Payment Systems Regulator

The Payment Systems Regulator Limited
Annual report and accounts 2019/20

HC 433

The Payment Systems Regulator Limited

Annual report and accounts 2019-2020
(for the year ended 31 March 2020)

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Forewords

Charles Randell

Chair

Most of the year covered by this annual report fell before the arrival of the COVID-19 pandemic. Since it began, many people across the entire payments ecosystem have worked tirelessly to ensure that we can all still make and receive payments. I would like to acknowledge all those people who have kept bank branches operating; cash circulating and ATMs stocked; card, contactless and mobile payments flowing; and the backbone of the payments system – including faster payments, CHAPS and Bacs – working.

By comparison to many of these frontline essential workers, it's been easier for us in the PSR to adjust to life under COVID-19. But I'm very grateful for the commitment of PSR colleagues in adapting and ensuring that the PSR continues to deliver.

It's too early to say how much lasting change to payments COVID-19 will bring. But already it seems likely that the pandemic has prompted many consumers to move to cashless payments and to online banking, in the short term at least. So our work in the past year on Access to Cash must continue at speed.

Increased community engagement from the industry is a positive step. We must continue to drive this work forward to ensure that vulnerable consumers and communities are not left behind.

It's also too early to say to what extent COVID-19 will stimulate competition and innovation – or set those objectives back. There is a risk that the business fallout from the pandemic will hit some new entrants harder than some large incumbents, and that it will slow the funding and roll-out of new platforms and services. We will need to be vigilant to this risk and ready to respond to it. A major part of our work in the past year has related to the progress of the New Payments Architecture project. This project is all about preparing our payment systems for the future, and is now more important than ever.

COVID-19 brings the risk of new scams emerging. So the measures we have supported in the past year to reduce the effect on consumers of authorised push payment fraud, including the implementation of the Contingent Reimbursement Model Code and Confirmation of Payee, are timely. We will continue to hold the industry to the embedding of these measures and to demonstrating a consistent and sustainable approach to reimbursing blameless consumers.

We have recognised the need to prioritise our work and postpone a number of our other planned initiatives. We have worked together with the Financial Conduct Authority (FCA) and the Bank of England to publish a grid of future regulatory actions across the financial sector (including the work of the Competition and Markets Authority and the Treasury), so that we coordinate to reduce the strain on the industry – another forward-looking measure that is even more important at this time.

I would like to thank Amelia Fletcher OBE, who stepped down from the PSR board at the end of March 2020 on expiry of her final term as a non-executive director. She has been with the PSR since the beginning and has made a significant contribution to its development. I would also like to thank Nick Stace, who stepped down from the board during the year.

I look forward to working with colleagues in the PSR, our fellow regulators and representatives of businesses and consumers, as work progresses on the recovery from COVID-19 and the development of the payment systems necessary for the future. The pandemic has changed many things, but payment systems that deliver competition and innovation, and serve the interests of users, continue to be as important as ever.

Chris Hemsley

Managing Director

As a regulator whose focus is on the future, our work in 2019/20 helped make sure the UK's payment systems remain world-leading, secure and innovative.

In the past 12 months, the PSR has been involved in a number of important steps forward in the development of the UK payments markets. There has been a significant improvement in the rights of most customers who fall victim to fraud when making payments through their bank accounts, combined with new controls that make it harder for criminals to perpetrate these frauds in the first place. We have also seen the development of further protections for people's ability to access cash through a free-to-use ATM. And there have been growing numbers of firms accessing payment systems directly and indirectly, increasing competition and facilitating the growth of new products and business models.

These achievements have been the product of hard work over a number of years, with the PSR working collaboratively with a range of stakeholders to get them right. I am acutely aware – particularly now, with the added pressures of COVID-19 – that all of these improvements require time and effort from those in the payments industry, as well as consumer groups and other public bodies.

COVID-19 presented a number of challenges to the payments industry, as we all adjusted to different ways of living our lives. Our payment systems have continued to support society, as lots of us have chosen to use digital payments, while others have continued to rely on access to cash through the LINK cash machine network. While future consumer behaviour and business decisions are difficult to predict, it is possible that recent events have encouraged some to switch towards digital payments as their default method for the longer term. This underlines the importance of ensuring that – as cash use declines – we do not leave those that rely on cash behind.

But even before the COVID-19 pandemic, we were seeing a continuation of the rapid evolution of payments and payment markets. More people are making payments online, and many of us are also using mobile phones and wearable devices as a way to make paying more convenient. We have also seen the growth in new ways for businesses to take digital payments. Indeed, it is now possible for a small business to buy a payment device on the high street, set it up, use it to take payments the same day, and receive funds into their bank account within a couple of days. This is just one example of how effective competition and innovation in payments can deliver tangible benefits for people, businesses and society.

The PSR plays an important role in supporting this competition and innovation. But we're also here to make sure that, as payments evolve, this happens in a way that provides everyone with a good choice of how to pay. Improving competition– which in turn helps improve innovation – means everyone will benefit from greater protections, new products and better services. This applies both in the near term and as payments evolve in the years to come.

Reflecting this, in the year covered by this annual report, we oversaw the introduction of the Contingent Reimbursement Model (CRM) Code, which set out the steps banks should take to help prevent Authorised Push Payment scams and to reimburse blameless victims. We also used our powers to direct the largest payments firms to implement Confirmation of Payee (CoP), which helps customers know whether the account they are setting up a payment to matches the name of the person they are intending to pay. Early signs are that this is set to make a real difference in the fight against fraud. These new measures will protect people now and in the future.

We have also continued our work to protect those who want and need to continue to use cash, making sure that nobody is left behind by the trend towards card and online payments. This has been a major focus of our ongoing regulation of LINK, and included a review of the effectiveness of the earlier steps we took to protect access to cash.

Throughout the year we have been a leading voice in debate on the future framework for providing access to cash, working with LINK, industry and the other members of the Joint Authorities Cash Strategy (JACS) Group (the Treasury, the Financial Conduct Authority and the Bank of England). Over the last year we have seen the welcome development of LINK and UK Finance-led initiatives to increase the role of local communities and to allow their needs to improve provision.

The development of the New Payments Architecture (NPA) continues to be a major focus for the PSR, reflecting the potential for the NPA to both modernise the way UK interbank payments operate, and stimulate competition and further innovation in payments. This is a one-off opportunity that we have to get right, which is reflected in our oversight of Pay.UK's delivery of the programme. We set out our views on the possible risks to competition that we see in the NPA and started the process of establishing how best to mitigate these risks. This will help inform our regulatory approach to the NPA throughout the tender and operation of this new payments infrastructure.

As an organisation, we have continued to evolve: expanding our workforce to reflect our scope and commitments, reaching our planned headcount, and continuing to build our capability, including in respect of payments expertise.

It was an honour to be appointed as the permanent replacement for Hannah Nixon as Managing Director in September 2019, and I would like to thank Louise Buckley for her work as co-Managing Director, a role we shared while the board carried out the recruitment process. We have also welcomed Genevieve Marjoribanks into the fold as our new Head of Policy, giving us a complete new senior leadership structure to guide us through the challenges ahead.

In response to COVID-19 we changed our practical working arrangements and reassessed our short and medium-term priorities. However, our longer-term goals remain unchanged, even if the way we achieve them may be somewhat different. In fact, the current crisis has highlighted the need for us to continue to deliver in the best interests of everyone who uses payment systems and ensure they are fit for the future – one that is likely to look and feel a bit different than perhaps many of us were expecting. We are proud to be working alongside other public bodies, regulators, industry and consumer groups as the recovery effort begins.

Regulating during the coronavirus pandemic

We will take any steps necessary to ensure payment systems continue to work for everyone and payments markets continue to function well in the wake of the coronavirus (COVID-19) pandemic. There will also be important considerations about what certain payment methods, such as the cash network, look like in the future.

We're working closely with the government, the Bank of England (the Bank), the FCA, the Competition and Markets Authority (CMA) and other stakeholders to make sure our work is coordinated and aligned with other authorities, so that the payments industry has clear direction. As you would expect, we're also focusing some of our resource on our response, both in terms of the work we do with the organisations we regulate, and in making sure that our staff can work effectively.

During this time, we know that many organisations will need to review their current arrangements to address the evolving situation and the impact on the market. We expect them to be taking reasonable steps to ensure they are prepared to meet the challenges COVID-19 could pose to customers and staff. We expect regulated parties to report to us immediately if they believe they will be in difficulty or if circumstances could lead to them being unable to offer the full range of their services.

At the time of publication, we have already made adjustments to our work and requirements, to account for our own changing priorities and resources, and the burden on our stakeholders – for example, our updated approach to Confirmation of Payee; extending the deadline for our call for input on competition in the UK's New Payments Architecture; and our work to support access to cash during the pandemic. We also delayed our annual Perceptions Survey, where we ask our stakeholders for their views on our performance and the current state of UK payments. We normally include key results from this survey in our annual report; we will now publish it separately later in the year. We'll also look at how the pandemic has affected people's payment habits in our consumer research.

The Financial Services Regulatory Initiatives Forum (made up of the Bank, the CMA, the FCA, the PSR, the Prudential Regulation Authority and the Treasury) has launched its Regulatory Initiatives Grid earlier than initially planned due to the COVID-19 pandemic. The creation of the grid was brought forward to March in the 2020 budget, and it was launched in May 2020. As well as laying out the planned timetable for major initiatives, this first grid highlights initiatives that have been cancelled or delayed to ease the burden on financial services firms during the pandemic. The grid will run as an initial 12-month pilot and will be published at least twice a year.

Our vision and objectives

Our vision

Payment systems that are accessible, reliable and secure, and represent value for money.

Our statutory objectives

The PSR was created in 2014 under the Financial Services (Banking Reform) Act 2013 (FSBRA). FSBRA requires us to advance one or more of these payment systems objectives in the work we do:

- Ensure that payment systems are run and developed in a way that takes account of and promotes the interests of those that use, or are likely to use, the systems.
- Promote effective competition in the market for payment systems and markets for services provided by payment systems in the interests of those who use, or are likely to use, them.
- Promote the development of, and innovation in, payment systems in the interests of those who use, or are likely to use, them.

Our regulatory powers under FSBRA tend to apply in relation to participants in payment systems designated by the Treasury – the 'regulated payment systems'.

The regulated payment systems under FSBRA are Faster Payments Scheme, Bacs, CHAPS, LINK, Mastercard, Visa Europe, Cheque and Credit/Image Clearing System and Northern Ireland Cheque Clearing.

Our wider role

We are a concurrent competition regulator in relation to participation in any payment system, alongside the Competition and Markets Authority (CMA). For example, we can investigate where there may be breaches of the prohibitions against anti-competitive agreements and abuses of dominant positions. We can conduct market studies and make market investigation references under the Enterprise Act 2002.

We are the lead competent authority for monitoring compliance with the Interchange Fee Regulation (IFR) in relation to most card payments. We are a competent authority for monitoring compliance with aspects of the Payment Services Regulations 2017, in particular concerning access to payment systems for payment service providers. We are also the competent authority for alternative switching schemes under the Payment Accounts Regulations 2015.

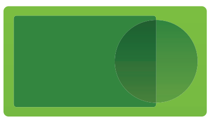
Key projects in 2019/20

Last year we made a genuine difference in protecting people and delivering good outcomes for consumers. Our work will help people now and in the future.

We also know that having innovative new products and services is good for everyone. That's why we continue to focus on competition and innovation. By driving this, everyone will benefit from greater protections, new products and better services.

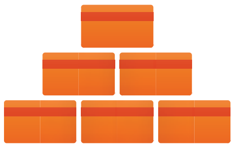
In this section we summarise some of the key areas of work, and the outcomes we secured.

Authorised push payment scams and Confirmation of Payee



Access to cash

Market review of card-acquiring services



The New Payments Architecture

Authorised push payment scams and Confirmation of Payee

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This year has seen the launch of two major, groundbreaking initiatives we've been leading to combat authorised push payment (APP) scams, where a scammer tricks you into making a payment to an account that they control. We've worked with the industry to help prevent these scams, and protect people who do fall victim to them.

The **Contingent Reimbursement Model (CRM) Code**, which has been in place since 28 May 2019, sets out what steps banks should take to help prevent scams and the circumstances under which victims should be reimbursed. We've been keeping a close eye on how the code is being implemented, and in March 2020 we held an industry roundtable to review its impact to date, including highlighting what we see as outstanding issues with consumer outcomes, and setting out the way forward to improve those outcomes.

We made it clear that we wanted to see more done to reduce APP scams and protect victims. If we don't see the right outcomes we'll take action where appropriate.

In August we issued a specific direction to members of the six largest UK banking groups to bring in the **Confirmation of Payee (CoP)** service by 31 March 2020. For the first time, this allows people to check that they are paying money to the person they intended – making it harder for scammers to trick people, and reducing the number of accidentally misdirected payments. When COVID-19 forced a new set of priorities on the UK in March, we allowed banks until the end of June to complete their roll-out. We still expected them to introduce CoP as soon as possible, and to ensure consumers were not disadvantaged by the delay.

Access to cash

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Although digital payments are increasingly dominant, cash remains an important method of payment for many. In July 2019, we published research on how people access and use cash in the UK. This revealed a widespread need to access cash, even among those who usually prefer other payment methods. We've led industry work aimed at ensuring that cash remains a viable option for everybody who wants and needs to use it, by protecting the existing geographic spread of ATMs and encouraging innovation in ways to access cash. Collaboration across regulators, government, industry and consumer groups is critical to develop practical and sustainable long-term cash access models. For example, we've supported the Bank of England's project looking at a potential new model for wholesale cash distribution, and the Treasury's scoping work on legislation to protect access to cash.

We continued to monitor the impact that LINK's activities are having on the UK's ATM network, and issued a call for views on the current interchange fee structure in June 2019.

In March 2020, we published our first annual review of our Specific Direction 8 (SD8), which requires LINK to do all it can to fulfil its public commitment to maintain the geographic spread of free-to-use ATMs. We concluded that SD8 was having a positive impact and should remain in place for the time being.

Over the course of the year, we've encouraged industry to develop its approach to local engagement on access to cash issues, and LINK and UK Finance have both launched local community schemes. This will help develop our collective understanding of local needs for access to cash so that suitable solutions can be found, based on feedback from affected consumers and organisations.

We also joined the government's newly launched Joint Authorities Cash Strategy (JACS) group. This brings together the PSR, the FCA, the Bank of England and the Treasury to consider and coordinate work to address cash system issues. Since the onset of the COVID-19 pandemic, we've been working closely with the FCA and other authorities to address any emerging access to cash issues.

Market review of card-acquiring services

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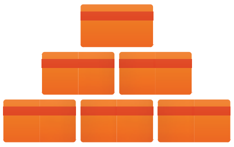
Card payments are critical to the smooth running of the UK economy. They are a popular way for people to pay for goods and services, and their use is growing. For merchants to accept card payments, they need to buy card-acquiring services. The costs of these services may affect the prices and services they offer to their customers.

We continued our market review of the supply of card-acquiring services, to find out if this essential area of card payments is working well for merchants and, ultimately, consumers.

Over the course of 2019/20, we gathered evidence and information from a range of stakeholders.

We also sought views at an early stage on some of the analysis we planned to carry out, and our survey of small and medium-sized merchants.

During the year, we extended our proposed timetable for the market review to take account of issues raised in the submissions we received; due diligence and onboarding procedures in appointing consultants; and the impact of COVID 19. We plan to publish our interim report in Q3 2020, followed by a period of consultation and stakeholder engagement before we issue our final report.



The New Payments Architecture

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Whether paying employee wages by Direct Debit, or transferring money to a friend using internet banking, interbank payments are a key part of everyday life for businesses and consumers alike. It's vitally important that they run smoothly and rise to the challenges of the future.

