

**CORPORATE GOVERNANCE OF THE PAYMENT SYSTEMS
REGULATOR LIMITED**

ADOPTED BY RESOLUTION OF THE BOARD ON 2 APRIL 2014

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Introduction

1. This document summarises the corporate governance structure within the Payment Systems Regulator (the PSR). The corporate governance structure defines the way in which the PSR is constituted, directed and controlled by its governing body, the Board. It specifies the distribution of rights and responsibilities from the Board to various committees and the executive. To do this, the document outlines how the PSR is constituted, the role of the Board, the Chair, the Managing Director, the Directors, and the Secretary. It also sets out which decisions are reserved specifically to the Board (the Schedule of Matters Reserved to the Board) and the process by which the Board delegates some other responsibilities to committees or individuals.

The PSR's constitution and history

2. The PSR is a company limited by shares (Company No. 8970864). The organisation was incorporated on 1 April 2014. The PSR was set up by the Financial Conduct Authority (the FCA) due to the requirements in the Financial Services (Banking Reform) Act 2013 (the FS(BR)A).
3. The PSR is governed by a Board with members comprising a Chair and a Managing Director appointed by the FCA and approved by HM Treasury (the Treasury), and other members appointed by the FCA.
4. The FS(BR)A requires the PSR to have a number of accountability measures in place, including the requirement to report annually to the FCA on the extent to which the PSR has met its regulatory objectives.
5. The PSR is funded by the industry it regulates through statutory fee-raising powers. It operates independently of government, but is accountable to the FCA and Parliament through obligations set out in the FS(BR)A.
6. The FS(BR)A requires the PSR to make and maintain effective arrangements for consulting '*participants in regulated payment systems and those who use, or are likely to use, services provided by regulated payment systems.*' It will do this through one or more panels. More information about the ways in which the PSR ensures that its duty of accountability in this area is fulfilled can be found on its website.

The role of the Board

7. The Board is the governing body of the PSR. It sets the PSR's strategic aims and liaises with the FCA, which has a duty under the FS(BR)A to *'take such steps as are necessary to ensure that the PSR is, at all times, capable of exercising its functions'* and the power to provide the PSR with staff and services to facilitate the exercise of its functions
8. The Board's role includes:
 - a) Determining the matters that should be reserved to it for decision, which shall include the exercise of the PSR's functions of imposing general requirements and other matters as set out in the Schedule of Matters Reserved to the Board from time to time. The Schedule of Matters Reserved to the Board is set out in this Handbook.
 - b) Making strategic decisions affecting the future operation of the PSR.
 - c) Overseeing the discharge by the executive management of the day to day business of the PSR.
 - d) Setting appropriate policies to manage risks to the PSR's operations and the achievement of its regulatory objectives.
 - e) Seeking regular assurance that the system of internal control is effective in managing risks in the manner it has approved.
 - f) Maintaining a sound system of financial control.
 - g) Taking specific decisions, outside those specified in the Schedule of Matters Reserved to the Board, which the Board or executive management consider to be of a novel or contentious nature or to be of such significance that they should be taken by the Board.
 - h) Maintaining high level relations with other organisations and authorities, including government, the Financial Conduct Authority, the Prudential Regulation Authority, the Bank of England and the Payment Systems Panel.
 - i) Establishing and maintaining arrangements to ensure accountability regarding decisions of committees of the Board and executive management, through periodic reporting.
9. In order to discharge its duties effectively, the Board normally meets at least four times a year. Additional meetings of the directors are held as required. The quorum needed for business to be carried out is four directors as set out in the Articles.
10. The Board members may request information from any employee of the PSR, or of the FCA who is undertaking work in relation to the PSR,

and this includes calling any employee to attend a Board meeting to answer questions on a particular matter.

11. Any Board member who requires professional advice on a matter relating to their duties on the Board may make a request to the Secretary to have direct access to the PSR's professional advisers. If the Board member considers it essential to receive independent professional advice on a matter, this may be obtained at the PSR's expense within reasonable financial limits after reference to the Chair.

The role of the Chair and Managing Director of the PSR

12. The division of responsibilities between the Chair and Managing Director, which are clearly established, are set out in writing below and may only be changed with the agreement of the Board.
13. The responsibilities of the Chair and Managing Director of the PSR are not exercised by the same individual and are clearly defined and set out below. The Board will review the objectives for both the Chair and the Managing Director to ensure that there is a clear division between their duties.
14. The key responsibilities of the Chair include:
 - establishing and developing an effective Board
 - leading the Board as a team
 - planning and managing the Board's business
 - involvement in discussions with the Managing Director on key issues in relation to the business of the organisation
 - establishing, with the Managing Director, priorities for the PSR
 - with the Managing Director, leading the communication of PSR policies with a wide range of consumers and other stakeholders
 - evaluating the performance of the Board and individual directors
 - acting as a focus for the accountability of the PSR, for example, by giving evidence to Parliamentary select committees and communicating with Government ministers on significant issues
 - jointly with the Managing Director approving all transactions, the value of which (including VAT) is between £250,000 and £1,000,000
15. The Chair has no executive responsibility for the day-to-day running of the PSR but undertakes his responsibilities as Chair by fostering the relationships between executive and non-executive directors. In addition he ensures that the PSR's strategy is formulated clearly and is well understood internally and externally. The Chair and Deputy Chair provide a source of counsel and challenge to the Managing Director on how the PSR is run. In particular, the Chair and Deputy Chair will be involved in discussions with the Managing Director on key issues in relation to the business of the organisation and in maintaining and developing a productive relationship with the PSR Managing Director.

To enable the Chair and Deputy Chair to undertake these duties and represent the PSR publicly, the Managing Director ensures that the Chair and Deputy Chair are properly briefed on PSR business.

16. The Chair, Deputy Chair and Managing Director discuss all major issues and emerging policies through frequent and normally informal meetings, and specifically discuss any contentious matters or those likely to set significant precedent.
17. The Managing Director is responsible for leadership of the organisation and managing it within the authorities delegated by the Board. All the PSR team, other than the Chair's immediate staff and the Company Secretary, ultimately report to the Managing Director. The key responsibilities of the Managing Director include:
 - leading the PSR's senior management team, shaping and influencing regulation and PSR strategy
 - representing and promoting the PSR and its objectives to key FCA and external stakeholders, leading external communications to the media, giving speeches at conferences and building relationships with the trade press
 - developing a strategic and holistic view of the issues in the sector and the regulatory actions needed to further the PSR's objectives
 - maintaining constructive relationships and dialogue with regulated entities and other stakeholders including potential sector new entrants
 - developing and maintaining a strong network across the sector, to gather and share sector-wide information in support of developing and delivering the PSR objectives
 - developing and maintaining a strong regulatory relationship with the FCA including, to the extent compatible with the PSR's own objectives, co-ordinating work with the Policy, Risk & Research Division of the FCA, in particular in relation to the FCA's competition objective
 - demonstrating value for money across all activities whilst enhancing the performance of the PSR function and ensuring that decisions are focused on payments systems end users
 - reporting regularly to the Board with appropriate, timely and quality information so the Board can discharge its responsibilities effectively
 - informing and consulting the Chair and Deputy Chair on all matters of significance to the Board so that the Chair, Deputy Chair and Board can properly discharge their responsibilities
 - involving the Chair and Deputy Chair in discussions on key issues in relation to the business of the organisation
 - developing and delivering the strategic objectives agreed with the Board

