FINANCIAL CONDUCT AUTHORITY
PAYMENT SYSTEMS REGULATOR

BANK OF ENGLAND

**To: All stakeholders with an interest in the proposed consolidation of the operators of Bacs, Cheque and Credit Clearing, and Faster Payments**

**4 May 2017**

**Dear colleague,**

The Payment System Operator Delivery Group (PSODG) was established by the Payment Systems Regulator (PSR) and the Bank of England (the Bank) in October 2016. It was set up to consider key issues relating to the potential consolidation of the governance of three payment system operators (PSOs): Bacs Payment Schemes Ltd (BPSL), Cheque and Credit Clearing Company Limited (C&CCCL) and Faster Payments Scheme Ltd (FPSL).

On the 4th May 2017, the PSODG published its report 'New Payment System Operator'. This letter sets out our views and expectations regarding the next steps on the proposed PSO consolidation.

**Background – the opportunity provided by the proposed consolidation**

The proposed consolidation was one of the key elements put forward by the Payments Strategy Forum (the Forum) in its Final Strategy, which it published in November 2016. The proposal received a high level of support through the Forum's consultation process. It presents a major opportunity to enhance the structure and operation of UK interbank retail payments, in a way that addresses historical problems in the payments industry.

In principle, if done properly, the PSR and the Bank believe that the consolidation could deliver a number of benefits which would further our respective objectives. These benefits include:

- Further developing the capability and capacity of the operator of Bacs, FPS and the new Image Clearing System for cheques.
- Supporting the further simplification of the access and governance of the payment systems as well as their overall resilience and robustness.
- In the medium term, facilitating the safe and secure transition to, and management of, another of the Forum's proposals: a New Payments Architecture (NPA). We expect the NPA to deliver more dynamic competition and innovation in payments and be underpinned by best-in-class risk management.

Consolidation will deliver these benefits if it is effectively designed and implemented, is consistent with competition law requirements and facilitates the timely development and smooth implementation of the NPA.

**Overview of the PSODG process**

The PSODG is an independently chaired group. It was created by the PSR and the Bank to take forward the initial planning for the potential PSO consolidation, so the benefits could be realised in a timely and efficient manner. The PSODG's terms of reference required it to submit a report to the PSR and the Bank by 31 March 2017, containing:

- Recommendations on the design of the proposed New Payment Systems Operator (NPSO).
- An implementation plan allowing for delivery of the consolidation by the end of 2017.

Having received the PSODG's report, which we welcome, the PSR and the Bank have reviewed it from the perspective of our respective objectives and duties. We recognise it is the result of considerable effort and collaboration between a range of stakeholders, and builds on a substantial volume of work assessing the governance model of payment system operators.

A key aspect of the proposals, from our perspective, is the development of a clear company purpose for the NPSO and a supporting set of strategic objectives which are consistent with the regulatory objectives we have for the payment schemes. Delivering against the purpose and strategic objectives will provide a clear focus for the NPSO Board's decision-making.

**Implementing the PSODG's recommendations**

The PSODG's implementation plan is designed to support and enable the effective consolidation of the three operators. We expect that the existing operators, their shareholders and, ultimately, the NPSO will deliver much of the plan[1].

It is critical that consolidation, including the transition to the NPSO, is managed in a way that promotes the robustness and resilience of the three payment systems, and wider financial stability.

Therefore, to support the initial stages of delivery, we have decided that the PSODG should continue its work for a further short period. We are extending its remit for this period to coordinate the work needed to establish the NPSO corporate entity and oversee the initial stages of the implementation plan.

[1] This work should be taken forward in line with the PSODG's recommendations.

We currently expect the PSODG to hand over responsibility for execution of the implementation plan to the NPSO by the end of July 2017. The exact timing of the handover is likely to depend on other factors, including the shareholder approval processes of the three PSOs, certain regulatory processes (such as any merger clearance requirements) and the appointment of the Chair of the NPSO.

We have published revised terms of reference for the PSODG alongside this open letter. Robert Stansbury will continue as the independent chair of the PSODG.

**Regulatory expectations**

The PSODG's plan envisages the NPSO becoming the operator of payment systems which are designated under the Financial Services (Banking Reform) Act 2013 (in the case of the PSR) and recognised under the Banking Act 2009 (in the case of the Bank). As such, it will become subject to regulation by both the PSR and the Bank.

Once the NPSO is formally established we would expect to engage with it as if it were already the operator of a regulated system. As part of this engagement, the PSR and the Bank expect to provide further details to the NPSO on their regulatory approach and/or expectations. For example, we will engage with the NPSO on matters including, but not limited to:

- The expected regulatory processes around key NPSO appointments.
- The regulatory process or mechanisms for ensuring that we are apprised of any proposed changes to the NPSO purpose or strategic objectives.
- The governance and risk management arrangements that the NPSO would need to have in place before it takes on delivery of any payment system.
- The development and effectiveness of the proposed advisory council model, which should allow key stakeholders – including bank and non-bank participants and end-users – to make their views known to the NPSO Board.

We will set out our expectations to the NPSO, and the existing operators, relating to the remainder of the consolidation process. For example, we will ask the NPSO to give us a clear timeframe for completion of phase 3 of the implementation plan (the transfer of responsibility to the NPSO holding company). We will expect the NPSO, and the existing operators, to report to us regularly on progress in delivery of the implementation plan.

**Maintaining momentum**

A considerable amount of progress has been made in a short time on this project. We look forward to seeing the industry maintain positive momentum towards realising the important benefits that we expect consolidation to deliver.

Yours faithfully,

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| **Hannah Nixon** | **David Bailey** |
| Managing Director, PSR | Director, FMI, Bank of England |