

The Payment Systems Regulator Ltd

Minutes

Meeting: PSR Board
Time & date of Meeting: 10:00 on 22 March 2017
Venue: 25 The North Colonnade, Canary Wharf, London E14 5HS

Present: John Griffith-Jones (Chair) Amelia Fletcher
Andrew Bailey (from item 7.3) Noel Gordon
Carole Begent Hannah Nixon
Bradley Fried (until item 7.2) Christopher Woolard
In attendance: Set out in Annex A

Quorum and Conflicts

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

1 Minutes and Matters Arising

- 1.1 The minutes of the Board meeting held on 19 January 2017 were approved as a correct record of the meeting.

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

2 Board Committee Reports

- 2.1 It was reported that the Audit Committee meeting held on 8 March had looked at the internal audit plan for the next 3 years, which contained some items of generic relevance.
- 2.2 There had also been a discussion on the impact of Brexit on non UK EU nationals, who accounted for approximately 20% of the FCA workforce. The focus had been on how the organisation could provide support to those affected and their families in the absence of a clear government policy on the issue.
- 2.3 It was confirmed that going forward Louise Buckley, Head of Communications and Operations, would report back to the PSR Board following her attendance at Audit Committee meetings.

3 PSR Panel Update

PSR Panel Board Report

- 3.1 The Board received an update from the Chair of the PSR Panel (the Panel), Stephen Locke. The Board noted and discussed the following points:
- Good progress was being made and the awareness of the Panel's role had improved. Feedback had been positive and it was felt that the Panel was adding value to the work of the PSR, though there was appetite for further development.
 - There was good engagement with the PSO delivery group regarding consolidation and the Panel was keen to share its experience. The Panel recognised the considerable expertise stored in the staff of the existing PSOs that would be invaluable to the newly merged organisation.
 - Mr Locke reflected that the Interchange Fee Regulation was not considered a perfect tool to address existing issues as it only focussed on one aspect of the overall transaction costs.

Panel membership and recruitment

- 3.2 The Board discussed the composition of the Panel. Mr Locke advised that the Panel had a diverse membership including large corporations and others to ensure different perspectives and that appropriate challenge was evident. However, it was acknowledged that as the Panel matured it would be necessary to consider the capability and competences required of members.
- 3.3 It was **noted** that most current members had been appointed in December 2014 and the majority were due to retire in November 2017, although there was the option to re-appoint as well as recruit new members.
- 3.4 The Board **noted** the Panel's update.

Appointment of a Panel Member

- 3.5 Flora Hamilton was proposed as a Panel member. Her appointment was supported by the Panel Chair, PSR Head of Regulatory Strategy & Policy and PSR Panel secretariat.
- 3.6 The Board **approved** the appointment of Flora Hamilton to the PSR Panel from 1 April 2017 for a term of three years (capable for renewal by the Board).

4 Enforcement Decisions Committee Annual report

- 4.1 The Board received a report from the Chair of the Enforcement Decisions Committee (EDC), Tim Parkes, which had been in operation since 1 January 2016. The Board noted and discussed the following points:
- The current membership of the EDC included nine members from a variety of backgrounds, plus the Chair. All but one of the members had also become members of the FCA's Regulatory Decisions Committee.
 - In the absence of a case being received, the focus had been on training in preparation for the receipt of a case. Training had focussed on the running of meetings and what a case could look like including possible penalties. A case study was due to be considered at the next training event.
 - There was good support provided by the Decision Making Committees secretariat and on the PSR side. Regular meetings were held with Carole Begent and Janet Duggan to discuss matters relevant to the operation of the EDC.
- 4.2 The Board **noted** the EDC's annual report and thanked all concerned for their work in this area.

5 Internal Audit – possible areas for focus in the next 3 years

- 5.1 Lalitha Henry presented the report and described the approach used in drafting the plan. It had been compiled in discussion with Louise Buckley, other internal stakeholders as well as looking at the PSR risk register, PSR audit universe and external intelligence. It was noted that there is one internal audit planned each year on the PSR, but this could be reviewed if more internal audits were required. The plan had also been considered by the Audit Committee at its February 2017 meeting.
- 5.2 The Board **agreed** the 2017/18 plan and agreed that discussions on years 2-3 should continue. The Board was informed that the planned reviews for years 2-3 would be revisited as part of the 2018/19 annual Internal Audit planning in early 2018.
- 5.3 The Board was advised that the internal audit review on information handling in the current year's plan was in train. The accompanying findings report was due to be considered at the May 2017 meeting of the Audit Committee. It would then be brought to the Board for information. The Board were also made aware that an internal audit review of 'FCA interfaces with the PSR through the provision of services agreement' was presented to the March 2017 Audit Committee.
- 5.4 The Board asked that the Director of Internal Audit be invited to attend the Board for the next 6 monthly Board risk update.

- 5.5 It was felt that the Audit Committee needed to be more explicit about the fact that the PSR is a separate entity. Whilst formal reporting of internal audit was through the Audit Committee, the PSR Board felt it should have sight of any relevant Internal Audit recommendations as well as the Audit Committee's minutes.