- recommending to the Board significant operational changes and major capital expenditures where these are beyond his delegated authority
- assigning responsibilities clearly to senior management and overseeing the establishment of effective risk management and control systems
- recruiting, developing and retaining talented people to work for the PSR and, in particular, establishing a strong management team which is fairly and fully evaluated
- communicating throughout the PSR the strategic objectives and the values of the PSR agreed with the Board, and ensuring that these are achieved in practice
- sharing with the Chair and with other members of the PSR senior management the responsibility for communicating the PSR's messages externally
- representing the PSR on particular national and international financial institutions as appropriate
- approving all transactions the value of which (including VAT) is up to £250,000
- jointly with the Chairman or Deputy Chairman approving all transactions, the value of which (including VAT), is between £250,000 and £1,000,000

Provisions relating to the role of the Non-Executive Directors (NEDs)

18. In the event of any conflict of interest arising, whether personal or professional, all appropriate steps will be taken to protect both the director and the PSR and to ensure that all decisions are taken without any suggestion of undue influence.
19. The NEDs meet privately with the Chair which gives them an opportunity to discuss any concerns they may have without the executive present.
20. The PSR, its directors and staff (including any officer or member of staff of the FCA who is, or who is acting as, an officer or member of staff or to whom any functions have been delegated), benefit from exemption from liability for damages for anything done or omitted in the discharge, or purported discharge of the PSR's functions (FS(BR)A Schedule 4, section 14). The PSR supplements this with indemnities in favour of individual directors.

The role of the Secretary

21. The Board is responsible for the appointment and removal of the Company Secretary, who is accountable to it through the Chair.
22. The Secretary provides a source of advice to Board members and is responsible for ensuring that Board procedures are followed and that applicable internal rules and regulations relating to the operation of the Board are met. In addition, the Secretary is responsible for ensuring good information flows within the Board and its committees, as well as between senior executive management and NEDs. The Secretary will also arrange appropriate induction and training for all Board members.
23. The Secretary ensures that the business of the Board is compliant, where appropriate and applicable, with the UK Corporate Governance Code, the Companies Act, the Financial Services (Banking Reform) Act and all other relevant regulations and legislation. The Secretary also keeps under review all legal and regulatory developments affecting the operations of the PSR and makes sure that the directors are properly briefed about them.

Delegation of authority by the Board

24. The Board retains all decision-making powers except those which it has delegated to either a committee or an individual. The Schedule of Matters Reserved for Board decision is set out later in this document.
25. The Board has established certain standing committees to which it has delegated specific duties and decision-making responsibilities:
 - a) Audit Committee (AuditCo): AuditCo is responsible for reviewing and providing assurance to the Board on matters including the effectiveness of the PSR's internal controls, risk management and mitigation strategies, the integrity of the financial statements in the annual accounts and the statements that relate to financial controls and internal risk, and for oversight of the external audit process. The terms of reference for AuditCo are set out later in this document.
 - b) Risk Committee (RiskCo): RiskCo is responsible for the review and oversight of the external risks to the PSR's statutory objectives; making recommendations to the Board in relation to such risks; and the suitability of the scope and coverage of the mitigation used to reduce the potential impact of such risks. The terms of reference for RiskCo are set out later in this document.
 - c) Remuneration Committee (RemCo): RemCo is responsible for determining the remuneration of the executive members of the Board. The terms of reference for RemCo are set out later in this document.

26. Subject to provisions contained in the Articles, the Board may establish other committees, consisting of such members as they think fit, and delegate to those committees the exercise of specific powers, duties and decision-making responsibilities.
27. The Managing Director may exercise any function of the PSR except where:
- a) the function is a function reserved by FS(BR)A to the Board;
 - b) the function is contained in the Schedule of Matters Reserved to the Board; or
 - c) it is considered by the Managing Director or any such committee with the appropriate delegated authority that the matter should be referred to the Board.
28. When the Board exercises its powers to give general directions under FS(BR)A section 54 or to impose generally-imposed requirements under section 55 FS(BR)A, its decision allows subsequent technical or drafting amendments to be made to the text of the relevant instrument, if they are within the scope of the Board's decision, and agreed by the staff member responsible for the instrument and the General Counsel or his representative.

Further delegation of decision-making

29. The Managing Director may delegate authority (and, if they choose, the authority to make further delegations) to:
- a) a committee, sub-committee, officer or member of staff of the PSR, and
 - b) an officer or member of staff of the FCA
30. Where functions vested in the Managing Director are exercisable by them through a committee, that committee may similarly delegate that authority to one or more individuals or PSR committees. However, any new delegation must provide for:
- a) decisions to be made at an appropriate level
 - b) a clear line of accountability to the Board
 - c) any person with authority to take a decision to be entitled instead to refer it to a person or committee which is more senior and
 - d) appropriate procedures for decision making to be in place
31. The nature and scope of delegations should be recorded centrally.

32. Existing delegations of authority to take decisions within the executive management structure remain in force until replaced by new delegations.
33. A person nominated by the Chair may discharge any function in any case of urgency where it is not practicable for the Board, Chair, Managing Director, or other executive Board member to discharge the function. Any decisions made or actions taken under this provision must be subsequently ratified by the Board.

THE COMPANIES ACTS 1948 to 2006

COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION

of

THE PAYMENT SYSTEMS REGULATOR LIMITED

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PART 1 - INTRODUCTION

1 Defined Terms

1.1 In these Articles, unless the context requires otherwise:

Act	means the Companies Acts as defined in section 2 of the Companies Act 2006, in so far as they apply to the Company.
Address	means a physical address or, in relation to Electronic Form, any number of electronic mail address(es), which has been notified to the Secretary for the purpose of receiving and sending documents.
Authenticated Document	relates to the Directors' and/or Members' agreement to a resolution. Directors/Members can either sign a paper copy of the resolution or signify agreement to an electronic version. For the document to be valid it must originate from an Address agreed with the Company.
Company	means The Payment Systems Regulator Limited.
Board	means the governing body of the Company appointed pursuant to Schedule 4, paragraph 2 of the Financial Services (Banking Reform) Act 2013 and Article 7.1 of these Articles.
Chair	the person who for the time being holds such office pursuant to Article 7.1(a) of these Articles.
Common Seal	means the common seal of the Company.
Conflict	means a situation in which a Director has or can have a direct or indirect interest that conflicts or possibly may conflict, with the interests of the Company.
Director	a person appointed to the Board pursuant to Schedule 4, paragraph 2 of the Financial Services (Banking Reform) Act 2013 and Article 7.1 of these Articles.
Document	includes, unless otherwise stated, any document sent or supplied in Electronic Form.
Electronic Form	has the meaning given in section 1168 of the Act.
Eligible Director	means a Director who would be entitled to vote on the matter at a meeting of directors (but excluding in relation to the authorisation of a Conflict pursuant to Article 10, any director whose vote is not to be counted in respect of the particular matter).

