
Terms of Reference

PSO Delivery Group

NOVEMBER 2016

1. Background

The Payments Strategy Forum (the Forum) will publish its final Strategy in November 2016. Through its Draft Strategy one option it is consulting on is the consolidation of the governance structures of three interbank payment system operators (PSOs). The PSOs in scope for potential consolidation would be BPSL, FPSL and C&CCCL. In addition, the Forum's Draft Strategy proposed the Bank and PSR take a role in considering the best approach to consolidation, should it go ahead.

The Bank of England (the Bank) and the Payment Systems Regulator (PSR) each have an interest in ensuring that any outcomes of the Forum's Strategy are consistent with their respective objectives and that they are implemented and delivered effectively.

The Forum's final recommendation on the potential consolidation will not be made until November 2016. However, the Bank and PSR started considering options regarding any potential consolidation after the publication of the Forum's Draft Strategy. This planning is aimed at minimising uncertainty and ensuring their objectives are fully met should the Forum recommend that the consolidation goes ahead. Ensuring that implementation of any consolidation is prompt would be important for resilience, an effective transition and minimising disruption for service users. In addition, the Bank and the PSR see that consolidation, if effectively delivered, could generate a number of benefits and contribute to advancing their statutory objectives.

The Bank and the PSR have therefore decided to establish a Coordination Group (CG) which will provide a forum for senior level discussion on important issues related to the regulation of PSOs. This group has recommended establishing a PSO Delivery Group.

2. Purpose and Scope

This Delivery Group (DG) is being established by the Bank and PSR to consider key issues relating to any potential PSO consolidation. It is to develop options and make recommendations relating to aspects of the proposed consolidation.

The implementation options and recommendations document will comprise the DG's recommendations on key characteristics of the new entity and the project plan for consolidation. It will include the outputs that are explained as part of section 3 below.

These options and recommendations should be completed and submitted to the Bank and the PSR by no later than **31 March 2017**. The plan should enable any consolidation process to be substantially accomplished to a safe, realistic but challenging deadline. This is expected to be by no later than **31 December 2017**.

3. Outputs

Implementation options and recommendations document

The DG will produce an implementation options and recommendations document, which includes making recommendations on policy issues (as listed at A-D below) as well as a detailed project plan for delivery of the consolidation – the plan should specify any aspects of the consolidation that would not be complete by the 31 December 2017 deadline. The outputs listed below must be included in the document.

In developing the options and making any recommendations, the DG must ensure that relevant obligations of PSOs and their members, in particular with regards to competition law and the law relating to payment systems and services, are properly taken into account.

A) Recommendations on the *key characteristics* of the new entity.

The DG should define a limited number of key characteristics for the new entity. The key characteristics of the new entity should include, but are not limited to its:

- Purpose
- Principles, culture and values
- Strategy
- Stakeholders landscape
- Initial and key functions
- Legal form
- Nature (profit/not-for-profit)
- Ownership
- Funding model
- Board composition
- Approach to service-user engagement and representation
- Voting structure

First establishing the new entity's purpose, strategy and stakeholder landscape will support the effective consideration of its other characteristics.

B) A recommended option for achieving any consolidation.

The DG should consider the relative merits of different methods for creating the consolidated PSO, and recommend which method is most suitable. The non-exhaustive list of methods expected to be considered includes:

- Merging all entities into an existing scheme
- Creating a new entity and absorbing the three schemes into it
- Creating new parent entity with existing schemes as subsidiaries

C) A recommended resource strategy and appointment process for key personnel

The DG should consider a resourcing strategy and a process for the key appointments required for the delivery of consolidation and the future successful operation of the new entity. This would include defining a process to appoint the chair and chief executive.

D) Identification of any additional necessarily collaborative functions the new entity may become responsible for in the future and consideration of the development of a flexible structure to cope with such changes

The new entity is expected to be capable of adapting to a changing environment (for example, be equipped to take forward initiatives beyond the operation of the core payment services of the existing PSOs). As such, the DG should identify any other issues or functions that need to be considered by the new entity (for example, implementing and managing APIs or other Forum initiatives as appropriate). Accordingly, it should have a sustainable financial structure that supports its purpose and objectives, including the ability to raise funds for projects that advance its purpose and objectives.

4. Requirements in developing the implementation plan

In developing the implementation plan, the DG will need to be mindful of the Bank's and the PSR's objectives and consider the extent to which particular arrangements are likely to further those objectives.

In particular, the DG should have regard to the need for the new entity to support the robustness and resilience of the financial system, comply with relevant regulatory requirements, and should seek to minimise transitional risk.

The new entity should be set up, governed and operated in a way that facilitates effective competition in adjacent relevant markets. This would include facilitating open access and participation in payment systems as well as competitive procurement of infrastructure services.

The new entity should also be capable of adapting to a changing environment and responding to implement innovation, as discussed in section 3D in this document.

Additionally, the purpose of the new entity should include a focus on the needs of service users¹. Its Board and management should understand a full range of service user needs.

The implementation plan must ensure that there is no impact on the pipeline of PSPs onboarding to the three payment schemes (e.g. as part of work on structural reform or new entrant PSPs).

In considering how the design of any consolidated entity achieves these requirements, the DG should consider the full range of options for the new entity's objectives, governance, ownership, nature and legal form to enable it to fulfil its purpose.

These options and recommendations document should enable any consolidation process to be completed to a safe, realistic but challenging deadline. This is expected to be by no later than **31 December 2017**. It will be important for the DG to regularly update the CG on its thinking on these issues.

¹Including businesses that access and rely on payments, as well as end users.

5. Constitution and Governance

Chair

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

Membership

The membership of the DG will comprise the following:

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

The quorum

The DG will be quorate when:

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

Observers

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

Support

It is expected that the DG will require support developing the implementation options and recommendations document. It is also expected that the DG is provided with the necessary legal and technical support where appropriate.

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

It is expected that the DG Chair will regularly attend CG meetings on the invitation of the CG. The Chair will discuss developments in the DG – in particular the issues identified in section 4.

The DG includes three members who will represent the Forum. These members will have a key role in consulting and canvassing the views of Forum members on key issues being considered. In particular, members that are representatives of the Forum should provide a point of coordination between the Forum's activities and the DG's activities and update the Forum on progress where necessary. However, the DG is not a subset of the Forum and will not report to it.

Similarly, the PSO members of the DG will have a responsibility to properly consult with the members of the PSOs seeking to ensure they are supportive of the proposals that are recommended by the DG and to ensure that the appropriate consequences of the options are fully explored for all members of the PSOs.

Funding

Given that the purpose of the DG is to make recommendations on the key characteristics that will ultimately establish a new consolidated PSO, the activities and expenses incurred by the DG should be funded by the PSOs or members of the PSOs.

6. Administration

Meetings

Initially the DG will meet fortnightly, with potential to meet more or less frequently depending on the requirements of the work.

It is expected that the location of the initial meeting will be at the PSR offices. The location of subsequent meetings will be Thomas More Square.

Secretariat

It is expected that the Members of the DG will provide the resources for the secretariat.

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

Meeting summary

The meetings of the DG should be recorded and a meeting summary should be published on the PSR's website.