

PSR Annual Plan and Budget

2014/2015



Foreword

The establishment of the Payment Systems Regulator (PSR) represents a significant change for the payments industry, as well as an important new step for the Financial Conduct Authority (FCA) in making sure financial services work well and deliver better outcomes for consumers.

Our aims in this first year are equipping the PSR with the people, processes and policies to successfully carry out and fulfil its role and advance its objectives. This means working closely together with the FCA, with other regulators and especially with new and existing stakeholders to most effectively and efficiently achieve that. I am confident that this work will prepare us for the exciting challenges and opportunities in the years ahead.



John Griffith-Jones

Chairman of the Payment Systems Regulator and Financial Conduct Authority

Payment systems are an essential part of the UK financial infrastructure. They underpin our day-to-day lives, from high value payments between firms, to receiving your pension into your bank account. Innovative, competitive and resilient systems that respond to the needs of their users are fundamental to a well-functioning economy.

This is an exciting time for payments, with the emergence of new technologies supporting the development of innovative business models. Changing user needs and demands, and a wider and more diverse range of industry participants means that the payments landscape is evolving faster than ever.

Our vision is to see the development of truly world class payment systems in the UK that meet the needs of current and future users. There have been successes in the payments industry and there is a solid foundation on which to build. But the rapid changes in technology require a new approach to the way the industry operates – one that will enable payment systems to keep pace with the needs of service-users.

Our first step to realising our vision is to build an effective regulator with a new regulatory framework, one that is able to drive industry strategy and which enables the UK to have world class payment systems. This is our focus for 2014/15 and our work to achieve that is outlined in this plan.



Hannah Nixon

Managing Director of the Payment Systems Regulator

Introduction

This is our first Annual Plan. It sets out our key aims and activities for the year 2014/15. We will become fully operational on 1 April 2015 and we are working intensively ahead of this to identify priorities for action and to equip ourselves for the challenges ahead. The work we are doing this year will provide us with a solid basis from which to advance our objectives in the years to come.

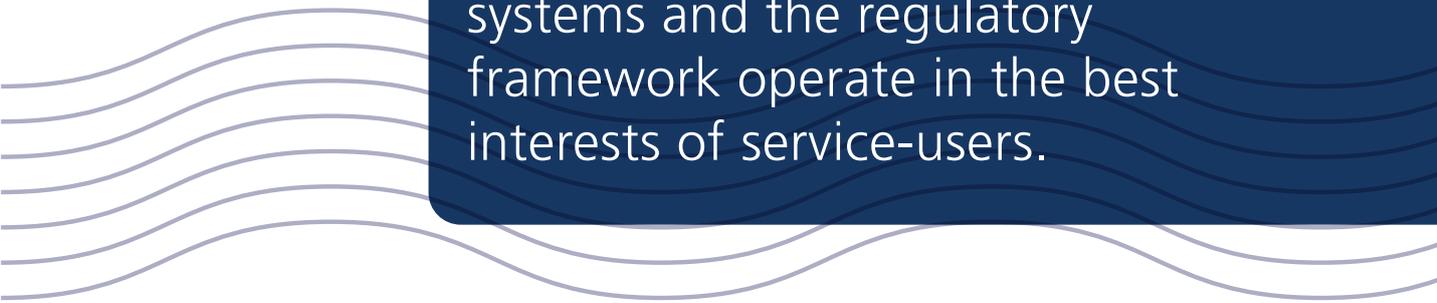
We were incorporated on 1 April 2014. Our Board was appointed at the same time, with responsibility for setting our strategy, plans and budget. In July 2014 Hannah Nixon took up the post of Managing Director.

We will regulate the payment systems in the UK that are 'designated' by the Treasury. The Treasury will designate a system if it considers that deficiencies in it, or disruption to the service provided by the system, would have serious consequences for users. We expect the Treasury to make its designation decisions before we become operational.¹

All participants in payment systems designated by the Treasury will fall within our remit. Participants include payment system operators, infrastructure providers and payment service providers.

Our aim is to ensure payment systems and the regulatory framework operate in the best interests of service-users in the wider economy. We will do this by advancing our objectives, which are to promote effective competition, innovation, and the interests of service-users.

These objectives underpin everything we do, driving what activities we undertake and how we prioritise our work. We will also have regard to the impact of our actions on financial stability, the Bank of England's role and our general regulatory principles.² These principles include ensuring that we operate efficiently and that our actions are proportionate.