Eligible Member	means a Member who would have been entitled to vote on the resolution on the circulation date of the resolution (as defined in section 289 of the Act).
Member	means a shareholder of the Company.
Present or Present in Person	means any Member or Director who is present in person or deemed to be present by virtue of some other form of communication, for example, conference telephone or video link or similar communications equipment whereby all persons participating in the meeting communicate with each other.
Secretary	means any person appointed to perform the duties of the Secretary of the Company.
Treasury	means Her Majesty's Treasury.
United Kingdom	means Great Britain and Northern Ireland.
Writing	means the representation or reproduction of words, symbols or other information in a visible form by any method or combination of methods, whether sent or supplied in Electronic Form or otherwise.

Unless the context otherwise requires, other words or expressions contained in these Articles shall bear the same meaning as in the Act as in force on the date when these Articles become binding.

2 Objects

2.1 The Company's objects are:

- (a) to carry out any functions conferred on the Company by or under any provision of any European or United Kingdom legislation, as amended from time to time, and to carry out such other functions or exercise such powers as, from time to time, may be carried out or exercisable by the Company;
- (b) to carry out any other function or exercise any other power as may, in the Company's view, assist or enable it to carry out the functions and powers referred to above or which the Company considers incidental, desirable or expedient.

3 Powers

3.1 In pursuance of the objects set out in Article 2, the Company has the power to:

- (a) buy, lease or otherwise acquire and deal with any property real or personal and any rights or privileges of any kind over or in respect of any property real or personal and to improve, manage, develop,

construct, repair, sell, lease, mortgage, charge, surrender or dispose of or otherwise deal with all or any part of such property and any and all rights of the Company;

- (b) borrow and raise money in such manner as the Directors shall think fit and secure the repayment of any money borrowed, raised or owing by mortgage, charge, lien or other security on the Company's property and assets;
- (c) invest and deal with the funds of the Company not immediately required for its operations in or upon such investments, securities or property as may be thought fit;
- (d) subscribe for, take, buy or otherwise acquire, hold, sell, deal with and dispose of, place and underwrite shares, stocks, debentures, debenture stocks, bonds, obligations or securities issued or guaranteed by any government or authority in any part of the world;
- (e) lend and advance money or give credit on such terms as may seem expedient and with or without security, to enter into guarantees, contracts of indemnity and suretyships of all kinds to receive money on deposit or loan upon such terms as the Company may approve and to secure or guarantee the payment of any sums of money or the performance of any obligation by any company, firm or person including any holding company or subsidiary;
- (f) lobby, advertise, publish, educate, examine, research and survey in respect of all matters of law, regulation, economics, accounting, governance, politics and/or other issues and to hold meetings, events and other procedures and co-operate with or assist any other body or organisation in each case in such way or by such means as may, in the opinion of the Directors, affect or advance the principal object in any way;
- (g) pay all or any expenses incurred in connection with the promotion, formation and incorporation of the Company and to contract with any person, firm or company to pay the same;
- (h) enter into contracts to provide services to or on behalf of other bodies;
- (i) provide and assist in the provision of money, materials or other help;
- (j) open and operate bank accounts and other facilities for banking and draw, accept, endorse, issue or execute promissory notes, bills of exchange, cheques and other instruments;
- (k) incorporate subsidiary companies to carry on any activity; and
- (l) do all such other lawful things as are incidental or conducive to the pursuit or to the attainment of any of the objects set out in Article 2.

4 Not for distribution

- 4.1 The income and property of the Company shall be applied solely in promoting the objects of the Company as set out in Article 2.
- 4.2 No dividends or bonus may be paid or capital otherwise returned to the Members, provided that nothing in these Articles shall prevent any payment in good faith by the Company of:
- (a) reasonable and proper remuneration to any Member, Director, officer or servant of the Company for any services rendered to the Company; and
 - (b) reasonable out-of-pocket expenses properly incurred by any Director.

5 Winding up

- 5.1 On the winding-up or dissolution of the Company, any assets or property that remains available to be distributed or paid to the Members shall not be paid or distributed to such Members in their capacity as such but shall be transferred to another body (charitable or otherwise):
- (a) with objects similar to those of the Company; and
 - (b) which shall prohibit the distribution of its or their income to its or their members,

such body to be determined by the Members at the time of winding-up or dissolution.

6 Liability of Members

- 6.1 The liability of each Member is limited to the amount, if any, unpaid on the shares held by them.

PART 2 – DIRECTORS AND SECRETARY

APPOINTMENT OF DIRECTORS

7 Method of appointment

- 7.1 The Board of the Company shall comprise:
- (a) a chair appointed by the FCA with the approval of the Treasury;
 - (b) a managing director appointed by the FCA with the approval of the Treasury; and

(c) one or more other directors appointed by the FCA.

8 Directors' terms of service

- 8.1 The terms of service of the Directors are to be determined by the Board subject to approval of the FCA and will be notified to the Directors by the Company Secretary.
- 8.2 The Directors may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of Directors or committees or general meetings of the Company or otherwise in connection with the discharge of their duties.

9 Termination of Directors' appointments

- 9.1 The FCA may remove a Director from office:
- (a) on the grounds of incapacity or serious misconduct; or
 - (b) on any of the grounds that are set out in the model articles
- provided that, in the case of a Director appointed pursuant to Article 7.1(a) or (b), the FCA is acting with the approval of the Treasury.

10 Directors' conflicts of interest

- 10.1 The Directors may, in accordance with the requirements set out in this Article, authorise any Conflict proposed to them by any Director which would, if not authorised, involve a Director (an **Interested Director**) breaching his duty under section 175 of the Act to avoid conflicts of interest.
- 10.2 Any authorisation under this Article 10 shall be effective only if:
- (a) the matter in question shall have been proposed by any Director for consideration in the same way that any other matter may be proposed to the Directors under the provisions of these Articles or in such other manner as the Directors may determine;
 - (b) any requirement as to the quorum for consideration of the relevant matter is met without counting the Interested Director; and
 - (c) the matter was agreed to without the Interested Director voting or would have been agreed to if the Interested Director's vote had not been counted.
- 10.3 Any authorisation of a Conflict under this Article 10 may (whether at the time of giving the authorisation or subsequently):

- (a) extend to any actual or potential conflict of interest which may reasonably be expected to arise out of the matter or situation so authorised;
- (b) provide that the Interested Director be excluded from the receipt of documents and information and the participation in discussions (whether at meetings of the Directors or otherwise) related to the Conflict;
- (c) provide that the Interested Director shall or shall not be entitled to vote in respect of any future decision of the Directors in relation to any resolution related to the Conflict;
- (d) impose upon the Interested Director such other terms for the purposes of dealing with the Conflict as the Directors think fit;
- (e) provide that, where the Interested Director obtains, or has obtained (through his involvement in the Conflict and otherwise than through his position as a Director of the Company) information that is confidential to a third party, he shall not be obliged to disclose that information to the Company, or to use it in relation to the Company's affairs where to do so would amount to a breach of that confidence; and
- (f) permit the Interested Director to absent himself from the discussion of matters relating to the Conflict at any meeting of the Directors and be excused from reviewing papers prepared by, or for, the Directors to the extent they relate to such matters.

10.4 Where the Directors authorise a Conflict, the Interested Director shall be obliged to conduct himself in accordance with any terms and conditions imposed by the Directors in relation to the Conflict.

