the user requirements for the NPA will be developed by the end of 2017. The NPSO will need to be ready to take on these user requirements and start the work that will be needed in order to develop the functional requirements for the NPA and a framework for the NPA's procurement.
- The need to ensure that the scope and timetables set out in its implementation plan are delivered.
- The need to ensure that there is no impact from transition on the pipeline of PSPs on-boarding to the three payment schemes (e.g. as part of work on structural reform or new entrant PSPs).

Whilst the DG's work will support the timely delivery of the NPSO, it should not fetter the discretion of the future NPSO Board.

The DG will continue to update the CG on the progress of the Transition Phase. This specific reporting responsibility will cease when the DG hands over to the NPSO by end-July, from which point it is anticipated that the NPSO Board may be required to report periodically on its continuing progress to the Bank and the PSR as regulators.

5. Constitution and Governance

Chair

The Chair of the DG has been appointed by the PSR. The Bank was part of the selection process that led to the Chair's appointment. The Chair will be ultimately responsible for ensuring the DG delivers the work as outlined in this Terms of Reference document. If there are disagreements within the DG on how the work should be progressed, the final decision will continue to rest with the Chair, who may consult the CG. The Chair's appointment will cease once the DG is disbanded.

Membership

The membership of the DG will comprise the following:

Position	Member
Independent Chair	Robert Stansbury
Chair of C&CCCL	Jane Bevis
Chair of BPSL	David Rigney
Chair of FPSL	Nick Caplan
Independent Member and deputy chair	Faith Reynolds
Industry representative (large PSPs)	Russell Saunders
Industry representative (small and medium PSPs)	Becky Clements

The quorum

The DG will be quorate when:

- The chair or the deputy chair, are present; and
- At least two of the PSO chairs are present; and
- At least two of the Forum representatives are present; and
- Where only five members are present, the chair is among those 5.

Observers

The Bank and the PSR will attend the meetings as observers.

Support

It is expected that the DG will require support (including secretariat) in carrying out their work. This support may include both internal and external resource. The Initial Funding Proposal includes budget for such external resource.

Relationship with Coordination Group, the Forum and members of the PSOs

It is expected that the DG Chair will continue to attend the Bank/PSR Coordination Group (CG) meetings on the invitation of the CG. The Chair will discuss progress with the implementation plan.

The membership of the DG includes non-PSO members who will continue to have a key role in consulting and canvassing the views of the prospective stakeholders of the NPSO on key issues being considered. In particular, members that are representatives of the Payments Strategy Forum will continue to provide a point of coordination between the Forum's activities and the DG's activities and update the Forum on progress where necessary.

Similarly, the PSO members of the DG will continue to consult with the members of the PSOs seeking to ensure they continue to be supportive of the implementation of the NPSO and to ensure that any unforeseen impacts on them are fully communicated back to the DG, as appropriate.

Funding

It is anticipated that the activities and expenses incurred by the DG should be funded by the PSOs during Transition and by the Initial Funding of the NPSO thereafter.

6. Administration

Meetings

The DG will meet as frequently as is required to fulfil the tasks set out in the Terms of Reference. It is expected that the location of meetings will be Thomas More Square.

Secretariat

It is expected that the minute taker for the DG will continue to be provided by the PSR, or such other external resource as is agreed.

The secretariat will perform the administrative functions for the DG, which includes organising meeting dates and locations and circulating papers.

Meeting summary

The meetings of the DG will continue to be recorded with meeting summaries published on the PSR's website (until such time as an NPSO website is set up, at which point it will become the source of public information about itself).