6 Report from the Managing Director

- 6.1 The Board received Ms Nixon's report and noted and discussed the following issues:
- 6.2 PSR had been very busy with incoming business increasing at a time when two senior staff members had departed. Resources were being closely monitored and work had been re-prioritised to ensure flexibility.
- 6.3 A recent trip to San Francisco had been successful and allowed engagement with a range of fintech firms. The Board discussed the key themes emerging from the visit.
- 6.4 Ms Nixon confirmed that the PSR does not have a specific objective or duty in relation in terms of the cyber security/resilience of banks, PSPs or payment systems. The PSR does, however, have an objective to ensure that payment systems are operated and developed in a way that considers and promotes the interests of service-users. Resilience issues could cause disruption to the operation of a payment system, which would, in turn, have implications for the PSR's service-user objective.
- 6.5 There had been some media coverage regarding the ATM footprint. A working group had been set up by the members of LINK to conduct further work in this area.
- 6.6 The MD presented the decision on fees, which was to proceed with the allocation, calculation and collection proposals for fees presented to the Board in September 2016 and consulted on in November 2016 (with minor amendments), and to consult on proposed fee rates and rules for implementing these.
- 6.7 There had been no formal applications to the PSR from Iranian banks.
- 6.8 The Board **noted** the Managing Director's report.

7 Contactless mobile payments

- 7.1 The Board received an update on the project following analysis of the responses to formal information requests made last year and the continuing work of the team to better understand the market and competitive dynamics.

The Board noted the next steps set out within the update with the further exploratory work to continue in the summer.

8 AFR/reserves

- 8.1 The Board received an update on the PSR Annual Funding Requirement (AFR) following approval of the 2017/18 budget at its January 2017 meeting and discussed the following points:
- The AFR for 2017/18 would be set at a level to under-recover with the balance of funding being made up through the use of reserves.
- 8.2 The Board **noted** the Annual Funding Requirement and treatment of reserves.

9 Draft PSD2 approach document

- 9.1 The Board was reminded that it had earlier provided input to the approach to be employed by the PSR in monitoring and enforcing the relevant provisions under the Payment Services Regulations 2017, which were due to come into force in January 2018.
- 9.2 The Board **noted** and discussed the following points:
- The PSR had worked closely with FCA colleagues on the proposed publication documents with the FCA due to publish its approach alongside that of the PSR.
 - There was some risk in consulting before the final Regulations have been published. But this risk was being managed by close liaison with HM Treasury.

9.3 The Board **agreed:**

- The publication of the draft guidance for consultation
- That in principle the Enforcement Decision Committee be appointed to decide, in contested cases, whether compliance failures have occurred and whether to impose a financial penalty and/or publish details of compliance failures
- That the Executive Committee be appointed to approve the PSR's Payment Service Regulations powers and procedures guidance.

10 Decision on recommendations regarding the design of New Payment Systems Operator (NPSO)

10.1 David Bailey, Director of Financial Market Infrastructure, Bank of England, was in attendance.

10.2 The Payment System Operator Delivery Group (PSODG) was due to submit its final report concerning the design and implementation of the NPSO at the end of March 2017. The team presented a paper discussing the PSODG's emerging recommendations, and asked the Board to agree in principle that the recommendations were compatible with the PSR's statutory objectives.

10.3 The Board **noted** the progress to date and discussed the following points in particular:

- There are functions that are currently performed by the existing PSOs which will continue to be performed by the NPSO.
- The Board discussed the emerging PSODG recommendation of an 'over-riding public interest duty' requirement on directors of the NPSO.
- The proposed governance structures were discussed.
- The Board discussed the guarantor model that was being proposed.
- It was noted that recruitment of senior staff should be by open competition.

10.4 Overall the Board was satisfied that the proposals as they stood were compatible with the PSR's objectives subject to progressing the outstanding issues as discussed. The Board delegated the final decision on the PSR's response to the PSODG's report to the PSR executive, although was willing to meet again on this in April if needed. It was noted that the BoE FMI Board was due to consider the report the following week.

11 Minutes of Executive Committee meetings

11.1 The Board **noted** the PSR Executive Committee minutes.

12 Forward Agenda

12.1 The Board **noted** the forward agenda, subject to discussions at this meeting.

13 Any other business

13.1 There being no further business, the meeting closed.

Angela Attah

Deputy Company Secretary

Annex A: Attendees

Attending all, or substantially all, of the meeting:

Angela Attah	Deputy Company Secretary
Sarah Day	Assistant Company Secretary
Simon Pearce	Company Secretary
Louise Buckley	Head of Department, Communications and Operations
Paul Smith	Head of Department, Regulatory Strategy and Policy

Attending for the following items:

3	Stephen Locke	Chair, PSR Panel
4	Tim Parkes	Chair, RDC
	Beverley Walker	Manager, DMC Secretariat
5	Lalitha Henry	Director, Internal Audit
7	Dora Guzeleva	Manager, PSR
8	David Godfrey	Director, Finance
	Grahame Tinsley	Manager, PSR
10	Dora Guzeleva	Manager, PSR

Relevant associates and technical specialists also attended the meeting.