10.5 The Directors may revoke or vary such authorisation at any time, but this shall not affect anything done by the Interested Director prior to such revocation or variation in accordance with the terms of such authorisation.

10.6 A Director is not required, by reason of being a Director (or because of the fiduciary relationship established by reason of being a Director), to account to the Company for any remuneration, profit or other benefit which he derives from or in connection with a relationship involving a Conflict which has been authorised by the Directors in accordance with these Articles or by the Company in general meeting (subject in each case to any terms, limits or conditions attaching to that authorisation) and no contract shall be liable to be avoided on such grounds.

10.7 Subject to sections 177(5) and 177(6) of the Act, a Director who is in any way, whether directly or indirectly, interested in a proposed transaction or arrangement with the Company shall declare the nature and extent of his interest to the other Directors before the Company enters into the transaction or arrangement in accordance with the Act.

10.8 Subject to sections 182(5) and 182(6) of the Act, a Director who is in any way, whether directly or indirectly, interested in a transaction or arrangement that has been entered into by the Company shall declare the

nature and extent of his interest to the other Directors as soon as is reasonably practicable in accordance with the Act, unless the interest has already been declared under Article 10.7.

10.9 Subject, where applicable, to any terms and conditions imposed by the Directors in accordance with Article 10.4, and provided he has declared the nature and extent of his interest in accordance with the requirements of the Act, a Director who is in any way, whether directly or indirectly, interested in an existing or proposed transaction or arrangement with the Company:

- (a) may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise (directly or indirectly) interested;
- (b) shall, subject to any other relevant restriction at law or under these Articles, be entitled to vote, for the purposes of any proposed decision of the Directors (or committee of Directors) in respect of such existing or proposed transaction or arrangement in which he is interested;
- (c) shall, subject to any other relevant restriction at law or under these Articles, be entitled to vote at a meeting of Directors (or of a committee of the Directors) or participate in any unanimous decision, in respect of such existing or proposed transaction or arrangement in which he is interested;
- (d) may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;
- (e) may be a Director or other officer of, or employed by, or a party to a transaction or arrangement with, or otherwise interested in, any body corporate in which the Company is otherwise (directly or indirectly) interested; and
- (f) shall not, save as he may otherwise agree, be accountable to the Company for any benefit which he (or a person connected with him (as defined in section 252 of the Act)) derives from any such transaction or arrangement or from any such office or employment or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit nor shall the receipt of any such remuneration or other benefit constitute a breach of his duty under section 176 of the Act.

10.10 For the purposes of this Article 10:

- (a) a general notice given to the Directors that a Director is to be regarded as having an interest of the nature and extent specified in the notice in any transaction or arrangement in which a specified person or class of persons is interested shall be deemed

to be a disclosure that the Director has an interest in any such transaction of the nature and extent so specified; and

- (b) an interest of which a Director has no knowledge and of which it is unreasonable to expect him to have knowledge shall not be treated as an interest of his.

POWERS AND DUTIES OF THE DIRECTORS

11 Exercise of powers and validity of Directors' acts

- 11.1 Subject to the provisions of the Act, the Financial Services (Banking Reform) Act 2013, other applicable legislation, and these Articles the activities of the Company shall be managed by the Directors who may exercise all powers of the Company as they see fit. No alteration of these Articles shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made. Any defect in appointments shall not affect the validity of any act of the Board, of any member of the Board or of any committee of the Board or of the Company itself.
- 11.2 All acts done by any meeting of the Directors or of any committee, or by any person acting as a Director, shall, notwithstanding that it be afterwards discovered that there was some defect in any appointment relevant thereto or that any person was disqualified from acting in any capacity, or had vacated office or was not entitled to vote, shall be as valid as if all relevant appointments had been duly made and any such person was qualified and had continued as a Director and had been entitled to vote.
- 11.3 The Directors may act notwithstanding any vacancy in their body.

12 Delegation of function and powers

- 12.1 The Directors shall themselves perform any function and exercise any power of the Company which is required by law to be performed or exercised by them. Where any function or power of the Company is not required by law to be so performed or exercised, the Directors may delegate its performance or exercise to committees or sub-committees, consisting of such member or members (whether or not of their body) as they think fit or such persons as may be prescribed for the purpose, to any officer or servant of the Company or to any other body or person who is able and willing to perform the function or exercise the power. Any committee or sub-committee so formed, and any other delegate, shall, in the discharge of the functions and in the exercise of the powers so delegated, comply with any written requirements that may be imposed, whether generally or specifically, by the Directors.
- 12.2 The Directors may revoke any delegation in whole or part, or alter its terms and conditions at any time.

DECISION MAKING BY DIRECTORS

13 Proceedings of Directors

- 13.1 The Directors may meet together for the despatch of business, adjourn, and otherwise regulate their meetings and proceedings, as they think fit.

14 Records of decisions to be kept

- 14.1 The Directors must ensure that the Company keeps a record, in Writing, for at least ten years from the date of the decision recorded, of all resolutions, decisions and proceedings at all meetings of the Company, and of the Directors, and of committees. Such record shall include the names of the persons present at each meeting.

15 Chair

- 15.1 The Chair shall preside as chair at every meeting of the Board. In the event that the Chair, or failing him a person nominated by him, is not present or is unwilling to act within fifteen minutes after the time appointed for the holding of the meeting, the Directors present shall elect one of the non-executive Directors present to be chair of the meeting.

16 Unanimous decisions

- 16.1 A decision of the Directors is taken in accordance with this Article when all Eligible Directors indicate to each other by any means that they share a common view on a matter.
- 16.2 Such a decision may take the form of a resolution in writing, where each Eligible Director has signed one or more copies of it, or to which each Eligible Director has otherwise indicated agreement in writing.
- 16.3 A decision may not be taken in accordance with this Article if the Eligible Directors would not have formed a quorum at such a meeting.

17 Casting Vote

- 17.1 If the number of votes for and against a proposal are equal, the Chair or other Director chairing the meeting has a casting vote.
- 17.2 Article 17.1 shall not apply in respect of a particular meeting (or part of a meeting) if, in accordance with the Articles, the Chair or other Director is not an Eligible Director for the purposes of that meeting (or part of a meeting).

18 Calling a meeting of Directors

- 18.1 A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Directors.
- 18.2 Notice of any Directors' meeting must indicate:
- (a) its proposed date and time;
 - (b) where it is to take place; and
 - (c) if it is anticipated that Directors participating in the meeting will not be in the same place, how it is proposed that they should communicate with each other during the meeting.
- 18.3 Notice of a Directors' meeting must be given to each Director but this notice need not be in writing.
- 18.4 It shall not be necessary to give notice of a meeting to a Director who is absent from the United Kingdom.

19 Quorum for Directors' meetings

- 19.1 The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors, and unless so fixed shall be four Eligible Directors; and
- 19.2 The quorum for meetings of committees of the Board may be fixed by the Directors, and unless so fixed shall be three Eligible Directors.

20 Participation and presence at meetings

- 20.1 Directors are deemed to be participating in any meeting of the Directors or any committee thereof as long as they are Present in Person.