The New Payments Architecture (NPA) is a new infrastructure proposed for the UK's retail interbank payment systems, which is currently being developed by Pay.UK. The NPA is the biggest change in UK payments in a generation, and will fundamentally change the way interbank systems work for the foreseeable future. It's intended to allow greater competition, innovation and security enhancements that will lead to more services and more secure payments for everyone.

This is a huge change, and one that has to be done right. We've been monitoring the development of the NPA, keeping in close contact with Pay.UK, to ensure that when the NPA is launched it will produce good outcomes for payment system users.

In the last year we publicly set out our thinking about the potential risks and issues in relation to competition and innovation within the NPA – the important issues at the heart of the development. We also gathered stakeholders' views through a call for input, to inform our future regulatory approach and help us provide greater clarity to the industry before the NPA goes live.

Strategic report

Over the course of 2019/20, we saw great progress in some of the long-term payments developments we've been at the forefront of: the debate around how people get access to cash has evolved; we've focused on the fundamental issues at the heart of the New Payments Architecture; and our work on payment scams has seen two major new initiatives launched to give consumers better protections in the future. We've also expanded our stakeholder engagement programme this year, underlining how important it is for us to listen to views from all angles, helping us to get the right outcomes based on the right evidence.

At the end of the period covered by this report, COVID-19 changed life for everyone in the UK. It forced us to rapidly assess our priorities and resources, to make sure we were focusing our efforts where they were most vital to support payment systems in the UK and make sure they continue to work well for everybody using them.

We've had to revise some of the timescales for projects we've been working on, taking into account the impact on our own staff and the burden on our regulated community. But our work is continuing. We made some vital strides during a busy year in 2019/20, and will continue to build on what we've achieved.

Protecting people

Our underlying focus has always been on making sure that payment systems work well for those that use them – and this includes making sure people are protected from payment scams. We've been working with the industry on this since 2016. Key achievements in the last year include the launch of the industry's Contingent Reimbursement Model Code, which was devised by the steering group we set up in 2018. The Code is designed to incentivise banks to take proper precautions against scams, and to protect blameless victims. And the full launch of Confirmation of Payee at the end of June 2020 was a major step towards preventing scams and misdirected payments.

A time of transition

Another major focus for us has been the way people get access to cash, and how we can protect that access in a world that's transitioning from a cash-based economy to a digital one. Cash use has been declining in recent years – a trend that has suddenly been magnified as people respond to COVID-19 by switching to card payments in greater numbers. Our initial work in this area was concentrated on the ATM network LINK, one of our regulated payment systems. This year we've expanded our engagement to involve the wider payments industry, and encouraged LINK and UK Finance to pursue local community engagement schemes. This will help us and the industry understand people's differing needs across the country so the right solutions can be put in place.

The development of the New Payments Architecture is another major transition, which will lead to a new system for interbank payments. It's an area where we're keeping a close watch to make sure this structural overhaul of payments infrastructure delivers its intended benefits, potentially providing new and better payment systems for everyone, long into the future – whatever it may throw at us.

Our market review of card-acquiring services is looking at competition in this essential part of the card payment process – finding out if the supply of these services works well for merchants, and ultimately consumers. This will grow in importance as the proportion of transactions made using cards continues to increase.

Resetting our focus

Change has been a theme throughout the PSR's existence: the constant, fast-paced developments in payments, coupled with the changes we've made to address the issues we're here to deal with. We've expanded and enhanced our strategic intelligence and insight capabilities to help us understand and react to developments in payments, so we can tackle potential risks to people using the systems. We've also been looking at our strategic focus for the next few years, to make sure we use our resources in the best way and in the right areas. We'll be consulting on our proposals with our stakeholders in the months to come.

Protecting the interests of service-users

Protecting the people and organisations that use payment systems is a principle that supports all our work, and is more vital than ever in a world changed by COVID-19. This year we saw great strides being made in the fight against authorised push payment scams. We made progress in our work with various groups on access to cash, with a key development being the introduction of local engagement schemes to respond to communities' needs.

We also continued our work to deepen our understanding of issues across the payments world, publishing our response to our discussion on payments data and looking at consumers' relationships with payments.

Authorised push payment scams

This year has seen the launch of two major, groundbreaking initiatives we've been leading to combat authorised push payment (APP) scams – where a scammer tricks you into making a payment to an account that they control. These stem from our focus over the past two years on initiatives that will prevent scams happening in the first place.

Contingent Reimbursement Model Code

One key measure is the Contingent Reimbursement Model (CRM) Code. This sets out what steps banks should take to help prevent scams, and how consumers can protect themselves, as well as the circumstances under which a scam victim should be reimbursed. The Code has been in place since 28 May 2019, and is designed to help victims to be reimbursed for their losses, provided they have taken due care when making the payment.

The Code is the product of the APP Scams Steering Group, an independent group of industry and consumer representatives which we established in 2018. We worked closely with the Steering Group to secure agreement for the Code. We've been monitoring how the Code has been working in practice, to make sure it's producing the intended outcomes. This includes regular analysis of Code data and engagement with the Lending Standards Board (LSB), which is responsible for the governance and oversight of the Code. In March 2020, we held a cross-industry roundtable to review the Code's impact to date, highlight outstanding issues with consumer outcomes, and set out the way forward to improve those outcomes. We'll continue to liaise with industry, the LSB and the Financial Ombudsman Service to make sure the Code is operating effectively. If industry can't achieve satisfactory outcomes, we'll take action where appropriate.

Confirmation of Payee

Another major new initiative to help prevent scams is the Confirmation of Payee (CoP) service. With CoP, payment service providers (PSPs) compare the name on the receiving account with the name entered by the payer – and tell the payer if they match (previously, PSPs only checked the account number and sort code). This allows people to make an additional check that they are paying money to the person they intended, making it harder for scammers to trick people and reducing the number of accidentally misdirected payments.

Following extensive industry consultation, in August 2019 we issued Specific Direction 10 (Confirmation of Payee) (SD10) to PSPs in the six largest UK banking groups, requiring them to bring in CoP by 31 March 2020. This followed our initial 2018 consultation on requiring banks to implement CoP. We published our response to that consultation in May 2019, concluding that regulatory intervention was needed to make sure enough PSPs implemented CoP at the same time for the scheme to protect consumers as intended. Alongside our response, we consulted on a draft specific direction, which became SD10.

Since giving SD10, we've actively monitored the PSPs implementing CoP to make sure they meet their obligations under the direction. In early March 2020, we announced that we would not take any formal action if a PSP had to delay implementing CoP due to the impact of COVID-19 on its operations, up until 30 June 2020, as long as they met two conditions:

- they worked to introduce CoP as soon as possible
- consumers were not disadvantaged by the delay (including the stipulation that PSPs must refund victims of fraud if CoP would have prevented it from happening)

All the directed PSPs have now implemented CoP (except where they've applied for an extension for a small number of specific channels), giving customers added protection from APP scams. Two non-directed PSPs have also introduced CoP.

Why this matters

APP scams have been an increasing threat in recent years. They are often sophisticated and can have a devastating effect on the victims, with people losing life-changing sums of money. Our work with the industry on the CRM Code and CoP aims to help prevent these scams and protect people who do fall victim to them.

Access to cash

Digital payments are increasingly common for more and more people in the UK, and during the COVID-19 lockdown people have made greater use of online and contactless payments. But most of us still use cash too – and for some, it's essential. We want everyone to be able to make payments in ways that work well for them. This means helping to ensure that people's reasonable needs for cash are met, but also being able to adapt as needs and attitudes change over time.

In July 2019, we published in-depth research on how people access and use cash in the UK. This highlighted the important role cash continues to play in the lives of both consumers and businesses. We found that 83% of consumers had made a payment in cash during the previous week, and cash was the preferred payment method for 28% of consumers. The research also revealed a widespread need to access cash, even among those who usually prefer other payment methods.

While ATMs continue to be the most popular method of accessing cash – preferred by 80% of consumers in our research – there are innovations underway in other methods.

We're monitoring developments closely and working with industry, authorities and other stakeholders to ensure a sustainable approach that will let people use cash for as long as they want or need to.

ATMs

We've continued to monitor the impact that LINK's activities are having on the UK's ATM network, including its reduction in ATM interchange fees (paid by banks and other card issuers to ATM operators, when one of their customers uses an ATM). We have also been monitoring the impact of COVID-19 on the UK's network and working with fellow members of the Joint Authorities Cash Strategy (JACS) group to mitigate any risks to access to cash.

We issued a call for views on the current interchange fee structure in June 2019, so we could understand different perspectives from a range of stakeholders. This was followed up by a July roundtable on the topic with stakeholders from industry, consumer groups and other authorities. We're now considering what reforms might be needed to support widespread access to cash that meets peoples' needs.

In April 2019, LINK introduced an additional measure to help safeguard free-to-use ATMs in remote, rural and deprived areas, through increased payments to ATM operators (up to £2.75 per cash withdrawal). These payments are available for all eligible 'Protected' and 'Financial Inclusion' ATMs. In August 2019, LINK also introduced a 'retail centre' policy: it will aim to provide free-to-use ATMs to support retail locations of five or more shops, where there is not already free access to cash within 1km.

Specific Direction 8

In October 2018, we issued Specific Direction 8 (SD8) to LINK, requiring it to do all it can to fulfil its public commitment to maintain the geographic spread of free-to-use ATMs. We published our first annual review of SD8 in March 2020. We considered that LINK's commitment is a sensible short-term measure to help maintain widespread access to cash for people who need it. Therefore, we will keep SD8 in place for the time being. We have also requested more regular data updates from LINK about the overall UK ATM network, to help with our monitoring of future changes.

Local community engagement

Engaging with local communities on cash issues is a key part of developing our collective understanding of local needs, how they change over time, and how they can be met. Over the past year, we've encouraged the industry to develop its approach to local engagement on access to cash issues, to aid this understanding.

In August 2019, LINK introduced a local ATM request scheme, which allows communities to apply for an ATM where there are issues with cash access. LINK expanded this scheme in October 2019 and has since received over 3,500 requests across 2,500 communities, with the first ATMs installed as a result early in 2020.

In February 2020, UK Finance launched a scheme for communities to apply for grants for non-ATM cash access solutions. Although both schemes have been impacted by COVID-19, we're monitoring the LINK and UK Finance schemes and engaging closely with industry to see how they develop.

Working together

This year the government launched the JACS group, which was established as part of the Government's response to its 2018 call for evidence on cash and digital payments. This brings together the PSR, the FCA, the Bank of England and the Treasury to consider and coordinate work to address cash system issues, including actions taken in response to the Access to Cash Review recommendations. Over the year we worked closely with relevant authorities, including the Bank of England's project to look at a potential new model for the wholesale cash distribution system. We are supporting the Treasury's scoping work to develop legislation to protect access to cash and ensure that the UK's cash infrastructure is sustainable in the long term, as announced in the 2020 Budget. This collaborative work is ongoing and has continued throughout the COVID-19 pandemic.

Our aim is to ensure that cash remains a viable option for everybody who wants and needs to use it.

Why this matters

It's important for everybody to have ways to make payments that work for them. Although digital payments are increasingly dominant, cash remains an important method of payment for many, especially those on low incomes and the financially excluded. We will work to help prevent people being left behind by the pace of technological change. Our aim is to ensure that cash remains a viable option for everybody who wants and needs to use it, by protecting the existing ATM network and encouraging innovation in ways to access cash.

Consumers and payments

During the year we conducted quantitative and qualitative research to improve our understanding of consumers' and small businesses' attitudes toward, use of and needs in relation to cash. We published this research alongside a call for views in July 2019. We hosted a roundtable in October 2019, attended by industry, consumer groups and other regulatory bodies, to discuss our evolving thinking in this area.

Our research found that, whilst the proportion of people identified as wholly dependent on cash was small, over 80% of people regularly use cash. Responses indicated that most consumers fell into one of two categories: those dependent on cash for all, or most, of their transactions, and those that use a mixture of cash and non-cash payment methods, using cash occasionally.

We published a response to our call for views and summary of our roundtable discussion in March 2020. We received 22 responses from a range of stakeholders, including banks, Independent ATM Deployers (IADs) and consumer groups. At the roundtable we discussed how best to capture consumers' experience of access to cash, and the need for a bottom-up approach to fill any gaps in cash access through community-level engagement. This has led to a focus within our Access to Cash project on tracking consumer outcomes and local engagement.

We also undertook research with small and medium-sized enterprises (SMEs) to further our understanding of how they think about and use payment systems. This included the challenges they face and their views on how payment systems will evolve in the future, and has helped inform how we can best engage with SMEs in the future.

We found that SMEs' top priorities for payment methods are strongly focused on reliability, security and speed. While they don't face a single clear challenge in relation to their payments, there are concerns about bank branch and ATM closures and the potential for fraud. SMEs typically don't consider the payments industry in greater depth than this, or choose the payment systems they use according to any particular strategy.

Although the SME sector varies significantly in terms of skills and resources, they can be broadly categorised into three groups:

- card accepters (accept card payments but feel the costs are excessive)
- cash but not card accepters (risk averse and least likely to try new payment methods)
- bank transfer accepters (without cash or card)

To supplement our research, it was important that we were able to conduct a number of regional roundtables with representatives from small businesses, local charities, postmasters/mistresses, publicans, the National Farmers Union (NFU), local authorities, residents and MPs to gain insight into local community habits and attitudes to cash and payments. Our programme of local engagement meant that we could hear, first-hand, how different payment methods are used and accepted, giving us clear insight into how the direction of our work can support access to payments in ways that work for everyone.

Our future research will look at the impact of COVID-19, asking how it's affected people's payment methods during this time and whether they think they will make permanent changes.

Why this matters

Understanding people's relationships with payment systems – their needs and behaviours – is a crucial part of effective regulation. Along with our other research, such as our approach to strategic analysis (see page 44), it helps inform our policy decisions to make sure payment systems give people the services they need.

Data in payments

This year we concluded our first in-depth look at data in payments. Data is integral to payment systems, and is becoming increasingly important as new ways of using data become more and more widespread. These include initiatives to fight financial crime as well as new services and products for consumers.

We started a conversation with the industry about data, to look at where we might have a regulatory role to play. In June 2018, we published a discussion paper asking for views on payments data issues. A range of stakeholders responded, including PSPs, consumer groups, and technology providers. Most recognised the potential benefits of increased payments data use.

However, they also raised several issues, such as the need for more clarity on legal definitions of data and processing of data, and the lack of well-defined use cases to justify opening access to scheme-wide data (data on all the transactions in a particular payment system).

In September 2019, we published our follow-up paper. We concluded that the move to the New Payments Architecture (NPA) (see page 43) provides an opportunity to look at the feasibility of opening access to NPA scheme-wide data. This could involve first publishing synthetic (computer-generated) NPA data for firms to experiment with, so they can develop and test new products without compromising data security. We committed to exploring this possibility during our work with Pay.UK on its development of the NPA.

Why this matters

The amount of payments data being generated is growing fast, and so are the ways it's used. It's vital for us to maintain an understanding of the issues involved, so we can take action where necessary to make sure payments data is used in the best interests of the people and businesses using payment systems.

Direct debit

We've continued our monitoring of the effectiveness and operation of some Direct Debit scheme changes introduced by Bacs (now part of Pay.UK) in recent years. These aim to protect service users by ensuring refund requests claimed under the Direct Debit Guarantee are handled fairly, and that inappropriate or fraudulent refund claims are identified.

In addition, we've continued to track the roll-out of Pay.UK's accreditation scheme for Direct Debit Facilities Management (FM) service providers. Bacs introduced this scheme after we required it to address barriers to switching FM providers with our Specific Direction 7 in 2018. FM providers process Direct Debits on behalf of businesses and other organisations. This new accreditation scheme requires commercial FM service providers to assist any customers (typically small organisations) who want to switch to a new FM service provider, helping to promote competition in the provision of FM services.

