19 February 2019

Dear Hannel + Charles,

Thank you for giving evidence to the Treasury Committee on 12 February. I am writing to confirm the information you agreed to provide to the Committee in writing, and to ask a number of questions in response to the evidence you provided.

Professional fees

Firstly, you agreed to write to the Committee on the subject of the PSR’s spending on consultants/professional fees. The PSR ‘Annual Plan and Budget’ documents from the past five years state that the following amounts were budgeted for professional fees:

- 2014/15: £3.7 million (33 per cent of that year’s total budget)
- 2015/16: £6 million (38 per cent of that year’s total budget)
- 2016/17: £3.27 million (21 per cent of that year’s total budget)
- 2017/18: £2.5 million (21 per cent of that year’s total budget)
- 2018/19: £2 million (13 per cent of that year’s total budget)

These figures represent a material portion of the PSR’s overall budget in those years. I would be grateful if you could confirm that these figures are correct. If correct, it would be helpful to understand the rationale for budgeting these amounts for professional fees, and to be given more detail on how this money was spent.

Board minutes

We discussed the timeliness with which the PSR Board publishes its minutes, and the Board’s policy regarding the timeliness of publication. You stated that the PSR’s policy is to publish Board minutes “within eight weeks of approval”. However, the Minutes of your Board meeting in March 2018,\(^1\) at which you discussed the PSR’s policy for publication, state that “the Board agreed to publish its minutes within two weeks of them being approved at the next meeting”. Please could you clarify the PSR Board’s policy and confirm whether it has been adhered to since it was adopted?

\(^1\) [https://www.psr.org.uk/sites/default/files/media/PDF/Board-minutes-March-2018.pdf](https://www.psr.org.uk/sites/default/files/media/PDF/Board-minutes-March-2018.pdf)
We also discussed your guidance to designated Payment System Operators regarding the timeliness with which they should publish their own Board minutes. You stated that you have relaxed your guidance to firms, and that you “made an amendment to our direction relating to the publication of minutes […] to ensure that their standard is the same as ours, i.e. that within eight weeks of approval of their minutes they are published”. In 2018 you consulted on changes to your General Directions (which set out, amongst other things, your requirements in relation to the publication of regulated firms’ Board minutes). However, you have not yet published a Policy Statement confirming whether any changes are to be made. Please could you confirm whether your requirements and guidance relating to the publication of Board minutes by regulated firms have changed as described in your oral evidence to the Committee?

Brexit

On the subject of the fees for using and accepting EU-issued cards in the UK in a no-deal scenario, you stated that “the interchange fee regulation has been translated into UK law. We will continue to enforce it in the UK. Those caps have been moved across and so would apply in the UK”. However, the Treasury’s “Interchange Fee (Amendment) (EU Exit) Regulations 2018: explanatory information” states that when the UK leaves the EU “payments where either the acquirer or the card issuer is based outside of the UK, including in the EEA, would no longer be subject to the caps and the card issuer may receive interchange fees in excess of the caps”. Please could you clarify whether the caps contained within the Interchange Fee Regulation would apply to these transactions in a no-deal scenario? If the caps will not apply, have you had any discussions with the card schemes to understand whether, in these circumstances, they would increase interchange fees beyond the caps that are currently in place?

Market review into the supply of card-acquiring services

The Terms of Reference for your Market Review into the supply of card-acquiring services state the following:

“...for the avoidance of doubt, we will not carry out a wholesale review of the rules that card scheme operators set or the scheme fees they charge to acquirers, and whether these are excessive or justifiable”.

In response to a question on scheme fees from Catherine McKinnell MP, you stated that “we will pick it up as part of the review”. Please could you clarify whether scheme fees, and whether they are excessive or justifiable, will be considered as part of your Market Review?

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4 https://www.psrg.org.uk/sites/default/files/media/PDF/PSR_MR18_1.2_card_acquiring_market_review_Final_terms_of_reference_January_2019_0.pdf
The PSR Board

John Mann MP asked for your views on whether the Chairmanship of the FCA and the Chairmanship of the PSR should continue to be held by the same individual. An external review of the PSR Board's effectiveness, provided to you in January 2018, noted that:

"In time, [the PSR Chairman] will want to consider the potential merits of a separate PSR Chairman being appointed. This could extend the independence of the Board further, if this is considered desirable. Moreover, a separate Chairman might be able to give the PSR more attention."

The same review noted the danger of the FCA Chairmanship becoming "all-consuming". In your evidence to the Committee, you stated that "for the time being, as we move into the next chapter of the PSR’s development, it would certainly be premature to have two different people occupying these roles". Notwithstanding the need for continuity given the impending departure of Ms Nixon, I would be grateful for your assessment of the suggestion quoted above, including when you think such a change would be appropriate.

Expenses and expenditure

The Committee asked about the publication of expenses incurred by the PSR’s Executive Directors. One of the roles of the Committee is to scrutinise the expenditure of bodies like the PSR, including the expenses incurred by senior staff. In the evidence session, it was noted that the aggregated nature of the expenses published by the PSR makes it very difficult to assess whether they are reasonable. I would be grateful if you would commit to publishing these expenses in a more itemised form in future, perhaps similar to the way in which expenses are published for members of the Bank of England’s policy committees.

Separately, the PSR refreshed its corporate identity in 2017/18. This included the creation of a new logo. Please could you provide details on the costs of this exercise?

Thank you again for giving evidence to the Committee. We appreciate that appearing at an evidence session places significant demands on your time, both in attending the meeting and in preparation beforehand. Once again, can I thank you, Hannah, for your work as Managing Director of the PSR and wish you all the best for your next career move.

Yours sincerely,

Rt Hon Nicky Morgan MP
Chair of the Treasury Committee

https://www.psr.org.uk/sites/default/files/media/PDF/Board-effectiveness-review.pdf