21 Committee proceedings

- 21.1 Except where a chair is appointed, a committee may elect a chair of its meetings. If no such chair is appointed or elected, or if at any meeting the chair (or any deputy) is not present within five minutes after the time appointed for holding the same, the members present may choose one of their number to be chair of the meeting.
- 21.2 Aside from Article 21.1, Committees to which the directors delegate any of their powers must follow procedures which are based as far as they are applicable on those provisions of the articles which govern the taking of decisions by directors.
- 21.3 The Directors may make rules of procedure for all or any committees, which prevail over rules derived from the articles if they are not consistent with them.

22 Directors' written resolutions

- 22.1 Any Director may propose a Directors' written resolution.
- 22.2 The Secretary must propose a Directors' written resolution if a Director so requests.
- 22.3 A Directors' written resolution is proposed by giving notice of the proposed resolution to the Directors.
- 22.4 Notice of a proposed Directors' written resolution must indicate:
- (a) the proposed resolution, and
 - (b) the time by which it is proposed that the Directors should adopt it.
- 22.5 To be valid, a proposed Directors' written resolution must be given to all persons entitled to receive notice of a meeting of the Directors or a committee, either by means of oral communication (such as telephone) or in Writing to an agreed Address.
- 22.6 Any decision which a person giving notice of a proposed Directors' written resolution takes regarding the process of adopting that resolution must be taken reasonably in good faith.
- 22.7 A proposed Directors' written resolution is adopted when a response to the proposed written resolution by Authenticated Document which identifies the resolution to which it relates and signifies unambiguous agreement to the terms of the resolution has been received by the Secretary from Directors entitled to vote comprising a simple majority and constituting a quorum.
- 22.8 The Directors' written resolution shall be as valid and effectual as if it had been passed at a meeting of Directors or of a committee duly convened and held.
- 22.9 All written resolutions shall be noted at the next meeting of the Directors where the decision and any comments will be formally recorded in the minutes.
- 22.10 In Articles 10 to 12, 14, 19 to 22 and 31, "committee" includes "sub-committee".

SECRETARY

23 Appointment and termination of the appointment of the Secretary

- 23.1 There shall be a Secretary who shall be appointed by the Directors for such term, at such remuneration and upon such conditions as they may think fit; and any Secretary so appointed may be removed by the Board at a meeting of the Directors duly convened in accordance with these

Articles and any such appointment may not be made or terminated by any committee of the Board. The Secretary may also be an executive officer or Director of the Company.

24 Validity of acts done by one person acting as both Director and Secretary

- 24.1 A provision of the Act or these Articles requiring or authorising a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done by or to the same person acting both as Director and as, or in place of, the Secretary.

PART 3 - MEMBERS

25 Arrangements for shareholders and general meetings

- 25.1 The arrangements in the model articles shall apply, subject to the provisions of articles 4, 5 and 6.

26 Company resolutions in writing

- 26.1 A written resolution may be passed to resolve any business which could have been passed by the Company in a general meeting.
- 26.2 The Secretary of the Company must send the written resolution to every Eligible Member to the Address provided by the Member. The resolution must be accompanied by;
- (a) a statement informing the Member how to signify agreement to the resolution; and
 - (b) the date by which the resolution must be passed.
- 26.3 A Member signifies his agreement to the proposed written resolution when the Company receives an Authenticated Document, identifying the resolution to which it relates and indicating unambiguous agreement to the resolution.
- 26.4 A written resolution is deemed as passed when the required majority of Eligible Members have signified approval in Writing and shall be as valid and effective as if the same had been passed at a general meeting of the Company duly convened and held.

PART 4 – ADMINISTRATIVE ARRANGEMENTS

27 Cheques, notes and receipts etc

27.1 All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments, and all receipts for moneys paid to the Company, shall be signed, drawn, accepted, endorsed, or otherwise executed, as the case may be, in such manner as the Directors shall from time to time by resolution determine.

28 Accounting records

28.1 The Directors shall cause accounting records to be kept in accordance with the Act and any requirement or direction given by the Treasury under Schedule 4, paragraph 7 of the Financial Services (Banking Reform) Act 2103.

28.2 The books of account shall be kept at the registered office of the Company, or, subject to the Act and any requirement or direction given by the Treasury under Schedule 4, paragraph 7 of the Financial Services (Banking Reform) Act 2013, at such other place or places as the Directors think fit, and shall always be open to the inspection of the Directors.

29 Methods of communication to be used

29.1 Subject to the Articles, anything sent or supplied by or to the Company under the Articles may be sent or supplied in any way in which the Act provides for Documents or information which are authorised or required by any provision of the Act to be sent or supplied by or to the Company.

29.2 Subject to the Articles, any notice or Document to be sent or supplied to a Director in connection with the taking of decisions by Directors may also be sent or supplied by the means by which that Director has asked to be sent or supplied with such notices or Documents for the time being.

29.3 A Director may agree with the Company that notices or Documents sent to that Director in a particular way are to be deemed to have been received within a specified time of their being sent, and for the specified time to be less than that set out in these Articles.

30 Deemed Delivery of Documents

30.1 This Article applies to Directors and Members where the Company has sent information to an Address.

30.2 Where notices, documents or information are sent by post to an Address in the United Kingdom, and the Company is able to show that it was properly addressed, prepaid and posted, it is deemed to have been received by the intended recipient 48 hours after it was posted.

- 30.3 Where notices, documents or information are sent or supplied in Electronic Form, and the Company is able to show that it was properly addressed, it is deemed to have been received by the intended recipient 3 hours after it was sent.
- 30.4 Where notices, documents or information are sent or supplied by means of a website, secure portal, or through access to the Company's systems it is deemed to have been received by the intended recipient:
- (a) when the material was first made available on the website, secure portal, or Company system; or
 - (b) if later, when the recipient received (or is deemed to have received) notice of the fact that the material was available on the website, secure portal or Company's system.

31 The Common Seal

- 31.1 The Directors shall provide for the safe custody of the Common Seal, which shall only be used by the Company or the Directors or of a committee authorised by the Directors. The Directors may decide by what means and in what form any common seal is to be used. The Directors may determine who shall sign any instrument or class of instruments to which the Common Seal is or shall be affixed and unless otherwise so determined any such instrument or class of instruments shall be signed by a Director and shall be countersigned by the Secretary, or by a second Director.

32 Notices

- 32.1 Notice of general meetings given to or by any person pursuant to the Articles shall be in Writing.
- 32.2 Any notice given to or by any person pursuant to the Articles in Writing shall be to an Address for the time being notified for that purpose to the person giving the notice.
- 32.3 The Company may give any notice to a Member either personally or by sending it by post in a prepaid envelope addressed to the member at his registered address or by leaving it at that address or by giving it in Electronic Form to an address for the time being notified to the Company by the Member. A Member whose registered address is not within the United Kingdom and who gives to the Company an address within the United Kingdom at which notices may be given to him, or an address to which notices may be sent in Electronic Form, shall be entitled to have notices given to him at that address, but otherwise no such member shall be entitled to receive any notice from the Company.
- 32.4 A Director or Member Present at any meeting of the Company shall be deemed to have received notice of the meeting and, where requisite, of the purposes for which it was called.