Our monitoring in 2019/20 included engaging with Pay.UK on its consultation on changes to the accreditation scheme in response to feedback from users.

Why this matters

Millions of people use Direct Debit to pay bills and subscriptions. Our work helps to make sure the scheme continues to work well for everybody using it.

Payment Accounts Regulations 2015 (PARs)

We are the UK competent authority for designating alternative account switching schemes (schemes that are independent of the banks involved) under the Payment Accounts Regulations 2015 (PARs).

We must also ensure each scheme meets the criteria set out in the PARs:

- it is clearly in the consumer's interest
- it doesn't impose any additional burdens on the consumer
- the procedure is completed in 12 working days

As part of the annual monitoring and PARs assessment process, we review information and evidence submitted by Pay.UK in relation to the Current Account Switch Service (CASS). In September 2019, we published a statement confirming that CASS continues to meet the PARs criteria for designation as an alternative switching scheme. We'll review this again in summer 2020.

We're ready to consider any applications for schemes to be designated as alternative switching schemes, but as of April 2020 we had received no other applications.

Why this matters

The ability to switch accounts is a fundamental part of competition in payments, which leads to benefits for consumers in terms of good service and innovation. Our work ensures that alternative account switching schemes enable and encourage this competition in the right way.

Delivering our commitments

Project or workstream	What we said we'd do	What we've done
Authorised Push Payment (APP) scams	**Monitor the implementation of the Contingent Reimbursement Model (CRM) Code to make sure it produces the intended outcomes, and take action if necessary.**	We monitored how the Code works in practice, and in March 2020 held an industry roundtable to review the Code's impact and set out what we see as the outstanding issues and the way forward to improve consumer outcomes.
	Monitor the delivery of the industry Mule Insights Tactical Solution (MITS).	We engaged with the relevant stakeholders about the delivery of MITS, which helps identify 'mule' accounts used by criminals to receive the proceeds from frauds.
	Publish our response to our consultation on directing PSPs to implement Confirmation of Payee (CoP).	We issued a further consultation resulting in us giving Specific Direction 10 (Confirmation of Payee) to PSPs in the six largest UK banking groups. This required them to bring in CoP by 31 March 2020. In recognition of the impact of COVID-19, in March we said we'd take no formal action for the period until the end of June if a bank needed to delay its roll-out, as long as customers were not disadvantaged and CoP was implemented as soon as is reasonable. All the groups had introduced CoP by July 2020.

Project or workstream	What we said we'd do	What we've done
Access to cash	**Keep a close eye on the impact of LINK's interchange fee cuts over time, and the effectiveness of LINK's policies and measures in response to our Specific Direction 8 (SD8).**	We published our first Annual Review of Specific Direction 8 in March 2020. We concluded that LINK had made generally good progress in developing policies to meet the commitment and that SD8 should stay in place for the time being, with a second review due in October 2020. We also made recommendations to help LINK meet the commitment as well as it can.
	Continue to work closely with LINK and other stakeholders.	We published a call for views on the current structure of LINK's interchange fees. We hosted a roundtable event in July 2019, attended by industry, consumer groups and other regulatory bodies. These helped us understand different perspectives from a range of stakeholders. The government convened the Joint Authorities Cash Strategy (JACS) group in May 2019 to coordinate work on different parts of the cash system. It's chaired by the Treasury and brings together government, the FCA, the Bank of England and the PSR.
Consumers and payments	**Further research to examine what consumers need and want when making payments.**	We conducted quantitative and qualitative research to improve understanding of consumers' and small businesses' attitudes toward, use of and needs in relation to cash. We published this research alongside our call for views in July 2019.
	Analyse the economic characteristics of different ways of accessing cash, how easy it is for people to get cash and what the alternative options could be to those available today.	We hosted a roundtable in October 2019, attended by industry, consumer groups and other regulatory bodies, to discuss our evolving thinking in this area and get their views. We published a response to our call for views and summary of our roundtable discussion in March 2020.

Project or workstream	What we said we'd do	What we've done
Data in payments	**Publish an update on our research following our 2018 discussion paper and roundtable event.**	We published our follow-up paper in September 2019. We said we'd work with Pay.UK to look at the feasibility of opening access to NPA scheme-wide data, including use of synthetic data.
Direct Debit	**Monitor the effectiveness of the Direct Debit Guarantee, and of rule changes on the provision of Direct Debit Facilities Management (FM) services.**	We continued our monitoring of the changes introduced, and engaged with Pay.UK on its consultation on updates to the FM provider accreditation scheme.
Payment Accounts Regulations	**Monitor CASS to ensure it continues to meet the designation criteria under the PARs.**	In 2019, we reviewed CASS as part of our annual review and were satisfied that it continues to meet the criteria to be an alternative switching scheme.
	Consider any new applications for switching schemes to be designated under the PARs.	We have been ready to consider new applications for alternative switching schemes, but have received no new applications.

Promoting competition

Our focus on competition was illustrated this year by our market review of the supply of card-acquiring services. This is an important project giving us a thorough oversight of a crucial part of the card payment chain. The insights will be invaluable to us in ensuring the market works well for merchants and consumers.

Elsewhere, our work on opening up access to payment systems continues to bear fruit, with more new payment service providers (PSPs) being able to enter the market and provide competition that should ultimately benefit everyone. And our work on competition enforcement investigations is helping us to make sure payments firms are complying with their obligations.

Market review of card-acquiring services

Card-acquiring services are services to accept and process card payments on behalf of a merchant, resulting in a transfer of funds to the merchant. These services are an essential part of card payments. We're carrying out a market review to find out if the supply of these services is working well for merchants and, ultimately, consumers.

As part of our work, we're examining how competition in the supply of card-acquiring services operates. This includes looking at the fees merchants pay for card-acquiring services and the quality of service they receive.

Over the course of 2019/20, we gathered evidence and information from a range of stakeholders. We also sought views at an early stage on some of the analysis we planned to carry out, by consulting on our proposed approach to:

- the pass-through analysis (examining how the fees merchants pay have responded to changes in the fees acquirers pay to card scheme operators and card issuers)
- a survey of small and medium-sized merchants (including consulting on the draft questionnaire)
- profitability analysis (looking at the profitability of card-acquiring services)

During the year we extended our proposed timetable for the market review. This was to take account of additional issues in the submissions we received about the information we intended to collect; due diligence and onboarding procedures on the consultants we appointed to help with our analysis; and the COVID-19 pandemic.

We plan to publish our interim report in Q3 2020, followed by a period of consultation and stakeholder engagement. We will consider these views carefully before we publish the final report in 2021.

Why this matters

Card payments are critical to the smooth running of the UK economy. They are now the most popular way for consumers to pay for goods and services, and their use continues to grow – UK Finance's *UK Payment Markets Summary 2019* shows that debit card payments are expected to be four times more popular than any other payment method by 2028. Our market review was prompted by concerns we've heard from stakeholders about the supply of card-acquiring services.

The Interchange Fee Regulation

Over the past year, we continued our work as the main UK competent authority for monitoring and enforcing compliance with the Interchange Fee Regulation (IFR) in the UK.

The IFR is an EU regulation that caps the interchange fees that merchants pay on certain card transactions, and sets certain business rules. Since coming into force in 2015, the IFR has led to a significant decline in merchants' card acceptance costs in the UK, according to the IFR study published by the European Commission. The IFR has a significant impact on the cost of using cards, which have now overtaken cash as the most popular method of payment in the UK.

The UK left the EU on 31 January 2020. However, the IFR will continue to apply until the transition period ends on 31 December 2020. After this date, the regulation of interchange fees in the UK will depend on the terms of the details of the UK's future relationship with the EU. We've worked with the Treasury to onshore the IFR into UK law so, if this is not covered by the agreements currently under negotiation, it will come into force at the end of the transition period.

During 2019/20, we considered a number of potential compliance issues related to the IFR business rules with regulated parties. The issues we addressed included the requirements for card schemes and payment service providers to ensure information transparency for merchants, and to not restrict their ability to accept or reject certain card payments.

These were issues that it was appropriate to address through alternative actions rather than opening investigations, considering our Administrative Priority Framework criteria, including particular circumstances, and bearing in mind our priorities at the time.

Our alternative actions were aimed at getting parties into compliance as soon as practicable. Through engagement with parties, we have ensured that compliance issues have been addressed. The approach we have taken in these matters does not indicate that where a party has developed a plan towards compliance, or where compliance has been achieved, this will preclude us from opening or continuing with an investigation. In the case of two potential compliance issues, we referred the matters to other national non-UK IFR competent authorities.

We also began our work monitoring compliance with Article 7 of the IFR, which requires the separation of payment card schemes and their processing entities. This has involved close collaboration with other EU competent authorities and will be a key piece of work next year.

Why this matters

The costs that merchants incur in processing card transactions are typically passed on to consumers, so the caps imposed by the IFR could lead to lower prices. Our work on ensuring compliance with the IFR helps to make sure its intended benefits are achieved.

Access to payment systems

A major focus for us since we launched has been access to payment systems. We broke new ground by removing some of the barriers to fair access, pushing forward our aim of creating the conditions for more effective competition within payment systems. Enabling access for a greater number of firms can also lead to innovations that benefit the people and organisations using these systems.

In the last three years, direct access has become much more open, with the numbers of new direct participants in the interbank payment systems growing year-on-year. New technology has presented more ways of connecting, such as aggregator services and direct technical access. Seven PSPs[1] joined one or more interbank systems (FPS, Bacs and CHAPS) directly in 2019/20. We expect a further six PSPs to join the interbank systems directly in the remainder of 2020. We continue to work closely with the Bank of England, the FCA and Pay.UK on direct access issues.

In relation to indirect access, there have been recent joiners in the market who are actively onboarding new PSPs, and there are now more indirect access providers than ever before. The new entrants[2] onboarded a number of PSPs in 2019/20. We are aware of other PSPs that are considering, or are in the process of, becoming indirect access providers.

We published our 2019 Access and Governance report in June 2019, covering developments in access to, and governance of, interbank payment systems over 2018.

Our access powers

As well as creating the right conditions for access to the UK's payment systems, we have an enforcement role under relevant legislation. We are the competent authority for monitoring and ensuring compliance with the access provisions set out in Part 8 of the Payment Services Regulations (PSRs) 2017.

1 TSB, PayrNet, LHV Pank, Modulr, Revolut, Metro and N26 (N26 has since left the market).

2 Starling, Clearbank and BFC Bank (BFC Bank has since announced it is leaving the market).

As part of this role, we consider complaints about compliance with these provisions, and act on them as appropriate. One requirement is that payment system operators, indirect access providers and credit institutions must have access terms that are proportionate, objective and non-discriminatory.

The PSRs 2017 give us a range of powers which are focused on ensuring compliance with these provisions. We can:

- gather information and conduct investigations into potential non-compliance
- give directions
- impose sanctions, including fines

We also have powers to deal with access matters under sections 56 and 57 of FSBRA. We can intervene in access disputes if we receive an application from a PSP to use our powers.

In our role as competent authority under the PSRs 2017, we received a number of complaints in 2019/20 from PSPs who have had access refused or withdrawn. Where we have reason to believe that there may be a compliance failure, we will decide whether to open a case. We will make an assessment having regard to our published Administrative Priority Framework. We haven't opened any access enforcement cases to date, although we're still considering a number of complaints. We did not receive any applications to use our FSBRA section 56 or 57 powers in 2019/20.

In addition, credit institutions are required to tell us when they refuse or withdraw access to bank accounts to PSPs, under regulation 105 of the PSRs 2017. In 2019, we received 391 of these notifications – up from 197 notifications in 2018, the year the legislation commenced. When this has happened, we have followed up with credit institutions about a refusal or withdrawal. We are co-competent with the FCA on Regulation 105 and have regular meetings with them. As part of these meetings, we consider the notifications received and whether to follow up on them or take any other action.

During the year we have continued reviewing our guidance on how we monitor and deal with complaints under the PSRs 2017 and access disputes under FSBRA. Our consultation on revised guidance has been delayed by other priorities, and as we have continued to develop our approach in light of experience. We plan to consult on changes in 2020/21.

Why this matters

Our work on opening up access to payment systems has allowed more PSPs to enter the market, increasing competition and allowing new services to be developed. This has benefits for everyone using the systems, bringing more services to the market and a greater choice of providers to suit peoples' needs.

Our revised 'day one' general directions

This year, we published revised versions of our 'day one' Directions.

When we established our initial regulatory framework at our launch in 2015, we issued six General Directions and one Specific Direction, which came into effect between April and September 2015 (our 'day one' Directions). The Directions are relevant to our statutory objectives under FSBRA, of promoting competition, innovation and the interests of service-users. The majority of the Directions were intended to improve access to, and the governance of, payment systems in the UK.

There have been various market and legislative changes since we introduced these Directions. We've reviewed them to make sure they continue to be fit for purpose now and in the future, and consulted on changes. We completed the review and published revised Directions in March 2020, along with our final response to our consultations.

During the consultations, we met with 25 stakeholders through small roundtable discussions and various bilateral meetings. Over 2019/20, we analysed the responses and carried out extensive legal reviews to make sure the final Directions were robust and met our aims.

We didn't radically change the Directions, but we did make some changes to ensure they remain relevant and proportionate, and to tailor our requirements to market realities, legislative changes and expected future developments. We also provide more comprehensive guidance for General Direction 1, covering regulated parties' cooperative relationships with us.

The revised General Directions 1 to 5 came into force on 5 April 2020. The revised Specific Direction 1 came into force on 5 May 2020.

Why this matters

The payments industry is constantly evolving, and it's vital that we adapt to make sure we continue to operate effectively as a regulator. The changes we've made to our Directions make sure they reflect changes since we became operational, and anticipate our future needs.

The payments industry is constantly evolving, and it's vital that we adapt to make sure we continue to operate effectively as a regulator.

Competition enforcement casework

This year we continued investigating our first Competition Act 1998 (CA98) case.

In line with the competition concurrency regime, we've been cooperating closely with the Competition and Markets Authority, in particular, in relation to the ongoing investigation. This has involved the reciprocal sharing of knowhow and experience in different areas of our work to make the best use of our resources and expertise.

Delivering our commitments

Project or workstream	What we said we'd do	What we've done
Market review of card-acquiring services	**Gather evidence and information from a range of stakeholders, expecting to publish an interim report at the end of 2019.**	We published working papers on different areas of our analysis, and ran a survey of merchants after consulting on the draft questionnaire. We collected and analysed information from a range of stakeholders in preparation for our interim report. We extended our proposed timetable to take account of issues in the submissions we received, as well as procedures to appoint consultants to help with our analysis, and to take account of the COVID-19 pandemic. We plan to publish our interim report later in Q3 2020.
The Interchange Fee Regulationn	**Continue our approach to monitoring compliance with the IFR.**	We continued our monitoring work to address potential compliance issues with regulated parties.
	Engage with other EU authorities with similar monitoring functions.	We began our work monitoring compliance with Article 7 of the IFR.
	Consider the impact of the UK leaving the EU and explain how our work will be affected as soon as practicable.	Worked with the Treasury to onshore the IFR into UK law.
Access to payment systems	**Enable access by new entrants to payment systems.**	Nine PSPs joined one or more interbank systems (FPS, Bacs and CHAPS) directly in 2019. We expect a further six PSPs to join the interbank systems directly in 2020.
	Consult on changes to our guidance on how we deal with complaints about access under the PSRs 2017, and access disputes under FSBRA.	We've continued to review our guidance in preparation for our consultation, which we now intend to publish later in 2020.
	Consider new and existing complaints from PSPs about access to payment systems.	We continue to consider complaints and notifications we receive under the PSRs 2017. We haven't opened any access enforcement cases to date, although we're still considering a number of complaints.

Project or workstream	What we said we'd do	What we've done
Our revised 'day one' Directions	**Assess the responses to our consultation on the text of our revised Directions, and publish final revised versions.**	We published the final revised Directions in March 2020.
Competition enforcement casework	**Continue work on our open case under the Competition Act 1998.**	We have continued investigating the case, cooperating closely with the Competition and Markets Authority.