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¹ For more information, see the Treasury's consultation on designation: <https://www.gov.uk/government/consultations/designation-of-payment-systems-for-regulation-by-the-payment-systems-regulator/designation-of-payment-systems-for-regulation-by-the-payment-systems-regulator>

² Outlined in Section 53 Financial Services (Banking Reform) Act 2013

Building our organisation

Our aims for this year are to build an organisation and develop our policies so they are fit for regulating designated payment systems. To do this we have focused on three areas, each of equal priority:

- our people
- our processes
- our policies

Our people

To ensure we are ready to become fully operational, we have made use of temporary staff while we determine our final organisational requirements and recruit permanent staff with the skills and experience needed to effectively undertake our responsibilities from April 2015. Through this recruitment process we aim to achieve a target of around 50 staff. Managing this growth is one of the biggest challenges we face as an organisation and we are ensuring that the task is given adequate HR and PSR leadership attention. Our overall team includes industry experts, economists, lawyers, policy and communications professionals, each bringing different skills, experience and expertise.

Our processes

We have followed a robust design process to ensure we are building the capabilities we need. The Financial Conduct Authority (FCA) has been engaged throughout this development, working collaboratively with us on where individual capability is best and most efficiently sourced, whether from within the PSR, from the FCA, or jointly.

We are setting up the regulatory framework in which we will operate and advance our objectives. This will involve establishing procedures and principles to provide transparency to our regulated population. For example, we are consulting on our proposed enforcement

process in November 2014, outlining how we propose to run investigations and what stakeholders can expect from us.

We are also establishing the PSR statutory panel to represent the interests of payment system participants and service-users. We will seek feedback from the panel as we develop our policies and practices.

Our policies

To develop our initial policies, directions and guidance, and identify future priorities, we are engaging extensively with a wide range of stakeholders. We are doing this through individual meetings, events and questionnaires.

Before the incorporation of the PSR, the FCA issued a Call for Inputs on our behalf. This was to allow stakeholders to submit relevant information to the PSR at the earliest opportunity following its incorporation. Stakeholders gave their views on how payment systems in the UK function, and the issues and challenges they face. We received responses from a broad range of payments industry stakeholders, other regulators, Government, consumer groups and charities.

This resulted in us creating a number of policy workstreams, details of which are set out in the figure below. Through these workstreams, we have continued the process of stakeholder engagement by holding meetings and a series of stakeholder events. We have also commissioned reports from external consultants, a number of which have already been published.