33 Indemnity

33.1 Subject to Article 33.2, but without prejudice to any indemnity to which a relevant Director or other officer is otherwise entitled:

- (a) each relevant Director or officer shall be indemnified out of the Company's assets against all costs, charges, losses, expenses and liabilities incurred by him as a relevant Director or officer in the actual or purported execution and/or discharge of his duties, or in relation to them including any liability incurred by him in defending any civil or criminal proceedings, in which judgment is given in his favour or in which he is acquitted or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his part or in connection with any application in which the court grants him, in his capacity as a relevant Director or other officer, relief from liability for negligence, default, breach of duty or breach of trust in relation to the company's affairs; and
- (b) the Company may provide any relevant Director or other officer with funds to meet expenditure incurred or to be incurred by him in connection with any proceedings or application referred to in article 33.1 and otherwise may take any action to enable any such relevant officer to avoid incurring such expenditure.

33.2 This article does not authorise any indemnity to the extent that such indemnity would be prohibited or rendered void by any provision of the Companies Acts or by any other provision of law and any such indemnity is limited accordingly.

33.3 The Directors may decide to purchase and maintain insurance, at the expense of the company, for the benefit of any relevant Director or officer in respect of any relevant loss.

33.4 In this article:

- (a) a "relevant loss" means any loss or liability which has been or may be incurred by a relevant officer in connection with that relevant officer's duties or powers in relation to the Company or any pension fund of the Company; and
- (b) a "relevant Director or other officer" means any current or former Director, or Secretary or other officer of the Company and such other persons as the Company may from time to time determine.

Schedule of Matters Reserved to the Board (*approved by the Board on 2 April 2014*)

Background

The Board of the Payment Systems Regulator is committed to high standards of corporate governance and has adopted this formal schedule of matters reserved to it for its decision on 2 April 2014.

Items marked * should not be delegated to a Board Committee for decision (because of Companies Act, other statutory requirements, or UK Corporate Governance Code requirements). However a specific committee (noted in italics) may be given responsibility for that item although the final decision should be taken by the Board as a whole.

Legislative Functions

1. Discharge the Authority's legislative functions:
 - a) giving general directions to participants in regulated payment systems (s54 FS(BR)A);
 - b) imposing generally-imposed requirements in respect of system rules (s55 FS(BR)A);

As part of the functions set out above, the Board will also determine the general policy and principles by reference to which the PSR performs a particular function.

Strategy and management

2. Approve, amongst other things, the PSR's:
 - a) overall strategy;
 - b) annual Plan; and
 - c) annual budget.
3. Review performance against the PSR's strategy, objectives, annual plan and budget and ensure any necessary corrective action is taken.
4. Monitor arrangements for management development.
5. Determine the broad policy in relation to all aspects of remuneration in conjunction with the Remuneration Committee.*
6. Oversee the discharge of the PSR's operations by the executive management ensuring:

- a) competent and prudent management;
- b) sound planning;
- c) adequate accounting and other records; and
- d) compliance with statutory obligations.

Corporate Structure

- 7. Approve major changes to the PSR's corporate structure (e.g. the creation of a new Business Unit).

Financial reporting and controls

- 8. Approve the Annual Report and Accounts including the:
 - a) Directors' Report;
 - b) Corporate Governance statement;
 - c) Remuneration Report;
 - d) Financial Review; and
 - e) Report on the extent to which the PSR has met its aims and priorities and advanced its objectives in accordance with FS(BR)A.
- 9. Approve any significant changes in accounting policies or practices. (*Audit Committee*). *
- 10. Undertake a regular review of the significant financial reporting issues and judgments made in connection with the preparation of the financial statements (*Audit Committee*). *

Internal Controls and Risk Management

- 11. Ensure maintenance of a sound system of internal controls and internal risk management including:
 - a) receiving reports on and reviewing the effectiveness of the internal risk and controls processes adopted by the Board to support its strategy and objectives (*Audit Committee*); *
 - b) undertaking an annual assessment of these processes (*Audit Committee*); * and
 - c) approving an appropriate statement on internal controls and risk management (*Audit Committee*). *
- 12. Ensure the maintenance of an effective risk management system which both identifies and, where feasible, seeks to mitigate risks to the statutory objectives.
- 13. Undertake an annual assessment of the effectiveness of internal control and risk management processes (including financial,

operational and compliance controls and risk management systems)
(*Audit Committee*). *

14. Regularly review the potential implications of legal action being taken against the PSR (*Audit Committee*). *

Financial Authorities

15. Approve all transactions the value of which (including VAT) exceeds £1m. This applies to:

- a) both capital and revenue items;
- b) the total of closely-related transactions; and
- c) both business as usual and project-related transactions.

16. Approve the delegation of financial authorities.

Board membership and other appointments

17. Subject to the statutory requirements as to the composition of the PSR's Board (FS(BR)MA, Sch 4, para. 2), make representation to the FCA on the balance and composition of the Board to ensure there is adequate succession planning within the Board.

18. Plan for succession of Board members and senior staff.

19. Appoint and remove the Company Secretary.

20. Subject to the requirements of FS(BR)A, review the performance of the external auditors and determine their remuneration (*Audit Committee*). *

21. Approve the creation of any senior roles including any Senior Directors and Staff Directors, which terms refer to any senior managers with the title of Director but who are not members of the Board.

22. Appoint Senior Directors and Staff Directors.

23. Appoint the Chair (subject to HMT approval) and members of the payment systems regulator's panel(s).

Delegation of authority

24. Approve the terms of reference of all Board Committees.

25. Approve the basis of permissible delegation of the Board's authority to any Committee or individual and the periodic review of that basis of delegation.

26. Receive reports from Board Committees on their activities.

Policies

27. Approve, and agree any revisions to the following policies:

- a) Finance Policy (including the schedule of delegated authorities)*
(*Audit Committee*); and
- b) Procurement Policy

and agree to adopt any FCA policies which the Board may deem appropriate from time to time. Approval of all policies must include appropriate equality and diversity considerations.

Corporate Governance matters

28. On an annual basis undertake a formal and rigorous review of its own performance, its committees and individual Executive and Non-Executive Directors (or report on why this has not occurred in any particular year).

Other

29. Approve prosecution, defence and settlement of litigation (involving more than £2m or otherwise material to the interests of the PSR).

30. Discuss any novel or contentious matters (which in the opinion of the Board or Executive management it would be appropriate for the Board to consider).

31. Agree, and review on an annual basis, the operation of the Memorandum of Understanding between the PSR and the Financial Conduct Authority, the Prudential Regulation Authority and the Bank of England.

32. Agree, and review on an annual basis, all Memorandums of Understanding which are required by statute between the PSR and any third parties.

Terms of Reference of the Audit Committee *(approved by the Board on 2 April 2014)*

Purpose

1. The Audit Committee (AuditCo) is responsible for reviewing and providing assurance to the Board on matters including the effectiveness of the PSR's internal controls, the internal risk management framework and mitigation strategies, the integrity of the financial statements in the annual accounts and the statements that relate to financial controls and internal risk, and for oversight of the external audit process.

Duties

2. The duties of AuditCo are as follows:

Financial reporting

3. To monitor the integrity of the financial statements of the PSR, reviewing significant financial reporting issues and judgements made.
4. To review and challenge where necessary:
 - a) the consistency of, and any changes to, accounting policies on a year on year basis;
 - b) the methods used to account for significant or unusual transactions where different approaches are possible;
 - c) whether the PSR has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - d) the clarity of disclosure in the PSR's financial reports and the context in which statements are made; and
 - e) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit or risk management).