Promoting innovation

Pay.UK's development of the UK's New Payments Architecture (NPA) is leading to a fundamental change in the way interbank payments work in this country. This could provide improvements in competition, the types of interbank services offered, and payments security, including competition for card payments in retail transactions. All these have potential benefits for consumers and businesses, such as a wider choice of payment services to suit different needs – but the change has to be done right. Our work has been crucial in guiding Pay.UK's work and making sure the end goals remain in sight at all times.

This is just one example of the wealth of innovation happening constantly in payments. We've enhanced our intelligence and analysis capabilities this year to make sure we're always ready to make the right regulatory decisions at the right time as new developments emerge.

The New Payments Architecture

The NPA is a new infrastructure proposed for the UK's retail interbank payment systems, which is currently being developed by Pay.UK. It will change the way that Bacs, Faster Payments and cheque payments are processed, with the potential to provide new and better payment services for everyone. We're monitoring the process and engaging with Pay.UK to make sure the new system delivers its intended benefits.

The NPA was proposed by the Payments Strategy Forum we set up in 2015 to resolve historical issues of restricted innovation within the interbank payment systems. In December 2017, the Forum handed over responsibility for developing and delivering the NPA to the New Payment Systems Operator (NPSO), now called Pay.UK.

Pay.UK is the system operator for Bacs, Faster Payments and Cheque and Credit. It's also responsible for developing and delivering the NPA, including running a competitive procurement process for the NPA's central infrastructure services (CIS).

Pay.UK began its procurement of the NPA CIS in December 2018 with the launch of the pre-qualification questionnaire (PQQ) to identify potential suppliers. The next stage of the process, the request for information (RFI), was completed in 2019 and the procurement process continues. In parallel, Pay.UK reviewed its NPA programme to make sure it can deliver the desired outcomes.

We've been monitoring Pay.UK's development of the NPA to ensure it supports competition and innovation while producing good outcomes for payment system users. We engage regularly with Pay.UK on NPA key issues and risks, and to ensure that our expectations and objectives for the NPA are met.

In May 2019, we published an open letter which set out our thinking about the potential risks and issues in relation to competition and innovation within the NPA – the important issues at the heart of the development that we must get right. We followed this with a call for input in January 2020, asking for stakeholders' views on these potential risks and issues. We're currently analysing the responses, which will inform our future regulatory approach. In turn, this will provide greater clarity to the NPA CIS bidders and industry before the NPA goes live.

We continue to work closely with the Bank of England, which also has an interest in the development of the NPA due to its responsibilities for financial market infrastructure. This coordination will help us ensure the NPA meets our combined regulatory objectives.

We've been monitoring Pay.UK's development of the NPA to ensure it supports competition and innovation while producing good outcomes for payment system users.

Why this matters

The NPA is the biggest change in UK payments in a generation. It's set to fundamentally change the way interbank systems work for the foreseeable future – so it's a change we have to get right. Our role in monitoring and guiding Pay.UK's work is vital in ensuring the NPA will be able to deliver its intended benefits – allowing greater competition, innovation and security enhancements that will lead to more services and more secure payments for everyone. It could also lead to interbank payments being able to be used as an alternative to other payment methods such as cards or cash, providing greater choice and benefits for consumers.

The future of retail payments

Last year we began looking at how new permissions and standards could change how consumers pay for goods and services in the future. We've continued to engage with industry and other authorities on Open Banking issues which could impact our objectives. In addition, the scope of our work on retail payments issues that affect consumers more directly has evolved further – such as our work on the Contingent Reimbursement Model (CRM) Code and Confirmation of Payee (CoP), both aimed at reducing fraud (see page 22).

We are now looking at the consumer protections in Faster Payments and within the Open Banking ecosystem. This will complement our work on the Code and CoP, but will also look more broadly at existing and future payment propositions that use Faster Payments. In addition to this work, we will co-chair a working group of Open Banking stakeholders, consumer representatives, and other stakeholders alongside the Open Banking Implementation Entity. This working group will identify and address consumer protection issues within Open Banking.

Why this matters

Our work on Open Banking and retail payments is contributing to efforts to make payments safer for everyone. It may also increase competition and choice in the ways consumers can pay for goods and services.

Strategic intelligence and analysis

In line with our forward-looking approach to regulation, we continue to assess the issues and challenges that arise as payment systems evolve in a changing environment. Developments such as the NPA, changes to how cash is used and accessed, Open Banking, and the switch to the new technical message standard ISO20022, are leading to new systems, products and entrants to the payments landscape.

We've enhanced our approach to horizon-scanning and the gathering and analysis of data, to help us review the impacts of these developments and understand the resulting concerns and risks.

Key outputs of this work over 2019/20 included:

- a more formal structure for internal reports on current developments and concerns
- information gathering on sources and types of data that enhance our analytical tools

This work has enhanced our internal discussions on the impacts of changes and created a forum to facilitate cross-project and cross-team discussions on these. Our Chief Economist leads this work with input from across the organisation, including internal policy advisers, economists, and legal and technical experts.

We also collaborate with other authorities to keep abreast of relevant developments, especially the FCA and the Bank of England.

This collective approach to monitoring helps us to be more proactive in assessing the impact of developments such as COVID-19, as each unit contributes to updates on changes in the industry.

Ultimately, the enhanced approach to intelligence gathering and reporting feeds into our decision-making processes, and the development of our medium to long-term strategy. During 2020/21, we aim to further advance our information and data-gathering tools.

Why this matters

Understanding the emerging issues and challenges in the payments sector helps us decide where we need to concentrate our focus to further our objectives, and ensure we make the best use of our resources.

Delivering our commitments

Project or workstream	What we said we'd do	What we've done
New Payments Architecture (NPA)	**Monitor Pay.UK's procurement of central infrastructure services for the NPA to make sure it will achieve the intended benefits.**	We've been monitoring Pay.UK's development of the NPA, and have engaged regularly with Pay.UK on NPA key issues and risks. We published an open letter on our thinking about the potential risks and issues in relation to competition and innovation within the NPA. We issued a call for input on these issues in January 2020.
The future of retail payments	**Carry out research on the impact new services could have on participants in payment systems.**	We started scoping work on consumer protections in Faster Payments and Open Banking.
Strategic intelligence and analysis	**Develop our approach to gathering and analysing data.**	We advanced a more formal internal approach to gathering, analysing and reporting on industry developments.
	Coordinate with other regulators and the industry to establish priority areas for us to examine in depth.	Met with other regulators such as the FCA to deepen coordination of data gathering and access, as well as using input from the PSR Panel.

Regulatory Enforcement

Casework

In our annual report for 2018/2019, we reported that we had opened seven investigations into potential Interchange Fee Regulation (IFR) compliance failures. Our work on these investigations continued during 2019/20.

If an investigation demonstrates that a regulated person has failed to comply with an obligation imposed by the IFR, we have the power to take enforcement action. This includes the power to publish details of the relevant compliance failure, and/or to impose a financial penalty for the compliance failure and publish details of that penalty. In deciding the most appropriate course of action to address a suspected compliance failure, we consider all the relevant circumstances of the matter against the factors set out in our Administrative Priority Framework (APF), which sets out how we use our resources in the most efficient and effective way.

In two of our original seven IFR investigations we took the decision to close the investigations without proceeding to formal enforcement action. These investigations concerned the IFR caps rules and/or business rules related to the caps.

In both investigations, we decided that particular circumstances, bearing in mind our priorities at the time, meant that it was appropriate and a more efficient use of our available resources (taking into account our APF criteria) to address the issues that led to us opening an investigation through alternative action.

One relevant factor, in both cases, was that the regulated parties involved were taking active steps to become compliant as a result of our opening an investigation against them. Before closing the investigations, we engaged with the parties concerned, formally outlining to them what our concerns were and putting in place measures to ensure ongoing monitoring of their compliance plans by our compliance and monitoring team.

The approach taken in these cases does not indicate that where a party has developed a plan toward compliance, or has achieved compliance, before the competition of an investigation, this will usually lead to us closing the matter without enforcement action being taken.

Since closing these cases, one party has satisfied us that it has successfully completed all of the agreed steps in its compliance plan, and the other continues to make progress towards compliance in accordance with its planned timetable.

Should compliance not be achieved in the second case, as planned, then it remains open to us to resume our investigation.

Our five remaining IFR investigations are ongoing. Information gathered during our regulatory enforcement investigations has assisted our understanding of the industry and the approach firms employ in dealing with us and this, in turn, is informing our policy and compliance-monitoring work.

Our investigations have shown that we must take a holistic approach to considering suspected breaches of the IFR (at both the compliance monitoring and enforcement stages). We need to form as complete a picture as possible of each firm's approach to compliance with the IFR (or any other relevant legal requirements) when deciding what action to take.

Why this matters

It is crucial that we, like other regulators, have a credible and agile enforcement function to assist us in delivering our statutory objectives where other measures are insufficient to achieve this. It is important that industry stakeholders understand that we are prepared to take timely, targeted and effective enforcement action in appropriate cases.

Our enforcement work supports our service-user and competition objectives by holding regulated parties to account for non-compliance with their obligations, and ensuring that the payments sector is working well and that effective competition translates into better prices, choice and innovation.

Revising our Powers and Procedures Guidance (PPG)

In 2019/20, we consulted on our proposed revisions to our Powers and Procedures Guidance (PPG) and to the related section of our guidance on the IFR. For the most part, we did not propose to change our procedures but our proposed revisions provided more information about them. However, in some places we considered that there were ways in which our procedures could be improved and we highlighted these in the consultation paper. Our overall aim was to make our guidance as clear and accessible to users as possible.

We have now reviewed the responses to our consultation and made final changes to the PPG and relevant section of the IFR guidance to reflect these, as far as is appropriate.
We published the updated version of both sets of guidance and our response to our consultation in June.

Why this matters

Making our expectations and procedures clear to stakeholders is an important part of regulation. Making sure the PPG is up to date supports all of our work and helps regulated parties understand our powers, how we choose what action, if any, to take and how we exercise our functions. This cuts across all our objectives.

Our organisation

Our people

At its core, our strength lies in our talented and dedicated people. With the onset of COVID-19, one of our immediate priorities has been the health and wellbeing of our staff and adapting to the conditions forced on all of us by lockdown.

Over the course of 2019/20, we've continued to build and develop multi-skilled teams, using a mix of flexible and permanent resources to help ensure we have the capability and skills necessary to deliver our aims and objectives. We've successfully promoted 14 employees. Where we've been unable to source talent from within, we've attracted 34 high calibre people to join the PSR through a combination of 12 joiners from the FCA and 22 external appointments.

We've received over 1,950 applications to date, a 40% increase compared to 2018/19.

External turnover has fallen slightly this year from 12.8% to 12%.

Providing and supporting career development is a key part of our talent offering which helps our people to achieve their full potential. In addition to training, development, mentoring and coaching, we also work closely with colleagues at the FCA, the Bank of England (the Bank) and the Competition and Markets Authority (CMA) to share knowledge and experience. During 2019/20, we are pleased to have supported six colleagues who have been seconded to the FCA (2), the Money Advice Trust (1), the CMA (1) and the Treasury (2). We have also welcomed seven secondees from the FCA (6) and the Bank (1).

Our staff survey

The PSR participated in the Great Place to Work survey again this year, an independent survey of our staff to help us learn about their experience of working at the PSR. This feedback helps us to create a workplace which is committed to delivering against our goals and values and provides a supportive environment which enables our people to perform at their best. Our latest employee survey demonstrates a close link to our people strategy which currently focuses on:

- growing leadership and management skills
- building a high-performing organisation
- enabling a collaborative and engaging working environment through increasing awareness of and access to our learning and career development resources, and using our Capability Framework
- continuing to embed the PSR Values

In our employee survey, our people told us that they value our focus on talent management, and there was a 15% year-on-year increase in colleagues reporting that they have an opportunity to receive recognition. This feedback helps to make the PSR a high-performing organisation which listens and cares about the development and wellbeing of its people.

Our highest scoring categories were diversity, with an 89% positive rating, corporate social responsibility at 81% and our culture and work environment and processes, both at 72%. Our leadership team will continue to focus on defining our strategy and direction as we develop different ways of working to meet the challenges of COVID-19, which also support the wellbeing of our staff and enable us to deliver our ongoing work programme.

Our staff have been able to demonstrate their commitment to corporate social responsibility through a combination of staff volunteering and fundraising activities. For a second year, we supported local charity Ambition, Aspire, Achieve, which provides a much-needed range of services for disadvantaged, vulnerable and at-risk children and young people across Newham.

Diversity

Our survey results also demonstrate our commitment to diversity and inclusion. As proud signatories of the Women in Finance Charter, we are committed to supporting the progression of women into senior roles and have set targets both for gender and black, Asian and minority ethnic (BAME) representation. To support this, our senior leadership team and managers have a commitment to diversity and inclusion reflected in their performance objectives. Gender diversity across the senior leadership of the PSR is already above 50%.

As a small organisation, our target is to maintain a balance of 50% women in the leadership team, with a variance factor of plus or minus 10%, and to continue to develop a balanced pipeline of talent through to the end of 2025 and beyond. (This is a broad range as, due to the size of our organisation, just one or two joiners or leavers can have a significant impact on our gender and BAME representation.) We are also committed to achieving a minimum of 8 to 15% BAME representation across our senior leaders and managers by the end of 2025. Currently our BAME representation at this level is at 7%, whilst representation across the organisation is at 24%.

We're also committed to achieving gender pay balance. This is our third year of reporting. Our gender pay gap figures are based on a snapshot taken on 31 March 2020 and relate to our pay data from 1 April 2019 to 31 March 2020.

We are very pleased to report that our median pay gap has decreased significantly by 9.6% to 12.9%, and the median bonus pay gap has also decreased significantly by 19.8% to 12.5%.

The mean pay gap has increased this year by 1.4%, but the mean bonus gap has dropped by 4.9% to 2.6%.

It's worth noting, though, that our total staff population is less than half the number of employees (250) required to make gender pay reporting mandatory. This means the calculations can vary significantly with small changes in the population, so each year of reporting may show considerable movements.

We are experiencing unprecedented times across the world with regard to diversity and inclusion, and particularly the Black Lives Matter movement. We had already made the decision to voluntarily report on our BAME pay gap for the first time this year, and it is even more important for us to do so now. As our data is based on fewer than 100 people, one person can make a significant difference. Using the same snapshot of data and calculations as used for gender, 89% of our people have declared their ethnicity. 20 confirmed that they are BAME, which is 24% of our total population. The pay gaps for BAME are significantly larger than those for gender because the majority of BAME colleagues, 13 (65%), are at Associate grade, forming a significant part of our talent pipeline. 15% are currently in a Manager grade and above. We are very pleased that we have a strong BAME talent pipeline at Associate level, but this does mean that our BAME pay gaps are significantly higher, as our more senior population receive higher pay and bonuses.Our BAME median pay gap is 37.5% and the median bonus pay gap is 68.9%. The mean pay gap is 28.6% and the mean bonus gap is 41.3%. There are a similar proportion of BAME and non-BAME colleagues that receive a bonus. The median bonus gap shows that non-BAME colleagues receive an average bonus almost three times as high at that received by a BAME employee. However, again, as the bonus is calculated as a percentage of salary, the gap arises because 65% of BAME employees are mainly represented in the more junior grades of the organisation.

In order to nurture and develop our talent pipeline and future leaders, we have established a Reverse Mentoring Programme, to provide our BAME colleagues (and those from other under-represented groups) the opportunity to reverse mentor our senior leadership team and managers.