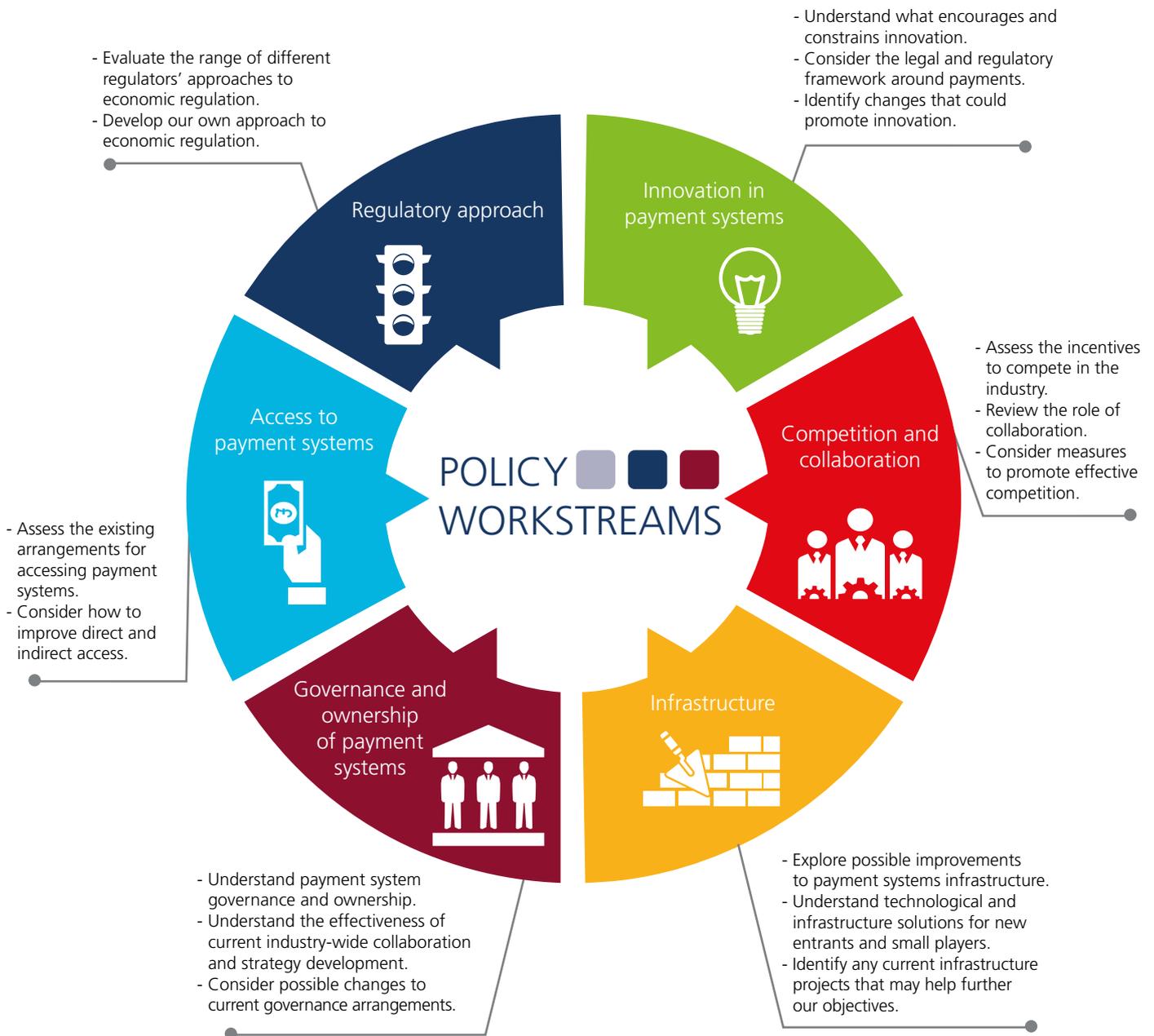
This extensive engagement and evidence gathering is helping us to identify our initial priorities for action and to focus our resources on the areas that we consider will most effectively advance our objectives. It is also enabling us to develop the initial proposals that we are consulting on in November 2014, and to identify future focus areas.³

³ <http://www.fca.org.uk/psr/our-consultation>

We will measure our performance

To be an open and transparent regulator we must be held to account, not only as set out in the statutes that govern us, but also more broadly. There are many ways that we will do this, including a Board to hold us to account, a complaints scheme, and a requirement to report to the Treasury in the event of a regulatory failure.

We will publish an annual report in which we set out what we have done to advance our statutory objectives, and a range of other measures. These include reporting how we have delivered on the commitments we made in our Annual Plan and information on our operational performance.



Working with other regulators and competition authorities

There are a number of authorities regulating various participants in payment systems, notably the Bank of England, the Prudential Regulation Authority and the FCA. We are developing a Memorandum of Understanding with these bodies to set out how we will work together effectively.

We will work with the Competition and Markets Authority (CMA), the lead competition authority in the UK, as well as the FCA and other sectoral regulators and share experience and best practice.

We will also work closely with other sectoral regulators on areas of mutual interest – for example, we have been developing a joint research paper with Ofcom on innovations in payments.

We will participate in the UK Competition Network, the UK Regulators Network, the EU Competition Network and International Competition Network.

Our budget for 2014/15

Our annual budget for 2014/15 reflects our costs from 1 April 2014 until 31 March 2015. We estimate these costs to be in the region of £11.2 million, as outlined below.

Table 1: Breakdown of PSR's costs for 2014/2015

Costs	£m
Staff costs	6.2
Professional fees	3.7
Information systems costs	0.3
Accommodation and office services	0.4
Training, recruitment, travel	0.5
Printing and publications	0.1
Total	11.2

Staff costs and professional fees

Our largest operating expense is staff costs. In the first half of the year this has been largely comprised of temporary staff costs. During the second half of the year the ratio of temporary to permanent staff has shifted significantly as permanent staff are continuing to be recruited. We expect, by operational launch, to have a near-full team of permanent staff.

Professional fees relate to specialist services needed to help establish the PSR. This includes external expertise focused particularly on helping us build a rapid understanding of the UK payments landscape to drive our policy proposals.