PSR Chairman's expenses

5. To review the expenses incurred by the PSR Chairman, by an annual summary, showing separately travel, entertainment and any other significant items of expense.

Financial policies

6. To monitor and, if it sees fit, make recommendations to the Board on the PSR's financial policies.

Internal controls and internal risk management

7a) To keep under review the effectiveness of the PSR's internal controls and internal risk management framework.

7b) To seek assurance from the Executive:

- i. that adequate and effective processes and the necessary staff and operational resources have been applied within the business to enable the execution of effective risk management and mitigation strategies and systems to reduce the potential impact of external risks and that sufficient resources have been appropriately applied by the executive to the identification, management and mitigation of risks associated with the operational platform; and
- ii. on the quality of supervision/supervisory effectiveness including the standard of judgement and the delivery of outcomes.
- iii. To review and approve the statements to be included in the annual report concerning internal controls and internal risk management.

Whistleblowing

8. To review the PSR's arrangements for its employees, or employees of the FCA who are undertaking work in relation to the PSR, to raise concerns, in confidence, about possible wrongdoing. AuditCo shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

Potential implications of legal action

9. To monitor and, if it sees fit, make recommendations to the Board on the potential implications of legal action taken against the PSR, based on litigation reports received from the FCA's General Counsel's Division and Human Resources Division.

Conflicts of interest

10. To monitor and, if it sees fit, make recommendations to the Board on the adequacy of the operation and management of arrangements for handling potential conflicts of interest.

Internal audit

- 11a) to review promptly reporting on the PSR from the FCA's internal auditor;
- b) to review and monitor management's responsiveness to the findings and recommendations of the FCA's internal auditor; and
- c) to meet the FCA's Director of Internal Audit at least once a year, without management being present, to discuss any issues arising from the internal audits carried out relating to the PSR. In addition, the FCA's Director of Internal Audit shall have the right of direct access to the PSR Chair and to the chair of AuditCo.

External Audit

12. The Comptroller and Auditor General has been appointed as auditor to the PSR (Sch 4 para 8 FS(BR)A) and the Companies Act provisions relating to the appointment and removal of auditors are disapplied. AuditCo is, however, responsible for overseeing the relationship with the external auditor including (but not limited to):

- a) recommending to the Board their fees, whether for audit or non-audit services, and that the level of fees is appropriate to enable an adequate audit to be conducted;
- b) approval of their terms of engagement, including any engagement letter issued at the start of each audit, and the scope of the audit;
- c) an annual assessment of their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- d) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the PSR (other than in the ordinary course of business);
- e) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the PSR compared to the overall fee income of the firm, office and partner and other related requirements;
- f) an annual assessment of their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- g) meeting regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. AuditCo shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;

- h) developing and recommending to the Board the PSR's policy in relation to the provision of non-audit services by the auditor and ensuring that the provision of such services does not impair the external auditor's independence or objectivity. In doing so, AuditCo should;
- consider whether the skills and experience of the audit firm make it a suitable supplier of the non-audit services;
 - consider whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;
 - consider the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit fee;
 - consider the criteria which govern the compensation of the individuals performing the audit;
- i) reviewing and approving the audit plan and ensuring that it is consistent with the scope of the audit engagement; and
- j) reviewing the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
- a discussion of any major issues which arose during the audit;
 - any accounting and audit judgements; and
 - levels of errors identified during the audit.

13. To review the effectiveness of the audit and:

- a) review any representation letters requested by the external auditor before they are signed by management;
- b) review the management letter and management's response to the external auditor's findings and recommendations; and
- c) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

Membership and Committee Proceedings

14. Members of AuditCo shall be appointed by the Board, in consultation with the chair of AuditCo. AuditCo shall be made up of at least three members.

15. Only members of AuditCo have the right to attend Committee meetings. However, any other individuals may be invited, by the Chair of the Committee, to attend all or part of any meeting as and when appropriate.

16. The external auditor will normally be invited to attend all meetings of AuditCo.

17. In the absence of the AuditCo chair, the remaining members present shall elect one of themselves to chair the meeting.

Secretary

18. The Company Secretary or their nominee shall act as the Secretary of AuditCo (the Secretary).

Quorum

19. The quorum necessary for the transaction of business shall be three members. A duly convened meeting of AuditCo at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by AuditCo.

Frequency of meetings

20. AuditCo shall normally meet at least four times a year at appropriate times in the reporting and audit cycle unless otherwise agreed.

Notice of meetings

21. Meetings of AuditCo shall be called by the Secretary at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.

22. Meetings may also be held by telephone or by electronic means to deal with AuditCo business.

23. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of AuditCo, and any other person required to attend, no later than five working days before the date of the meeting. Supporting papers shall be sent to AuditCo members and to other attendees as appropriate, at the same time.

Minutes of meetings

24. The Secretary shall minute the proceedings and resolutions of all meetings of AuditCo, including recording the names of those present and in attendance.

25. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest, advise on how to manage them and minute the outcome accordingly.

26. Minutes of AuditCo meetings shall be circulated promptly to all members of AuditCo and to nominated recipients. The minutes will

also be circulated to all members of the Board, unless a conflict of interest exists.

Reporting responsibilities

27. The AuditCo chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

28. AuditCo shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

29. AuditCo shall compile a report on its activities to be included in the Annual Report.

Powers

30. AuditCo is authorised:

- a) to seek any information it requires from any employee, or any employee of the FCA who is undertaking work in relation to the PSR, in order to perform its duties;
- b) to obtain, at the PSR's expense, outside legal or other professional advice on any matter within its terms of reference; and
- c) to call any employee, or any employee of the FCA who is undertaking work in relation to the PSR, to be questioned at a meeting of AuditCo as and when required.

Other matters

31. AuditCo shall:

- a) have access to sufficient resources in order to carry out its duties, including access to the Corporate Services Division of the FCA for assistance as required;
- b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- c) give due consideration to laws and the provisions of the UK Corporate Governance Code as appropriate;
- d) be responsible for co-ordination of the internal and external auditors;
- e) oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort;
- f) at least once a year, review its own performance and terms of reference to ensure it is operating at maximum effectiveness

- and recommend any changes it considers necessary to the Board for approval; and
- g) have a private session to discuss AuditCo matters at every scheduled AuditCo meeting (unless agreed otherwise).

Terms of Reference of the Risk Committee *(approved by the Board on 2 April 2014)*

Purpose

1. The Risk Committee (RiskCo) is responsible for the review and oversight of the following, on which it will report to the Board:
 - a) the external risks to the achievement of the PSR's statutory objectives;
 - b) the executive's appetite for such risks; and
 - c) the suitability of the scope and coverage of the mitigation used to reduce the potential impact of such risks;

Duties

2. RiskCo should carry out the duties below in order to fulfil its responsibilities.
3. RiskCo will seek assurance that:
 - a) the major external risks to the PSR's statutory objectives and its reputation, arising within the environment that the PSR regulates, have been identified and prioritised appropriately; and
 - b) the executive has mitigation strategies in place to address these risks and that the scope and coverage of these mitigation strategies will support the delivery of the PSR's outcomes.
4. RiskCo will:
 - a) keep under review the identification of risks (as reflected in the management information it receives on the Risk Management Framework) and management's mitigation of these risks;
 - b) review the statements to be included in the Annual Report and Accounts concerning risks to the environment in which the PSR regulates; and
 - c) review any relevant reports from the internal and external auditors and the Supervisory Oversight Function;
5. The risks included in the Risk Management Framework should be defined, in so far as is practicable, so that either the Audit Committee or RiskCo take primary oversight responsibility. Such responsibility will be agreed between the chairs of the two committees or, in the absence of such agreement, by the Chair of the PSR.
6. Where a risk has both an internal and an external risk profile, the chairs of the Audit and Risk Committees shall agree the allocation of

responsibility for oversight of the internal and external components of such risks and seek assurance from the executive that such risks have been aligned appropriately on the Risk Management Framework.