This programme provides us with an opportunity to listen to all of our under-represented groups; to provide them with direct access to our leadership team; and to help us learn from their insight and the challenges they face. In support of Black Lives Matter we have also developed a toolkit to support our managers, to help create safe spaces for discussions to take place. We are also rolling out additional unconscious bias training interventions and we are currently developing an 'Acts of Allyship' toolkit to support an action-focused ally strategy, which will help to embed 'Inclusion Allies' across our senior leadership team. Our aim is that these programmes will go further to help us develop diverse teams capable of dealing with the tough challenges we face, and reflect the society within which we operate.

Good corporate citizenship and corporate responsibility are important parts of our identity, both as an employer and as a regulator. We will not tolerate slavery or human trafficking in our business or supply chains. We are committed to continually improving our policies and practices to play our part in fighting against slavery and human trafficking, and protecting human rights. We continue to be a Living Wage Employer. We also have a strong commitment to diversity and inclusion and looking after the wellbeing of our people, ensuring that they are safe and well and appropriately cared for. Our various policies and procedures aim to ensure that we create a safe and inclusive working environment for our staff.

How we engage with our stakeholders

In 2019/20, we continued to be proactive in our engagement with our wide-ranging and varied stakeholders, making sure that – as well as sharing key information and developments – we took the time to discuss our work, as well as listen and learn from what we were hearing.

Reflecting the vast range of people and businesses that use and rely on payments and payment systems every day, our range of stakeholders is also broad and diverse. From newsagents to international banks, consumer organisations to industry bodies, we place great importance on sharing and discussing updates about our work and hearing from those that it affects.

We do that through more traditional 'tell' communications – such as content for our website, email updates, speeches and press announcements; through two-way engagement – such as face to face meetings, phone and video conferencing and roundtable discussions; and by listening – such as attending events, regional visits and research workshops. We keep our approach under review to adapt and refocus our engagement where necessary.

The PSR Panel, which is set up to be representative of our stakeholder population, provides us valuable insight into the thinking of those we regulate and the people and businesses of all sizes that use and rely on payments. As well as discussing our work programme, we engage with the Panel about our broader approach such as communications and engagement, research we are planning (or sharing findings) and – naturally – our future direction as a regulator.

Despite our small size, a large proportion of our staff engage with our stakeholders – not just those working on our key projects, but volunteers from across our divisions who attend and support at PSR events.

Since we first started work, we have placed a great deal of importance on engagement and we will continue to do so, with new initiatives planned for 2020/21 that will help all colleagues engage in a confident, proactive and outward-facing manner.

Industry-facing stakeholders

- Payment system operators: designated for our regulation
- Payment system operators: non-designated
- Direct banks (not sponsors)
- Direct sponsor banks
- Indirect banks
- Payment or e-money institutions
- Independent ATM operators
- Acquirers and payment facilitators
- Payment infrastructure and technology providers
- Innovators/smaller technology providers
- Consultants
- Trade and industry bodies

User-facing stakeholders

- Consumer groups
- Charities
- Small and medium-sized enterprises (SMEs)
- Large businesses
- Government as users
- Retailers

Industry and user-facing stakeholders

- Regulators and other authorities
- Academics and think tanks
- Government and parliamentarians as representatives of the people
- The media

Stakeholder Perceptions Survey

Our approach in 2019/20 was informed by the feedback we received in our annual Stakeholder Perceptions Survey. We conduct this annual survey among our stakeholders to get their views on both the current state of the payments industry and our own objectives and role as a regulator.

Stakeholders told us they wanted to see us continue to take a balanced approach to:

- our three statutory objectives
- making sure we consider – and are seen to consider – the needs of our different stakeholder groups
- planning and delivery

We placed a greater focus on meeting a broader range of stakeholders last year, meeting people and small and medium-sized enterprises (SMEs) and communities who have a vested interest in certain areas of our work.

Changing attitudes to the use and acceptance of cash was a common theme, but we also met and listened to smaller companies, such as fintech innovators bringing about new payment services made possible by Open Banking. We also conducted research with SMEs to understand how they think about and use payment systems (see page 26).

We see these regional visits and tours as an essential part of our work, and will continue them in 2020/21.

We also began engaging with stakeholders on the PSR Strategy project, which will help us address another theme from the Perceptions Survey – making sure we are planning and delivering our work effectively and showing why it matters.

Owing to the impact of COVID-19 on our work programme, the results of our 2020 Perceptions Survey were not received in time for inclusion in this annual report. However, we will publish a summary of the results on our website.

Developing our approach – an updated Stakeholder Engagement Strategy

In the second half of 2019/20, our Communications Team began a full refresh of the PSR's stakeholder engagement strategy. It was considered at the April 2020 board meeting and, while the board meeting itself falls outside the timeframe of this annual report, because it was a significant piece of work during 2019/20 we have outlined the headline goal and objectives.

Stakeholders and their views are really important to us. Engaging in an open and transparent way helps us to make informed decisions, and to truly understand the implications of what we do. The PSR's stakeholder engagement goal is to ensure it is sharing the right information with, and listening and speaking to, the right people at the right time and in the right way.

We want to ensure stakeholders understand what we are doing and why – so they know what they need to do, feel like they can engage with us and be heard, and know that we are all working to improve payments systems for end users.

With the COVID-19 pandemic developing in early 2020 and then the government guidance for a nationwide lockdown in March 2020, a COVID-19 'overlay' was prepared that could show how, when and why the engagement strategy would need to adapt to take account of the new environment.

The objectives of the updated strategy are:

- Stakeholders understand what the PSR does and why, and they have confidence in our ability to deliver.
- PSR staff are engaged with all relevant new/emerging stakeholders and the PSR is effective at horizon scanning, following new and emerging trends for the future of payments, and creating advocacy as a result. During COVID-19, this means ensuring PSR presence at key networking and virtual conferences to ensure we are tapped into the right conversations, gathering insight and focusing on the right policy areas.
- Our staff and stakeholders positively view the way PSR engages, and that this helps them do their jobs more effectively to deliver better outcomes for users of payment systems.

The impact of COVID-19

As we were finishing our review of our stakeholder engagement strategy it became apparent that much would have to change in light of COVID-19. We quickly reviewed our stakeholder engagement strategy to make sure our objectives were still the right ones and remained achievable in a much-changed stakeholder environment.

We decided that while our overall approach and objectives remained appropriate, we would need to increase targeted engagement, build our network, and support our staff to help them adapt how they engage with stakeholders during the pandemic given the need for social distancing. This led us to make our stakeholder engagement strategy a 'digital first' strategy: increasing the level of content we share through our digital channels, and exploring new ways to use them; and making the necessary move from face-to-face events to digital engagement. This would help us ensure we are targeting different groups effectively.

We look forward to being able to provide an update on the success of our revised stakeholder engagement strategy, particularly in light of the COVID-19, in next year's annual report.

Working with other authorities

The PSR is now into its fifth year of regulation and is an established regulator leading significant areas of work that have ramifications for the way the UK economy operates.

In line with that responsibility, we continue to coordinate certain regulatory functions with the other UK financial regulators – the Bank of England (the Bank), the Prudential Regulation Authority (PRA) and, in particular, the FCA. This is a statutory duty that helps us share and enhance our knowledge and work more effectively and efficiently.

Given our especially close relationship to the FCA, we worked hard in 2019/20 to find efficiencies – where appropriate – in the way we work. This included sharing research findings and carrying out joint research in areas of shared interest – for example, our research on access to cash, as well as, on the people side, secondments between the two organisations, and senior advisers who share knowledge across both organisations.

As you would expect, we engage regularly with the Bank, the PRA and the FCA about payment systems, their evolution and regulation. We engage regularly with them to monitor developments in the industry and identify areas of common interests that cut across our respective regulatory perimeters. These include policy discussions on, for example, access to cash, APP scams and merchant acquiring. We also work with the Bank, the FCA and the Treasury to consider if our regulatory perimeter continues to be relevant for achieving our objectives in a changing environment.

Alongside the FCA and the Bank, we have also played an active role in feeding into two Treasury-led initiatives, the Payments Landscape Review and the Future Regulatory Framework Review, providing resources, feedback and expertise. These reviews have brought together policy makers and regulators to make sure that regulation and infrastructure keep pace with new payment models.

We and the FCA are both competent authorities in relation to Regulation 105 of the Payment Services Regulations 2017, covering access to bank accounts. We've continued to work closely with the FCA to monitor compliance with Regulation 105, including through regular meetings to discuss all notifications we receive of withdrawal or refusal of bank account access.

We are the lead competent authority for the Interchange Fee Regulation (IFR), sharing this competency with the FCA in relation to Articles 8(2), (5) and (6), 9, 10(1) and (5), 11 and 12 of the IFR. As we continue to monitor compliance with these provisions, we work with the FCA to ensure we cooperate effectively. We also cooperate with the European Commission Directorate-General for Competition and with other national competent authorities to increase the effectiveness of our IFR monitoring work. This collaboration has continued since the UK left the EU.

A statutory memorandum of understanding between the UK financial authorities is in place which describes the role of each authority in relation to matters of common regulatory interest and how the authorities intend to cooperate. The memorandum is reviewed annually. As a member of the Financial Services Regulatory Initiatives Forum, we welcome the launch of the Regulatory Initiatives Grid – a joint initiative designed to help firms prepare for upcoming regulatory work.

During the last year, we've also continued to engage regularly with the CMA and other sector regulators in the UK Competition Network to share expertise and insights into the identification and effective delivery of competition cases. We are members of, and take an active role in, the UK Regulators Network, which allows relevant bodies to pool their experience, identify best practices and work together where appropriate.

We engage with the European Banking Authority, the European Commission and other international supervisory authorities as needed. We are also members of the Organisation for Economic Cooperation and Development's (OECD's) Network of Economic Regulators, which advises the OECD Regulatory Policy Committee.

Whistleblowing

The ability of people who work for firms in a particular sector to alert the authorities if they believe their firm is acting unlawfully is an important element of ensuring markets act in the interests of consumers.
In order to ensure people are able to make disclosures, section 43F of the Employment Rights Act 1996 provides that whistleblowers may qualify for employment protections if they disclose information to a 'prescribed person'. The PSR is a Prescribed Person as defined in The Public Interest Disclosure (Prescribed Persons) Order 2014.

In order to fulfil our duties as a Prescribed Person, and to help fulfil our statutory duties to promote competition, innovation and the interests of people and organisations that use payment systems, we have processes in place to handle any whistleblowing enquiries or declarations we receive. Under our provision of services agreement with the FCA, the FCA's Whistleblowing Team undertakes the administration of any whistleblowing cases directed to or relevant to the PSR, with the PSR being the decision-maker on cases relating to its statutory remit.

In the current reporting period (1 April 2019 to 31 March 2020), we received one qualifying whistleblowing disclosure.
Under Regulation 3 of the Prescribed Persons (Reports on Disclosures of Information) Regulations 2017, we must produce an annual report on the disclosures that we have received. We are in the process of doing this and will publish it on our website.

The UK's withdrawal from the European Union

We have previously worked with the Treasury and the FCA to make sure relevant EU legislative instruments continue to function at the point of leaving the EU (also called the onshoring process) and to fix any potential deficiencies in domestic legislation that may arise as a result of the UK's withdrawal from the EU. This legislation includes:

- the Payment Account Regulations 2015
- the Payment Services Regulations 2017
- the Payment Cards (Interchange Fee) Regulations 2015
- the Financial Services (Banking Reform) Act (FSBRA) 2013
- FSBRA (Disclosure of Confidential Information) Regulations 2014

Given the cross-cutting nature of the regulatory and supervisory landscape in the payments sector, we continue to work with the FCA, the Bank of England and the Treasury to prepare for the potential impact of the UK's withdrawal from the EU. We will continue monitoring developments and working with the sector to ensure that risks remain well managed.

PSR fees

We are funded by fees from the participants in the payment systems we regulate. In 2018, we introduced a new process for PSR fees, using an 80:20 volume-to-value ratio calculation. This helps ensure our fees are collected and allocated in a simple, proportionate and sustainable way. The 2019/20 fees were gathered using this method.

Developing our Financial Penalty Scheme

For any financial penalties resulting from our enforcement actions, we pay to the Treasury our penalty receipts after deducting our enforcement costs. We would use this retained amount to reduce the regulatory fees we collect from firms that were not liable to pay a penalty. We didn't issue any penalties in the reporting period 2019/20.

The Business Impact Target

Under the Small Business, Enterprise and Employment (SBEE) Act 2015 (as amended by the Enterprise Act 2016), we must report on our performance against the Business Impact Target (BIT). The BIT is the economic impact on businesses in relation to measures that fall within the definition of a qualifying regulatory provision (QRP).

This year's report covered the third reporting period of last Parliament, 21 June to 12 December 2019. Ordinarily, the third reporting period would have ended on 20 June 2020. However, due to the early general election last year, the third reporting period became the final reporting period of last Parliament, which ended on 12 December 2019. In this reporting period, we had one QRP, which was Specific Direction 10 requiring the introduction of Confirmation of Payee (SD10), and a number of non-qualifying regulatory provisions (NQRPs).
We'll continue to report annually.

Risks and uncertainties facing the PSR

The COVID-19 outbreak and resulting measures taken by the UK government to contain the virus did not significantly affect the PSR in the first three months of 2020.

At the time of publication, we have already made adjustments to our work and requirements, to account for our own changing priorities and resources, and the burden on our stakeholders. Our future research will look at the impact of COVID-19, asking how it's affected people's payment methods during this time and whether they think they will make permanent changes and the results of this may mean we need to continue to be flexible with our priorities and requirements.

Our risks of harm relate to our statutory objectives of promoting competition, innovation, and the interests of the businesses and consumers that use payment systems (see page 12). The most material risks and trends that could pose a risk to our objectives in the coming years are set out below (more detail on items 1 to 6 can be found in our Annual plan and budget 2019/20).

1. Demographics, accessibility and affordability
2. Technology and innovation
3. Data access and use
4. Safety, security and resilience
5. EU withdrawal and legislative changes
6. Emerging issues

Our focus on these risks of harm is especially relevant at this time, and we will take the steps necessary to ensure payment systems continue to work for everyone and payments markets continue to function well in the wake of COVID-19.

Key environmental, execution and operational risks

For the PSR, the principal risks of COVID-19 relate to revenue, project delivery and change delivery. The potential for firm failures resulting from the pandemic may impact the collection of fees and future fee income due to reduced revenues generated by firms. The delivery of current projects may be delayed due to availability of, or reprioritisation of, resources (both ours and our suppliers) and result in additional costs. The PSR may fail to initiate, scope, deliver and embed changes to time, cost and quality (i.e. our design, implementation, approach, management and oversight of change delivery may be inadequate and/or ineffective).

Other risks

Environmental risks: Risks associated with our operating environment – in particular, political or legislative change. While it's set out in statute that we are an operationally independent organisation, we remain subject to changes in legislation and scope by the government that can ultimately affect our size, activities and complexity. The terms of the UK's future relationship with the EU at the end of the transition period are currently still subject to negotiation, which will impact the scope and scale of our regulated activities.

Execution risk: This relates to the execution of our regulatory strategy and arises when we fail to deliver our business activities as intended. When execution risks materialise, this usually means that we have failed to achieve a reduction in/ prevention of harm that would otherwise have been possible with the resources available. Appropriately managing execution risk enables us to be an efficient and effective regulator, which is key to delivering value for money.

Internal operational risks: Like any organisation, we face significant operational risks which may result in financial loss, disruption or both and may, in turn, also result in us failing to deliver our business activities as intended. These risks include:

- **People risks**: Including risks associated with the capacity of our staff to deliver our business plan, the changing capability needs of the organisation and their general wellbeing. This could lead to the FCA and PSR being unable to manage recruitment, retention, skills and knowledge within acceptable tolerances, potentially leading to increased costs, or failure to, deliver our objectives. We continue to mitigate these risks as part of our People Strategy.

