

Governance codes at uk payment systems regulation



To get a clear understanding of the role of the corporate governance codes in public sector organizations and to identify the role of governance in public sector organisations I will be critically analysing the governance codes and governance of the UK's Payment Systems Regulators (PSR).

To be regarded as an organisation which is responsible towards its environments, regulating bodies need to act in accordance with good corporate governance codes, regulating bodies need to act socially responsible in the environment they operate in. The European Commission (2002) defines corporate social responsibility (CRS) as “ the non-obligatory synthesis of the environmental and social interest into the business operations and into their synergy with stakeholders.”

After the 2008 financial crises, it has become imperative that financial service providers abide with ‘ good’ corporate governance codes. Corporate governance is defined as “ the system by which organisations are directed and controlled” by the Cadbury Report (1992). The report states how organisations should structure and allocate responsibilities of its directors. According to Dimsdale and Prevezer (1994), the main objective of corporate governance particularly in the UK is the relationship concerning the organisation's management and its stakeholders.

The Cadbury Committee produced the UK corporate governance code (referred to as the ‘ code’) which is part of the UK company law. The code has agreed on good corporate governance principals which aim at the companies listed on the London Stock Exchange. The code is regulated by

the Financial Reporting Council (FRC) and it vitally originates from the FCA's listing rules.

To make certain that organisations are following the established rules, the role of regulatory bodies have been established to help monitor and enforce the rules for businesses operating in their respective sectors. Companies have to comply with the rules established and enforced by their regulatory bodies.

In April 2015 FCA established a separate body to help regulate the payments services in the UK because of the requirements in the Financial Services (Banking Reform) Act 2013 (FSBRA). The payment systems (PS) help forms the most crucial part of the UK's financial system, facilitating the transfer of money between customers and institutions'. This sort of regulatory body is the first to be established in the world.

The purpose of PSR is to ensure that payments are transferred between businesses, companies, and consumers. It does not only focus on regulating the PS, but also regulates the infrastructure providers and payment service providers (PSPs), such as building societies and banks which work with these systems (*Payment systems regulator who we are and what we do TM* , 2016).

The UK corporate governance Code has been updated in April 2016 and has five main principals to the code. The code provides a guide to the key components for a productive board. The code's underlying principles are:

Transparency, probity, accountability and focus on the success of the

organization for the long term. The code has five main principals which are:
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leadership, effectiveness, accountability, remuneration and relationship with shareholders.

Provision A. 1 provides guidance with the role of the board in the organization. PSR complies with the code's provision A. 1. 1 by delegating and discussing board duties in sufficient intervals. Complying with the A. 1. 1 provision the annual report includes how the board is run, and clearly pointing out the decisions to be taken by the board and by the management of the organization. PSR complies with provision A. 1. 2 by clearly recognizing the organization's chairman, executive directors, and its non-executive directors. The organization also states in the company's annual reports the dates the board meetings were held as well as the individual members who made attendance to the meeting. PSR has an exemption under the FSBRA, which means that PSR does not hold any liability in regards to costs relating to the activities it carries out, or omission of its exercise of its statutory purposes. Hence, PSR has not purchased liability insurance for its directors. This exemption suggests that PSR does not comply with provision A. 1. 3 of the governance code.

PSR obeys the provision A. 2. 1, which is the division of responsibilities of the Chairman and CEO and roles' not being performed by the same individual. The PSR annual report states that the responsibilities of the chairman John Griffith-Jones are to provide leadership to the board and to ensure that it runs effectively. On the Other hand, the managing director Hannah Nixon is responsible for the development and implementation of the strategic objectives which have been agreed on by the board. Abiding by provision A.

4. 2 the chairman John Griffith-Jones holds regular meetings with the NED's without the presence of the executive directors.

PSR also acts in accordance with section B of the code. Provision B. 1 of the code outlines the composition of the board. As the FCA owns the PSR wholly, the chairman, managing director, and two executive directors were appointed by the FCA after being approved by the Treasury. Three NEDs were also appointed by the FCA.

To affirm that all members are independent as required by provision B. 1. 1 the company secretary of PSR keeps a register of interests. All of PSR directors are obligated to disclose important interests, which the board decides upon on how to deal with. If there is a conflict of interest the board takes appropriate action to make certain of the impartially, independence and integrity of the board's decisions. Abiding by the provision B. 1. 2, PSR's board consists of 4 non-executive directors and 3 executive directors.

Provision B. 2. 2 states all members of the board need to be appointed based on their individual skills, knowledge, and independence. As most of the directors of PSR were previously board members of FCA after completion of the term at the FCA board.

To ensure the effectiveness of the board, PSR has a panel which works independently from the main board. The independent panel is formed to help develop and contribute towards the organization's strategy along with providing advice to the work PSR does in the society. The panel also provides the organization with advice on the entity's practices and policies. The panel currently consists of 19 members and is made up of experts from PSPs, <https://assignbuster.com/governance-codes-at-uk-payment-systems-regulation/>

payments system operators (PSOs), large and small business representatives, service users including consumer, technology and infrastructure providers.

Along with having an independent panel on its board, PSR also has a Competition Decisions Committee, which is responsible for making decisions in regards to the Competition Act 1998. Their main purpose is to step in in cases where businesses fail to meet the requirements of the competition law.

Additionally, PSR also has an Enforcement Decisions Committee which is responsible for ensuring that decisions are made in accordance to FSBRA. The committee decides whether to implement a financial penalty and/or publish the details regarding the failure with obedience.

In compliance with provision B. 3. 1, the chairman's commitments are disclosed to the board and are stated in PSR's annual report. PSR satisfies provision B. 3. 2 of the code by disclosing the term of appointment for its directors (executive and non-executive) in its annual report, along with also stating the notice period of its executive directors.

In accordance with provision B. 4. 1, new directors of PSR are provided with a tailored induction process and are provided with information background of PSR and the activities it performs to help new directors better understand the role they play as PSR's board member.

Fulfilling the requirements of provision B. 5. 1 and B. 5. 2 all PSR's directors have right to use the advice and services of PSR's company secretary, who is

also responsible for providing advice to the board on matters relating to corporate governance issues.

Stakeholders:

The PSR has three statutory aims that support the reasons for its existence; which is aimed at its stakeholders. The organization makes certain that the operations and innovations of the PS regard and promotes the interests of whichever institutions and consumers utilize it. The firm secondly aims to promote positive market competition for PS and services amid the PSPs, operators and infrastructure providers. The organization thirdly encourages the development of the innovations in the PS specifically of the infrastructure employed to function those systems.