Membership

7. Members of RiskCo shall be appointed by the Board, in consultation with the chair of RiskCo. RiskCo shall be made up of at least three members.
8. Only members of RiskCo have the right to attend committee meetings. However, other individuals may be invited, by the Chair of the Committee, to attend all or part of any meeting as and when appropriate.
9. In the absence of the RiskCo chair, the remaining members present shall elect one of themselves to chair the meeting.

Secretary

10. The Company Secretary or their nominee shall act as the Secretary of RiskCo (the Secretary).

Quorum

11. The quorum necessary for the transaction of business shall be three members. A duly convened meeting of RiskCo at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by RiskCo.

Frequency of meetings

12. RiskCo shall normally meet at least four times a year at appropriate times in the risk review process unless otherwise agreed.

Notice of meetings

13. Meetings of RiskCo shall be called by the Secretary at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
14. Meetings may also be held by telephone or by electronic means to deal with RiskCo's business.
15. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of RiskCo and any other person required to attend, no later than five working days before the date of the meeting. Supporting papers shall be sent to

RiskCo members and to other attendees as appropriate, at the same time.

Minutes of meetings

16. The Secretary shall minute the proceedings and resolutions of all meetings of RiskCo, including recording the names of those present and in attendance.
17. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest, advise on how to manage them and minute the outcome accordingly.
18. Minutes of RiskCo meetings shall be circulated promptly to all members of RiskCo and to nominated recipients. The minutes will also be circulated to all members of the Board, unless a conflict of interest exists.

Reporting responsibilities

19. The RiskCo chair shall report to the Board on its proceedings after each meeting.
20. RiskCo shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
21. RiskCo shall provide a report on its activities to be included in the PSR's Annual Report.

Powers

22. RiskCo is authorised
 - a) to seek any information it requires from any employee, or any employee of the FCA who is undertaking work in relation to the PSR, in order to perform its duties;
 - b) to obtain, at the PSR's expense, outside legal or other professional advice on any matter within its terms of reference; and
 - c) to call any employee, or any employee of the FCA who is undertaking work in relation to the PSR, to be questioned at a meeting of RiskCo as and when required.

Other matters

23. RiskCo shall:

- a) have access to sufficient resources in order to carry out its duties, including access to the Corporate Services Division of the FCA for assistance as required;
- b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- c) at least once a year, review its own performance and terms of reference and recommend any changes it considers necessary to the Board for approval.

Terms of Reference of the Remuneration Committee. *(approved by the Board on 2 April 2014)*

Purpose

1. The Remuneration Committee (RemCo) is responsible for:
 - a) Reviewing, and making recommendations to the Board for approval, in respect of the PSR's broad policy in relation to all aspects of remuneration;
 - b) In reviewing the policy identified in 1a), take into account all factors which it deems necessary. The objective of such policy shall be to ensure that PSR employees are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contributions to the success of the PSR;
 - c) Reviewing, and by reference to the broad policy applying from time-to-time, determining:
 - i) the terms of any contract of employment; and
 - ii) the remuneration arrangements, including any annual or longer-term incentive packages and pensions rights of:
 - the Executive Directors; and
 - any member of staff of the employment grade Director¹ reporting to the Managing Director
 - d) Monitoring against the agreed broad policy
 - i) the application of the policy across the whole PSR to ensure transparency, fairness and consistency.
 - e) Reviewing, in consultation with the Board, the PSR's redundancy policy.
 - f) Approving both the policy and any compensation packages or arrangements following the severance of the service contract applicable to any Executive Director or Director reporting to the Managing Director.
 - g) Approving the policy covering the involvement of Executive Board members with, and the treatment of fees arising from, any outside appointment offered to them.
 - h) Approving a policy for authorising claims for expenses for the Managing Director and Chair.

¹ For the avoidance of doubt, in these terms of reference, 'Director' includes an Acting Director.

- i) Selecting, appointing and determining the terms of reference of any independent remuneration consultants appointed to advise RemCo on remuneration policy, levels of remuneration of, and terms of any contract of employment applicable to, those individuals for whom RemCo has responsibility. RemCo may commission independent legal advice, as necessary.
- j) Reviewing the Executive's recommendations for the annual budget for pay and incentive awards for recommendation to the Board.
- k) Ensuring, in discussion with the Managing Director, that appropriate succession arrangements are in place for senior roles.

Membership

- 2. The membership of RemCo shall comprise not less than four members.
- 3. Only members of RemCo have the right to attend committee meetings. However, other individuals may be invited by the Chair of the Committee, to attend all or part of any meeting as and when appropriate.
- 4. No person may be present when any matter directly affecting that person is under consideration.
- 5. RemCo is assisted by the FCA's Director, Human Resources and by the FCA's Chief Operating Officer.

Secretary

- 6. The Company Secretary, or their nominee, shall be Secretary to RemCo.

Quorum

- 7. The quorum necessary for the transaction of business shall be three members. A duly convened meeting of RemCo at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by RemCo.

Frequency of Meetings

- 8. RemCo shall normally meet not less than twice each year.

Notice of Meetings

9. Meetings of RemCo shall be called by the Secretary at the request of any of its members.
10. Meetings may also be held by telephone or by electronic means to deal with RemCo business.
11. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of RemCo and any other person required to attend, no later than five working days before the date of the meeting. Supporting papers shall be sent to RemCo members and to other attendees as appropriate, at the same time.

Minutes of Meetings

12. The Secretary shall minute the proceedings and resolutions of all meetings of RemCo, including recording the names of those present and in attendance.
13. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest, advise on how to manage them and minute the outcome accordingly.
14. Minutes of RemCo meetings shall be circulated promptly to all members of the RemCo and to nominated recipients.

Reporting Responsibilities

15. The Chair of RemCo shall report to the Board at regular intervals informing the Board of the matters it has reviewed, the decisions it has made, and making recommendations on policy, as appropriate.
16. RemCo will report annually to the Board on the discharge of its responsibilities in a form fit for publication in the PSR's Annual Report and Accounts.

Powers

17. RemCo is authorised:
 - a) to seek any information it requires from any employee, or any employee of the FCA who is undertaking work in relation to the PSR, in order to perform its duties;
 - b) to obtain, at the PSR's expense, outside legal or other professional advice on any matter within its terms of reference;and

- c) to call any employee, or any employee of the FCA who is undertaking work in relation to the PSR, to be questioned at a meeting of RemCo as and when required.

Other Matters

18. RemCo shall annually review its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes to the PSR Board for approval.