- **Process risks:** Including risks from inefficient, inadequate or ineffective internal processes. The risk that processes and procedures are poorly designed or do not perform correctly may result in poor decision making or operational failure that may in turn lead to regulatory failure. Managing process risks to ensure we are efficient and effective is key to delivering value for money.

- **Systems risks:** Including the availability, resilience, recoverability and security of core IT systems which are provided by the FCA through a provision of services agreement. If systems are not fit for purpose and fail to deliver the intended outcomes they could undermine our ability to deliver our objectives. Cyber and information risks continue to be a major focus, with a significant increase in investment by the FCA as we respond to the evolving threat level. These risks include potential loss or damage of physical assets and data as a result of natural disaster, cyber events, data leaks or human error causing market instability, financial loss and damage to public confidence.

Public confidence risk: This includes risks which could constrain our ability to deliver against their objectives due to diminished levels of public confidence, a reduced ability to influence key stakeholders and/or a reduction in our credibility and standing as effective regulators. These risks could result from the inappropriate management of our other risks. The current economic environment also increases public confidence risk due to the potential increased failures of firms regulated by the PSR which may occur.

Statement on Section 172(1) of the Companies Act 2006

The board holds the PSR accountable for the way it works. It takes decisions and acts in a way that ensures that we advance our statutory objectives of promoting effective competition and innovation, and the interests of service users in relation to payment systems. Section 172(1) of the Companies Act 2006 requires the board to act in a way that it considers will promote the success of the company. This includes considering:

a. the likely consequences of any decision in the long term

b. the interests of the company's employees

c. the need to foster the company's business relationships with suppliers, customers and others

d. the impact of the company's operations on the community and the environment

e. the desirability of the company maintaining a reputation for high standards of business conduct, and

f. the need to act fairly as between members of the company

The Companies Act 2006 introduced a new requirement[1] which means we must make a section 172(1) statement in our annual report explaining how the board had regard to various matters in promoting the success of the company.

Below we explain in more detail how the board considered matters under section 172(1). This includes the engagement the board had with stakeholders during the year, and how this has helped us deliver better outcomes for payment system users.

The likely consequences of any decision in the long term

As an organisation, our focus is on making sure payment systems continue to serve people well, both now and in the future. This means the long-term strategic outcomes of our actions are always a factor in the board's decisions and in the organisation's prioritisation of its work. As part of this, the board also considers feedback it hears via, for example, our stakeholder perceptions survey, on issues we should consider.

This prioritisation is demonstrated by our key strategic projects for 2019/20, where our actions were dictated by our long-term aims of protecting and promoting the interests of those who use payment systems. In particular: authorised push payment scams (see page 22); access to cash (page 24); our market review of card acquiring services (page 34); and our work on the New Payments Architecture (page 43).

1 Regulations 3 to 6 of the Companies (Miscellaneous Reporting) Regulations 2018 amend the Companies Act 2006 to include section 414 CZA (1) of the Companies Act 2006 which introduces the requirement for particular companies to provide a section 172(1) statement.

The interests of the company's employees

Our employees are the key to our success as a regulator. We seek to create a diverse and inclusive workplace that is free from discrimination and bias so that our employees can perform at their best and we can better deliver as a regulator. Providing and supporting career development is a key part of our offer, not just to help us deliver our objectives but also to help our staff achieve their full potential in their current roles and for future roles.

During the year, the board discussed matters including our employee survey and our diversity, gender and pay gap data, succession planning, and culture.

See *Our people* (page 50), and *Employee engagement* in the directors' report (page 72) for more details.

The need to foster the company's business relationships with suppliers, customers and others

The board oversees the cooperation and coordination activities we undertake with regulatory counterparts across the UK and internationally – for example, our collaboration with the European Commission Directorate-General for Competition and with other national competent authorities to increase the effectiveness of our IFR monitoring work. The board also reviewed and approved our stakeholder strategy.

See *How we engage with our stakeholders* (page 54), *Working with other authorities* (page 58), *The Business Impact Target* (page 61), and *Business relationships* in the directors' report (page 72) for more details.

To meet our objectives efficiently and effectively, the PSR utilises FCA operational services (where appropriate) to drive value for money for fee payers. This means taking advantage of the scale, scope and established practices of the FCA through a Service Level Agreement (see *Business model* on page 68). Through board-member membership of the Audit Committee there is oversight of the operational services on behalf of the PSR.

The board delegates all matters relating to procurement and management of suppliers to the Managing Director and Chief Operating Officer. We build and develop multi-skilled teams, using a mix of flexible and permanent resources to help ensure we have the capability and skills necessary to deliver our aims and objectives (see *Our organisation* on page 50). In alignment with the FCA, we buy responsibly and adhere to the Ethical Procurement Policy. In addition, the behaviours and standards we expect from our suppliers are clearly set out in the Supplier Code of Conduct.

The impact of the company's operations on the community and the environment

Good corporate citizenship and corporate responsibility are important parts of our identity, both as an employer and as a regulator.

The board, together with our senior leadership team, oversees our community engagement, diversity and inclusion and sustainability strategies.

We actively contribute to our local community through volunteering programmes and our work with our nominated local charity, Ambition, Aspire, Achieve. This has included raising over £1000 from an auction of items donated by our staff.

We're committed to running a sustainable operation, helped by our sharing of some practical operational elements with the FCA. For example, our building in Stratford was designed with sustainability in mind and was awarded the BREEAM rating of excellence.

See *Our organisation* on page 50 for more details.

The desirability of the company maintaining a reputation for high standards of business conduct

The board is committed to attaining and maintaining high standards within the company.

See *Corporate governance* on page 74 for more details.

The need to act fairly as between members of the company

As a wholly owned subsidiary of the FCA, the PSR has only one member.

Considering stakeholders' interests

The board takes account of the interests of our internal and external stakeholders and recognises that effective stakeholder engagement is key to promoting the success of the company.

The board sets out to achieve this by:

- ensuring that it engages fully with stakeholders to gain an understanding of the issues that matter to them (for example, through our annual stakeholder perceptions survey, and through publicly consulting on proposed guidance, such as the consultation on the proposed revisions to our Powers and Procedures Guidance which was open from August to October 2019)
- providing strategic leadership within a framework of robust corporate governance and internal control
- setting the culture, values and standards that are embedded throughout the PSR, which help us to deliver in the public interest (for example, the board holds an annual dedicated strategy setting session, and receives regular updates on organisational culture, including but not limited to feedback from our annual employee survey)

For details on our leadership and governance framework, see the directors' report on page 70 and our corporate governance statement on page 74.

We ensure that we map our stakeholders at regular intervals, at the more generic level and, in some cases, for specific pieces of work. Our key stakeholders include our employees, consumers, parliamentarians, international and domestic regulators, those we regulate, our suppliers and the communities we operate in.

The directors take account of the views of our different stakeholders when making decisions in a number of ways, including:

- discussing the findings from our annual stakeholder perceptions survey each year, and monitoring recommended actions from the survey to enhance engagement with, and communications to, stakeholders
- reviewing feedback to consultations and other engagement before making decisions, and meeting with stakeholders through regular meetings, roundtable discussions and other forums

See *How we engage with our stakeholders* on page 54 for more details.

Financial overview

Business model

We do not receive funding from the UK government as we fund the cost of delivering our statutory objectives by raising fees from the organisations we regulate. The FCA has powers to levy fees to recover our costs. We seek to make neither a profit nor a loss from our regulatory activities, although in practice this can happen due to unforeseen circumstances or timing issues. We follow best practice procurement mechanisms as part of our focus on delivering good value for money.

We are co-located in the FCA's offices, and are operationally supported by the FCA through a provision of services agreement. The aim is to fully maximise the FCA's existing resources and infrastructure to support the effective operation of the PSR. This means leveraging of the scale, scope and established practices of the FCA and working hard to find efficiencies where possible.

Analysis of performance during the year

Total	**2020 £'000**	**2019 £'000**	**Year on Year Change**
Fee income	15,624	13,902	1,722
Other income	64	184	(120)
Total income	**15,688**	**14,086**	**1,602**
Staff costs	(10,410)	(8,102)	(2,308)
Administrative costs	(5,721)	(4,399)	(1,322)
Total Operating Costs	**(16,131)**	**(12,501)**	**(3,630)**
Loss for the Year	**(443)**	**1,585**	**(2,028)**

For 2019/20, we set a budget of £15.6 million, after allowing for £0.2 million utilisation of reserves to fund our investment in new technology over a four-year period. We have also utilised our reserves to fund the additional £0.2 million spend in the year, which was due to increased consultancy costs during the transition of managing directors.

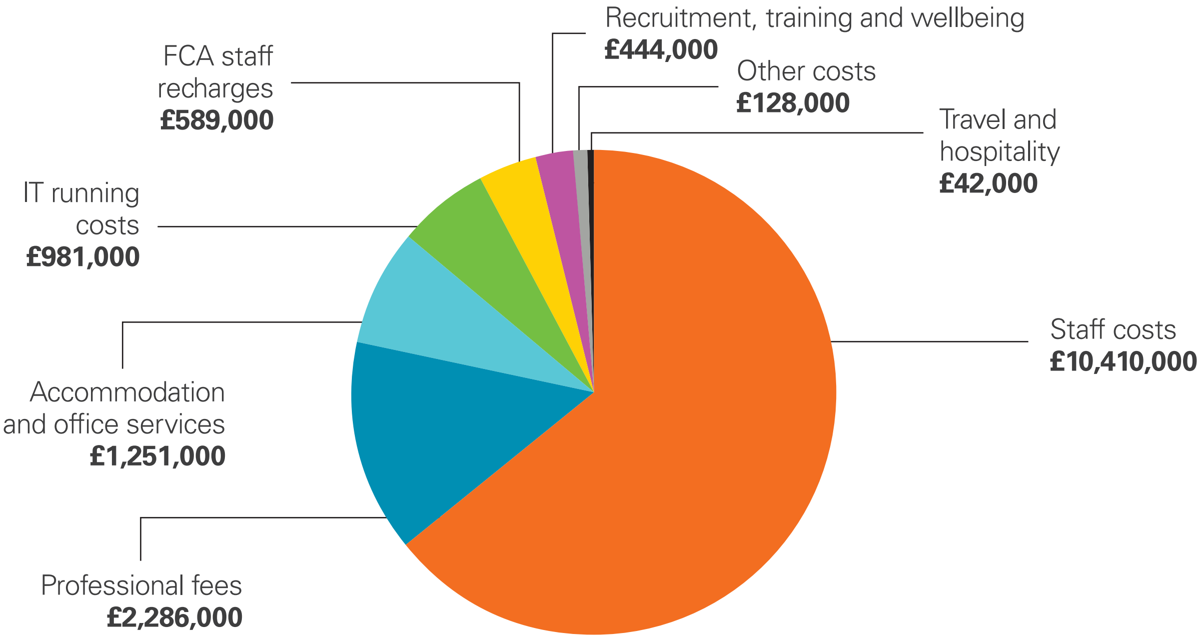
We had an accumulated surplus held in reserves of £3.5 million at 31 March 2020 (2019: accumulated surplus of £4 million). We will hold the remainder in reserves in the event PSR needs to draw on funds in response to changing business demands.

The chart below shows a breakdown of our operating costs. Overall, operating costs have increased by £3.6 million to £16.1 million (2019: £12.5 million) largely due to staff costs, taking us closer to our target operating model, which we aim to reach in the 2020/21 financial year. This will ultimately lead to a lower spend on professional fees. Staff make up 65% of our cost base and are key in delivering our objectives. We had 97 full-time equivalent employees at the end of this financial year, compared to 84 at 31 March 2019.

Our increase in professional fees this year was the result of some additional unplanned expenditure. This was partly due to the departure of our Managing Director and transition to a new Managing Director, which included recruiting our new Policy Head of Department and backfilling this in the interim with short-term resource. In addition, we had to source some temporary specialist skills to make sure we could achieve and deliver on our projects, including requiring specialist econometric advice and additional resource at a pivotal point in the card-acquiring market review project.

The year-end cash position is £9.6 million (2019: £8.4 million). The FCA collects fees on behalf of the PSR and pays the balance over on a weekly basis. At 31 March 2020, the FCA had collected £1.8 million of on-account fees for 2020/21 which were remitted to the PSR in April. We are aware the remainder of the fees to be collected are subject to risk due to the change in the economy after COVID-19. However, we have calculated that we have adequate reserves to mitigate this risk.

Analysis of operating costs



Directors' report

The directors present their report for the year ended 31 March 2020.

Details of the directors during the year can be found in Table 1 in the corporate governance statement (page 77). The strategic report (pages 20 to 69) and the corporate governance statement (pages 74 to 85) are used by directors to explain how they have performed their duty to promote the success of the PSR under section 172 of the Companies Act 2006.

The PSR has no branches outside the UK.

Directors' responsibilities in respect of the annual report and accounts

In accordance with applicable law and regulations, the directors are responsible for preparing the annual report and the financial statements.

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:

- make judgements and estimates that are reasonable and prudent
- select suitable accounting policies and then apply them consistently
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business
- 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

The directors are responsible for keeping proper accounting records that show, 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
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and establish that the auditor is aware of that information

The directors are responsible for maintaining and ensuring the integrity of the corporate and financial information on the company's website. UK legislation that applies to preparing and distributing financial statements may differ from legislation in other jurisdictions.

The directors confirm that the annual report and accounts, as a whole, are fair, balanced and understandable.

Events after the reporting period

As explained in note 10, *Events after the reporting period,* in the financial statements, the COVID-19 outbreak and resulting measures taken by the UK government to contain the virus have not significantly affected the PSR in the first three months of 2020. Whilst the scale and duration of this pandemic remain uncertain, any future impact is difficult to assess.

For the PSR, the principal risks of COVID-19 relate to revenue, and project and change delivery. The potential for firm failures resulting from the pandemic may impact the collection of fees and future fee income due to reduced revenues generated by firms. The delivery of current projects may be delayed due to availability of, or reprioritisation of, resources (both ours and our suppliers) and result in additional costs. And we may fail to initiate, scope, deliver and embed changes to time, cost and quality (i.e. our design, implementation, approach, management and oversight of change delivery may be inadequate and/or ineffective).

Employee Engagement

The directors consider our employees to be a key asset. They take various steps to ensure that they gain an understanding of the issues that matter to employees and take account of their views in decisions likely to affect their interests. Since it was founded, the PSR has had a Staff Consultative Committee (SCC). The directors consider the SCC, which includes staff representatives and is one of the PSR's most important communication lines with its employees, to be a formal workforce advisory panel.

Business relationships

The directors recognise that there are numerous external stakeholders, including consumers, suppliers, regulated and other businesses, parliamentarians and other regulators, that they must have regard to in their decision making. By endeavouring to gain an understanding of the perceptions of each external stakeholder group and of the issues that matter to them, we can ensure that we deliver a high-quality service and provide appropriate protection to consumers in a fast-changing world.

The directors recognise that the views of our external stakeholder groups do not always align and, in such circumstances, they must decide on the most appropriate course of action to ensure we are delivering in the public interest.

Further information on our key external stakeholder groups and how we engage and take into account the views of those stakeholders is described in our section 172(1) Companies Act 2006 Statement, which can be found on page 64.

Directors' indemnities

Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were in force during the course of the financial year ended 31 March 2020 and remain in force at the date of this report.

Under the Financial Services (Banking Reform) Act 2013 (FSBRA), we have the benefit of an exemption from liability in damages for anything done or omitted in relation to the exercise or purported exercise of our statutory functions, provided that such acts or omissions are in good faith. This is supplemented with indemnities given by the FCA for the protection of individual employees, including directors. Accordingly, we do not currently purchase Directors and Officers Liability Insurance.

Political donations

The PSR did not give any money for political purposes in the UK or the rest of the EU, nor did it make any political donations to political organisations, or to any independent election candidates, or incur any political expenditure during the year.