Other operational costs

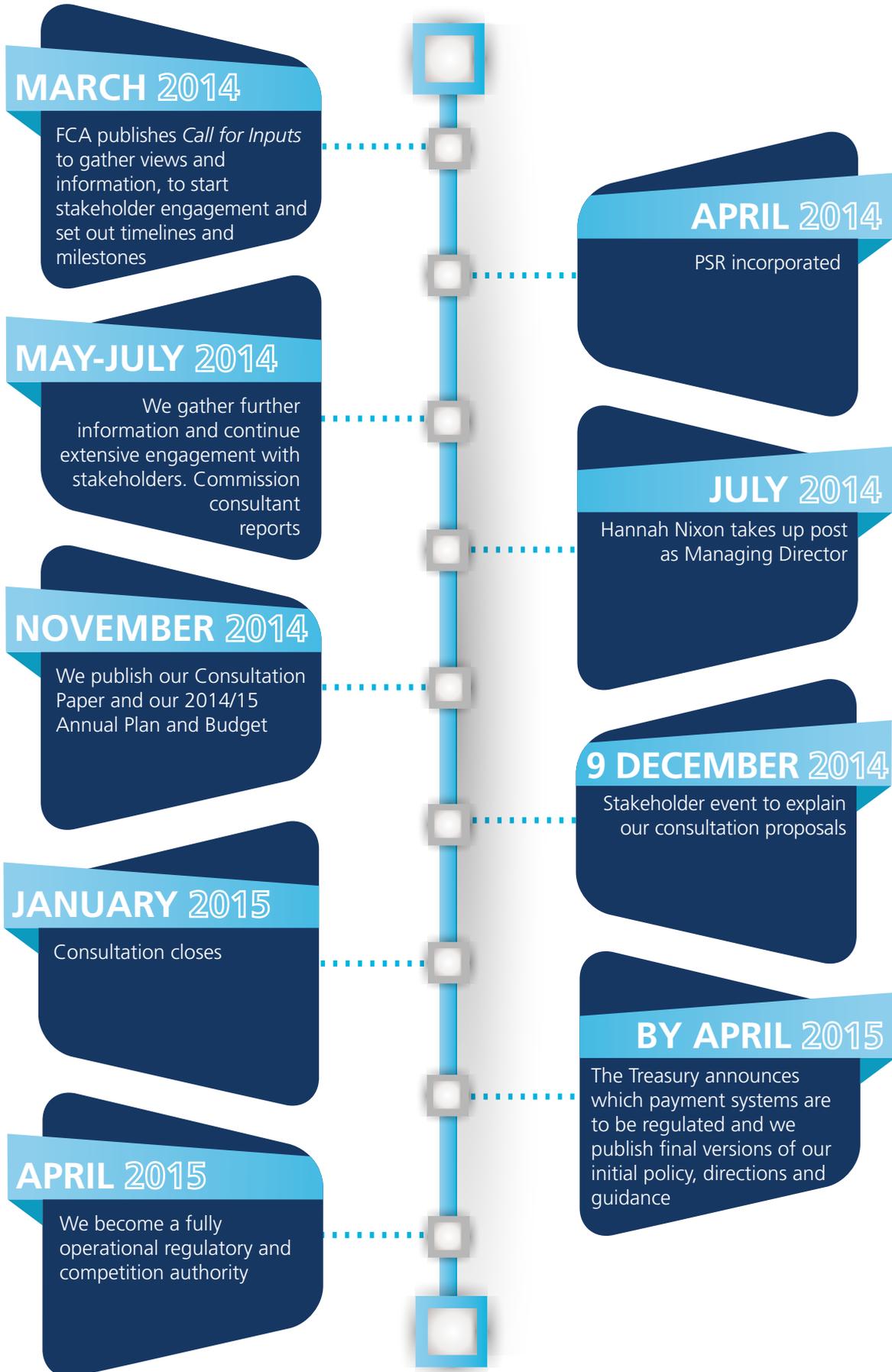
As we are a subsidiary of the FCA, we have sought to use its resources wherever possible during set-up. We have, for example, drawn on the FCA's accommodation, information systems and office services capabilities. We will reimburse the FCA for costs incurred on our behalf on an annual basis.

Impact on fee payers

We will recover all our costs through annual fees paid by the organisations we regulate. These will be levied and collected by the FCA.

The FCA is consulting on how these fees will be recovered and allocated, both for set-up and 2015/16 costs. The FCA will publish its consultation in late 2014.

Key Milestones



PUB REF: PSR Annual Plan and Budget

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