Auditor

The Financial Services (Banking Reform) Act 2013 (FSBRA) requires the company's accounts to be examined, certified and reported on by the Comptroller and Auditor General.

Accordingly, the Comptroller and Auditor General was auditor throughout the year.

By Order of the Board on 28 August 2020.

Simon Pearce
Secretary

Corporate governance

Corporate governance statement for the year ended 31 March 2020

Introduction

This section of the report details the board's composition and governance structure. It also explains the board's role, its performance, ongoing professional development and succession planning.

The PSR is funded by the regulated payments industry through statutory fee-raising powers. We are independent of government, but accountable to government and Parliament through obligations set out in Financial Services (Banking Reform) Act 2013 (FSBRA). We consult with industry participants and users on practices and policies, and how our objectives may be best achieved, including through engagement with the PSR Panel (see page 82).

This report sets out how we are governed in line with the principles of the UK Corporate Governance Code (the Code). The board considers that we comply with the Code as far as is appropriate (i.e. related to shareholders or otherwise governed by the Treasury) whilst meeting high standards of corporate governance.

The role of the board

The board is our governing body. It sets our strategic direction and ensures our long-term success. The board liaises with the Financial Conduct Authority (FCA), consistent with the obligations set out in FSBRA, to take necessary steps to ensure that the PSR is, at all times, capable of exercising its functions and that the necessary financial and human resources are in place.

The Managing Director is responsible for implementing the strategy agreed by the board, the leadership of the organisation and managing it within the authorities delegated by the board.

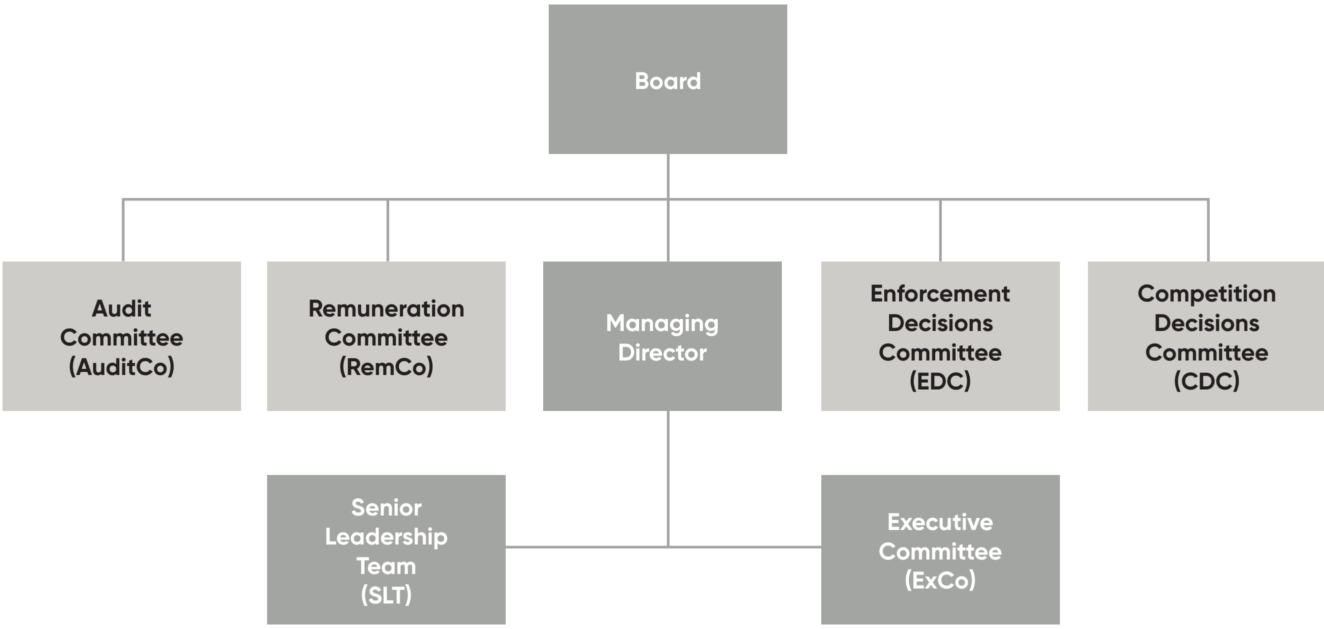
The board's role includes:

- making strategic decisions about our future operation
- deciding which matters it should make decisions on, including exercising our legislative functions and other matters as set out in the Schedule of Matters Reserved to the Board
- maintaining a sound system of financial control
- overseeing the executive management of our day-to-day business
- seeking regular assurance that our system of internal control is effective in managing risks
- setting appropriate policies to manage risks to our operations and the achievement of our regulatory objectives
- taking specific decisions that are not expressly included in the Schedule of Matters Reserved to the Board, but that the board or executive management consider are novel or contentious, or so significant that the board should take them
- establishing and maintaining the accountability for decisions made by committees of the board and executive management
- maintaining high-level relations with other organisations and authorities, including the government, the FCA, the Prudential Regulation Authority, the Bank of England and the Competition and Markets Authority

Our executive committees also play an important role in our overall corporate governance.

Our website gives more details on our governance arrangements as detailed in our *Corporate governance of the Payment Systems Regulator Limited* document:
www.psr.org.uk/corporate-governance-psr-limited

Our governance framework



Senior Managers and Certification Regime

The Senior Managers and Certification Regime (SM&CR) does not formally apply to us. However, as best practice, we've set out a formal description of the core responsibilities of members of our board and those carrying out senior management functions. Our website has more details on how we apply the SM&CR to ourselves: www.psr.org.uk/about-psr/psr-governance/senior-managers-regime

Members of our board

The composition of our board is set out in FSBRA and, consistent with those requirements, the board currently comprises:

- the Chair, appointed by the FCA with the approval of the Treasury
- the Managing Director, appointed by the FCA with the approval of the Treasury
- other members, who are all non-executive directors (NEDs), appointed by the FCA

Table 1: Directors and dates of service

Name	Original appointment date	Expiry of current term/date membership ceased
Andrew Bailey Non-Executive Director	01/07/16	13/03/20
Carole Begent Executive Director – General Counsel and Head of Regulatory and Competition Enforcement	01/07/15	02/09/19
Louise Buckley Executive Director - Co-Interim Managing Director	01/04/19	02/09/19
Amelia Fletcher Non-Executive Director – Senior Independent Director	01/04/14	31/03/20[1]
David Geale Non-Executive Director	14/02/20	13/02/23
Noel Gordon Non-Executive Director	01/05/16	01/05/22[2]
Chris Hemsley Executive Director – Managing Director	02/09/19	01/09/22
Charles Randell Chair	01/04/18	21/03/23
Simon Ricketts Non-Executive Director	01/07/17	30/06/20
Nick Stace Non-Executive Director	28/02/19	29/01/20
Christopher Woolard Non-Executive Director	01/04/14	28/02/20

1 Reappointed for an additional one-year term from 1 April 2019

2 Reappointed for an additional three-year term from 1 May 2019

Charles Randell was appointed for a five-year term. All other directors are appointed for three-year terms.

Chris Hemsley was appointed as an executive director on 6 April 2019 for the duration of his tenure as Co-Interim Managing Director and Managing Director. He has a five-year fixed-term employment contract with the FCA, subject to a six-month notice period.

David Geale was appointed as a NED for a three-year term on 14 February 2020, and Tommaso Valletti was appointed as a NED for a three-year term with effect from 1 April 2020.

A majority of our board members are NEDs. Over the course of the year, one or more NEDs, including the Chair, also served on the board of the FCA. Our NEDs bring a range of skills and experience that is appropriate for the requirements of the PSR.

The board is committed to ensuring that diversity remains a central feature of its membership. It pays particular attention in the recruitment process to ensure the board consists of a variety of members with the appropriate balance of relevant skills and experience. For the reporting year, our female membership did not meet the 33% target figure for the boards of UK FTSE 350 companies proposed by the Hampton-Alexander review (for the majority of the reporting year, our figure was 27%).

Board meetings and activities of the board

There is a clear division of responsibility between the executive running of the organisation and the running of the board. The Chair leads the board and ensures its effectiveness, while the Managing Director is responsible for implementing the strategy agreed by the board, the leadership of the organisation and managing it within the authorities delegated by the board.

The board has a formal schedule of matters reserved to it and meets regularly in order to discharge its duties effectively. It held eight meetings during the year, including a strategy meeting.

Details of the number of meetings held and attendance at those meetings are set out in Table 2 (the denominators of those asterisked reflect the number of meetings available for them to attend, given that their terms began or ended part way through the reporting year).

During the year, our NEDs met privately without members of the executive present.

The Chair and Company Secretary ensure that the board's agendas reflect our business priorities and conduct a review of papers before they are circulated to the board to ensure that information is clear and accurate.

Papers for board and committee meetings are normally circulated one week before meetings.

Table 2: Attendance at board meetings for 2019/20

Name	Scheduled board meetings	Additional board meetings
Andrew Bailey (stepped down 13/03/20)*	4/5	1/2
Carole Begent (member until 02/09/19)*	2/2	N/A
Louise Buckley (member until 02/09/19)*	2/2	N/A
Amelia Fletcher	6/6	2/2
David Geale (term began 14/02/20)*	1/1	N/A
Noel Gordon	5/6	1/2
Chris Hemsley	6/6	1/2
Charles Randell	6/6	2/2
Simon Ricketts	5/6	1/2
Nick Stace (stood down 29/01/20)*	3/4	0/2
Christopher Woolard	6/6	0/2

*Were not board members at the time of the additional board meetings.

Board members provide rigorous challenge on strategy, performance, responsibility and accountability to hold the executive to account and ensure that the decisions of the board are robust.

The board addressed many issues during the year. The principal areas of activity included strategic policy development on the long-term future of cash and the New Payments Architecture; discussions on internal and external risk and strategy setting; consideration of the annual report and accounts, a review of the organisation's strategy and development of the business plan; a three-year strategic internal audit plan; and a review of our Powers and Procedures Guidance (PPG).

A record of the board's activities can be found in our published minutes on our website: www.psr.org.uk/about-psr/psr-governance/board-minutes

Company Secretary and independent advice

Each director has access to the advice and services of the Company Secretary, who advises the board on governance matters and ensures the board follows appropriate procedures. The Company Secretary is also responsible for providing access to external professional advice for directors, if required.

Succession

The board considers that all of the NEDs bring strong oversight. However, the board recognises the recommended term within the Code and is mindful of the need for suitable succession.

Succession planning remains a key agenda item for the board. It monitors the skills and experience of its members and identifies where gaps exist to inform future appointments.

Board induction and training

On joining the board, directors are given background information describing the PSR and our activities. They are given an induction pack which includes information on our governance arrangements, the board's role and responsibilities, its committees and officers, and other relevant information.

Board effectiveness

In accordance with the Code, board effectiveness is reviewed annually, with an externally led review every two years. During the year, the board commissioned Independent Audit to facilitate a self-assessment based review of its effectiveness.

The review took the form of a questionnaire compiled by the Chair and the Company Secretary that was completed by board members and other senior managers who work closely with the board. The results were collated by Independent Audit, acting as an external facilitator, to ensure that the anonymity of the responses was maintained and any issues would emerge objectively.

The board considered the findings from the effectiveness evaluation at its meeting in June 2019, allowing it to review the year as a whole. The main themes emerging from the review were:

a. senior management succession planning

b. interaction with the FCA

c. embedding of cultures and behaviours

d. clearer definitions of success

The Chair and Company Secretary are now working with board members to develop the way in which the board and its committees operate, so as to enhance their effectiveness in the areas highlighted by the evaluation.

Conflict of interests

All directors are required to declare relevant interests. Where any potential conflict of interest arose during the year, the board took appropriate steps to manage it. The Company Secretary maintains a register of interests.

Governance and committee structure of the PSR

The PSR is a wholly owned subsidiary of the FCA. We share operational functions and operational support with the FCA through a service agreement, which is reviewed annually. All PSR staff are employees of the FCA. The functions of the PSR's Audit Committee and Remuneration Committee are carried out by the members of the respective FCA committees.

During the year, Catherine Bradley continued as Chair of the Audit Committee and Baroness Hogg continued as Chair of the Remuneration Committee. Liam Coleman was also appointed to the Audit Committee in February 2020. Further details are available in the FCA's *Annual Report and Accounts 2019/20.*

The FCA's annual report has information on the membership of these committees as well as details of the issues they have considered.

The board as a whole manages and reviews the risks to the PSR on a regular basis. The board reviewed our risk framework and approach, responsibilities and reporting mechanisms. There's more information on the principal risks and uncertainties we face in the Our Organisation section (page 62).

Our website has more details on our governance arrangements: www.psr.org.uk/corporate-governance-psr-limited

The PSR Panel

The PSR Panel (the Panel) is independent of the PSR. It contributes towards the effective development of our strategy and policy, and offers advice and early input on our work.

The Panel comprises members drawn from payment system operators, payment service providers, infrastructure and technology providers, and service-users, including representatives of consumers and large and small businesses.

Competition Decisions Committee

The Competition Decisions Committee (CDC) acts as the decision-maker in any particular investigation arising where we propose to impose a sanction under the Competition Act 1998. In individual cases, a CDC Panel comprising three CDC members will be appointed to decide on behalf of the PSR on whether there has been a competition law infringement, whether to impose a penalty, and whether to give directions.

Enforcement Decisions Committee

The Enforcement Decisions Committee (EDC) makes regulatory enforcement decisions for the PSR under FSBRA or other legislation (for example, the Interchange Fee Regulation) when a settlement cannot be reached. The EDC is separate from staff at the PSR who investigate whether there has been a compliance failure.

In individual cases, an EDC Panel comprising three EDC members will be appointed to decide on behalf of the PSR whether there has been a compliance failure and whether to impose a financial penalty and/or publish details of the compliance failure.

By Order of the Board on 28 August 2020.

Simon Pearce
Secretary

Remuneration report

Directors' remuneration (audited)

The table below sets out the remuneration paid or payable to any person that served as a Director during the years ending 31 March 2020 and 2019. The remuneration figures shown are for the period served as Directors.

The PSR follows the same remuneration principles as the FCA. Further information is available in the FCA's annual report.

	Basic Salary		Performance related pay		Other benefits		Total Remuneration (excluding pension)		Pension		Total Remuneration	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Chair												
Charles Randell[1]	20	20	–	–	–	–	20	20	–	–	20	20
Executive Directors												
Chris Hemsley[2,3]	189	–	22	–	21	–	232	–	20	–	252	–
Louise Buckley[2,5]	90	–	27	–	10	–	127	–	11	–	138	–
Carole Begent[4,5]	70	163	28	25	10	23	108	211	7	17	115	228

	PSR Fee Paid	
Non-Executive Directors[7]	2020 £'000	2019 £'000
Andrew Bailey[8,9]	–	–
Christopher Woolard[8,10]	–	–
Amelia Fletcher[11]	8	8
Bradley Fried	–	2
Noel Gordon[12]	15	15
Simon Ricketts[13]	20	15
Nick Stace[14]	6	–
David Geale[15]	–	–

Notes

Chair

1. Charles Randell received a fee of £20,000 as Chair of the PSR during the year.

Executive directors of the PSR

2. Chris Hemsley and Louise Buckley were appointed jointly as acting Managing Directors of the PSR on 6 April 2019 until 2 September 2019. During this period, Chris and Louise both received an acting up allowance. Chris was paid his new salary from 2 September 2019 and Louise's acting up allowance ended on 30 September 2019.
3. Chris Hemsley was appointed as Managing Director of the PSR on 2 September 2019. His appointment salary was £195,000 per annum. He received a performance bonus of £22,000.
4. Carole Begent is a member of the FCA Pension Plan. Carole is entitled to an annual pension contribution equivalent to 12% of her salary. Carole elected to have £10,000 of her employer pension contribution paid into the Pension Plan and the remaining employer contributions paid as a non-pensionable cash supplement at a rate of 9% of her salary. The total amount is included under 'Pension' in the table above. Carole Begent's term on the PSR board ended on 2 September 2019.
5. The performance related pay shown for Louise Buckley and Carole Begent represents the full performance year and not just their time on the PSR board.
6. Hannah Nixon resigned as Managing Director of the PSR and from the board on 5 April 2019. In accordance with her contract, she continued to be employed until 31 December 2019. Hannah's 2018/19 figures that were previously published included a total contractual amount payable from 1 April 2018 to 31 December 2019. Hannah's base salary was £235,000. As Hannah's resignation was known in the prior financial year, there was a requirement to account for any extended period of departure within that financial year.

Non-executive directors of the PSR

7. The FCA is responsible for determining the remuneration of the other non-executive directors. The fee for non-executive directors remains unchanged at £15,000 per annum, except for non-executive directors serving on both the FCA and PSR boards for whom the fee is £7,500 per annum in addition to any fees they receive from the FCA.
8. Andrew Bailey and Christopher Woolard did not receive a fee for their non-executive director roles on the PSR board. Their full remuneration is included in the FCA's annual report.
9. Andrew Bailey stepped down from the PSR board on 13 March 2020.
10. Christopher Woolard stepped down from the PSR board from 28 February 2020.
11. Amelia Fletcher stepped down from the PSR board on 31 March 2020.
12. Noel Gordon will retire from the PSR board on 31 July 2020.
13. Simon Ricketts is a member of the FCA Group Audit Committee. He receives an additional fee of £5,000 for this role.
14. Nick Stace resigned from the PSR board on 29 January 2020.
15. David Geale was appointed to the PSR board on 14 February 2020.

Senior pay disclosure

The table below sets out the remuneration paid or payable to any person that served as a voting member of the Executive Committee during the year ending 31 March 2020.

	Basic salary		Performance-related pay		Other benefits		Total remuneration (excluding pension)		Pension		Total remuneration	
Name	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Chris Hemsley	189	43	22	5	21	9	232	57	20	6	252	63
Louise Buckley	162	144	27	27	21	21	210	192	22	20	232	212
Carole Begent	166	144	28	27	24	21	218	192	17	20	235	212

Financial statements

For the year ended 31 March 2020

Company Number: 8970864

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

Opinion on financial statements

I have audited the financial statements of The Payment Systems Regulator Limited (PSR) for the year ended 31 March 2020, which comprise the Statement of comprehensive income, Statement of changes in equity, Statement of financial position and Statement of cash flows and the related notes, including the significant accounting policies. 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 and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion, the financial statements:

- give a true and fair view of the state of the PSR's affairs as at 31 March 2020 and of the loss for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union
- have been prepared in accordance with the Companies Act 2006

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.

Conclusions relating to principal risks and going concern

I have nothing to report in respect of the following information in the annual report, in relation to which the International Standards on Auditing (ISAs) (UK) require us to report to you whether I have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the PSR, including those that would threaten its business model, future performance, solvency or liquidity
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the PSR's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements, or
- whether the directors' statement relating to going concern is materially inconsistent with my knowledge obtained in the audit

Basis of opinions

I conducted my audit in accordance with the ISAs (UK) and Practice Note 10, 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the PSR in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework described in the table below has been applied:

Regulatory framework	
Authorising legislation	Financial Services (Banking Reform) Act 2013

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following area of particular audit focus to be that area that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. This matter was addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on this matter.

This is not a complete list of all risks identified by my audit but only that area that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort.

Key audit matter 1: Risk of management override of controls

The ISAs (UK) include a non-rebuttable risk that management could perpetrate fraud or manipulate accounting records. Accordingly, I am required to perform procedures in response to this risk. Whilst the other significant risks I identified are also designed to respond to the risk of management override of controls, due to the unpredictable nature of this risk I also performed more general procedures to gain assurance. Account areas that are particularly susceptible to management override of control are those areas where there has been a change to an established system or process, and account areas where there are high levels of estimation and judgement.

How the scope of my audit responded to the risk
I reviewed key financial processes and controls and carried out transaction testing on a sample basis.

I used data analytics to review the manual journals posted, looking for key risk factors identified through my assessment of potential fraud and management override risks and tested identified journals. I considered accounting estimates and judgements for evidence of bias, including a retrospective review of judgements and assumptions.

I reviewed the general ledger and bank statements and committee papers and made enquiries of management in seeking to identify significant transactions that appeared to be outside the normal course of business.

Accounting estimates made by the PSR mainly relate to expected credit losses, accruals, receivables and prepayments. I reviewed these as part of audit testing and found no evidence of management bias.

Key observations
My testing results were satisfactory.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the company's financial statements at £300,000, which is approximately 2% of gross expenditure. I chose this benchmark because expenditure drives the accounts; the budgeted amount for the financial year determines the Annual Funding Requirement for the PSR, which forms the basis for the fees invoiced to regulated firms. The account is primarily composed of payroll and other operating costs. The key area of interest for Parliament (and indeed more broadly the firms regulated by the PSR) is the PSR's annual expenditure, which determines the size of the regulatory cost that the PSR imposes upon the financial services sector.

A benchmark of 2% of gross expenditure has historically been used as the materiality for the PSR audit. I chose 2% because the audit is relatively low risk in terms of underlying complexity; it is a relatively low-profile account. For example, the PSR is a non-significant subsidiary of the Financial Conduct Authority (FCA). The materiality level set is consistent with the prior year and I have not noted any significant changes to the risk profile that would suggest a lower percentage is more suitable for materiality. The PSR is not subject to the requirements of the Parliamentary Supply process, and while users of the accounts have an expectation that the figures are materially accurate, the same level of precision is not required as would be the case of resource accounts with the lowest levels of materiality. A threshold of 2% therefore provides an appropriate level of precision given the profile and the PSR funding mechanism.

As well as quantitative materiality, there are certain matters that, by their very nature, would if not corrected influence the decisions of users – for example, any errors reported in the audited parts of the Remuneration Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £6,000, as well as differences below this threshold that, in my view, warranted reporting on qualitative grounds.

Responsibilities of the directors for the financial statements

As explained more fully in the *Directors' responsibilities in respect of the annual report and accounts statement* (page 70), the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
- assessing the company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK).

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgement and maintain professional scepticism throughout the audit. I also do the following:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PSR's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity-wide controls, and assessing the risks of material misstatement.

Other information

Directors are responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the remuneration report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

- **Fair, balanced and understandable:** The statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or

- **Audit Committee reporting:** The explanation as to why the annual report does not include a section describing the work of the Audit Committee is materially inconsistent with my knowledge obtained in the audit.

I also have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

Directors' remuneration
In my opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

The strategic and directors' reports
In my opinion, based on the work undertaken in the course of the audit, the information given in the strategic and directors' reports for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the strategic report or the directors' report.

The corporate governance statement
In my opinion, based on the work undertaken in the course of the audit:

- The information given in the corporate governance statement, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the FCA (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.

- Rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees have been complied with.

Based on my knowledge and understanding of the company and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

Matters on which I report by exception

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
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns
- certain disclosures of directors' remuneration specified by law are not made
- I have not received all of the information and explanations I require for my audit, or
- a corporate governance statement has not been prepared by the parent company

I have nothing to report arising from this duty.

Gareth Davies

Comptroller and Auditor General (Statutory Auditor)

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

10 September 2020

Statement of comprehensive income for the year ended 31 March 2020

	Notes	Total 2020 £'000	Total 2019 £'000
Income			
Fee income		15,624	13,902
Other income		64	184
Total Income	**4**	**15,688**	**14,086**
Staff costs	5	(10,410)	(8,102)
Administrative costs	6	(5,721)	(4,399)
Total operating costs		**(16,131)**	**(12,501)**
Total comprehensive loss for the year		**(443)**	**1,585**

Statement of changes in equity for the year ended 31 March 2020

	£'000
At 1 April 2018	**2,386**
Total comprehensive profit for the year	1,585
At 1 April 2019	**3,971**
Total comprehensive loss for the year	(443)
At 31 March 2020	**3,528**

Statement of financial position for the year ended 31 March 2020

Company Number: 8970864

	Notes	Total 2020 £'000	Total 2019 £'000
Current assets			
Cash and cash equivalents		9,587	8,350
Trade and other receivables		36	41
Intragroup receivable		747	1,658
Total assets	**7**	**10,370**	**10,049**
Current liabilities			
Trade and other payables		(6,842)	(6,078)
Total liabilities	**8**	**(6,842)**	**(6,078)**
Total assets less total liabilities		**3,528**	**3,971**
Accumulated surplus		**3,528**	**3,971**

The financial statements were approved by the board on 28 August 2020 and were signed on its behalf by:

Charles Randell
Chair

Chris Hemsley
Managing Director

The Company is exempt from the requirement of Part 16 of the Companies Act 2006 as stipulated in Schedule 4, paragraph 8 (5) of the Financial Services (Banking Reform) Act 2013.

Statement of cash flows for the year ended 31 March 2020

	Notes	Total 2020 £'000	Total 2019 £'000
Net cash generated (used) by operating activities	**3**	**1,173**	**(1,280)**
Investing activities:			
Interest received on bank deposits		64	69
Net cash generated in investing activities		**64**	**69**
Net increase/(decrease) in cash and cash equivalents		**1,237**	**(1,211)**
Cash and cash equivalents at the start of the year		8,350	9,561
Cash and cash equivalents at the end of the year		**9,587**	**8,350**

Notes to the financial statements

1. General information

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

The registered office is 12 Endeavour Square, London, E20 1JN.

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

2. Core 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

There are no new or amended IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations that have been adopted.

c. Income

The core principle of IFRS 15 – Revenue from Contracts with Customers is that an entity recognises revenue to depict the transfer of promised goods or services to customers, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard requires an entity to identify the contract(s) with a customer and the performance obligation related to the contract. It further requires for the transaction price to be determined and allocated to the performance obligations in the contract. Revenue can only be recognised under the standard when the entity satisfies a performance obligation.

Management has assessed the implication of adopting IFRS 15 directly, but given the nature of the PSR's activities and that IFRS 15 relates to commercial organisations it was not considered appropriate. Accordingly, management has applied International Accounting Standards (IAS) 8 (10) to use its judgement in developing and applying an accounting policy that provides information that is relevant and reliable.

In doing so, management has broadened the definition of a contract to include legislation and regulation. In this circumstance, a 'contract' is the underlying statutory framework set out in Financial Services (Banking Reform) Act 2013 (FSBRA). This framework enables the PSR to raise fees to recover the cost of carrying out its statutory functions. The performance obligation under the 'contract' is the granting of the ability to operate and remain authorised during the course of the year.

The PSR's revenue streams are categorised as either fee income or other income. Fee income includes the annual periodic fees which are levied and measured at fair value when recognised. Financial Services and Markets Act 2000 (FSMA) enables the FCA to raise fees and FSBRA enables the FCA to raise fees on behalf of the PSR to recover the costs of carrying out their statutory function. Fees are recognised at the later of:

- the fee year to which they relate (invoices on account)
- invoice date

Other income satisfies the core principles and conditions set out to recognise revenue. Resulting contract assets and liabilities are included in Current assets within Intragroup receivables and as Fees received in advance in Current liabilities.

d. Retirement benefit costs

Money Purchase Section (defined contribution)

The PSR is a member of the Money Purchase Section of the FCA Pension Plan, 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. Notes to the cash flow statement

	Notes	Total 2020 £'000	Total 2019 £'000
(Loss)/profit for the year from operations		(443)	1,585
Adjustments for:			
Interest received on bank deposits	4	(64)	(69)
Operating cash flows before movements in working capital		**(507)**	**1,516**
Decrease/(increase) in receivables	7	916	(1,653)
Increase/(decrease) in payables	8	764	(1,143)
Net cash generated (used) by operations		1,173	**(1,280)**

4. Income

FSBRA enables the FCA to raise fees on behalf of the PSR to recover the costs of carrying out its statutory functions. Fee income represents the annual periodic fees receivable for the financial year, is recognised in the year it is levied, and is measured at fair value.

	Total 2020 £'000	Total 2019 £'000
Fee income	15,624	13,902
Interest on bank deposit	64	69
Other income	–	115
Total income	**15,688**	**14,086**

5. Staff information

Staff costs (including executive directors) comprise:

	Total 2020 £'000	Total 2019 £'000
Gross salaries and taxable benefits	8,023	6,210
Employer's national insurance costs	942	727
Employer's defined contribution pension costs	739	560
Permanent staff costs	**9,704**	**7,497**
Secondees	121	179
Contractors	585	426
Short term resource costs	**706**	**605**
Total staff costs	**10,410**	**8,102**

Staff numbers comprise:

The average number of full-time equivalent employees (including executive directors and fixed-term contractors) during the year to 31 March is presented below:

	Total 2020	Total 2019
Permanent staff	91	76
Short term resource	6	5
Total	**97**	**81**

As at 31 March 2020, there were 97 full-time equivalent employees (2019: 84) and 3 short-term resources (2019: 5).

6. Administrative costs

Administrative costs include:

	Total 2020 £'000	Total 2019 £'000
IT running costs	981	708
Professional fees	2,286	1,293
Accommodation and office services	1,251	1,191
Recruitment, training and wellbeing	444	383
Travel and hospitality	42	35
FCA staff recharges	589	702
Other costs	128	87
Total	**5,721**	**4,399**

Auditors

The Comptroller and Auditor General was appointed as auditor on the 1 April 2014 under FSBRA. The auditor's total remuneration for audit services is set out below:

	Total 2020 £'000	Total 2019 £'000
Fees payable to the National Audit Office for the audit of the financial statements	21	20

7. Current assets

	Notes	Total 2020 £'000	Total 2019 £'000
Cash at bank		6,087	3,850
Cash deposits		3,500	4,500
Cash and cash equivalents		**9,587**	**8,350**
Prepayments and accrued income		36	41
Intragroup receivable – FCA	9	747	1,658
Total current assets		**10,370**	**10,049**

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.

Intragroup receivable consists of fees collected by the FCA on behalf of the PSR but not remitted to the PSR at 31 March less amounts due from the PSR to the FCA under the provision of services agreement between the two companies which sets out the services that are supplied and the respective costs. These costs are based on the charges the FCA incurs, without margins.

8. Current liabilities

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

	Total 2020 £'000	Total 2019 £'000
Fees in advance	5,418	4,894
Trade creditors and accruals	1,424	1,184
Trade and other payables	**6,842**	**6,078**
Total current liabilities	**6,842**	**6,078**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 22 days (2019: 27).

9. Related party transactions

Remuneration of key management personnel

	Total 2020 £'000	Total 2019 £'000
Short-term benefits	680	586
Post-employment benefits	60	41
Total related party transactions	**740**	**627**

There were no other transactions with key management personnel in the year.

Transactions with the FCA

The FCA provides certain services to the PSR, which are set out in the provision of service agreement. Summarised as:

	Total 2020 £'000	Total 2019 £'000
Accommodation and office services	1,230	1,181
Staff costs	591	702
IT costs	774	563
Other costs	76	73
	2,671	**2,519**

As at 31 March 2020, the inter-company receivable due from the FCA was £747,000 (2019: £1,658,000) as disclosed in note 7.

10. Events after the reporting period

The COVID-19 pandemic has resulted in numerous measures to contain the spread of the virus, including travel restrictions, social distancing, quarantines and closure of non-essential services.

The PSR has not been significantly affected in the first three months of 2020 and has determined that these events are non-adjusting events. Accordingly, the financial position and results of operations as of and for the year end 31 March 2020 have not been adjusted to reflect any impact.

The scale and duration of the COVID-19 pandemic remains uncertain at this time. As a result, it is not possible to reliably estimate the impact on the financial position and results of PSR for future periods.

The board authorised these Financial Statements for issue on 10 September 2020.

Payment
Systems
Regulator

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