

# Minutes

## REDACTED FINAL



7 December 2016

Our Reference FB 001/17

To Board

From Board Secretary

### MINUTES OF THE MEETING OF THE FPSL DIRECTORS HELD ON 7 DECEMBER 2016

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**Present:**

Nick Caplan	Independent Chairman* (FPSL) (NC)
Tanya Castell	Independent Director* (FPSL) (TC)
Duncan Ingram	Independent Director* (FPSL) (DI)
Craig Tillotson	Chief Executive* (FPSL) (CT)
Paul Scott	Director* (nominated by Barclays) (PS)
Melanie Martin	Director* (nominated by Citi) (MM)
Jim Pettigrew	Director* (nominated by Clydesdale) (JP)
Sue Yarham	Alternate Director* (nominated by HSBC) (SY)
Mark Curran	Director* (nominated by Lloyds) (MC)
Becky Clements	Director* (nominated by Metro) (BC)
John Hutton	Director* (nominated by Nationwide) (JH)
Mike Smith	Director* (nominated by Raphaels) (MS)
Martin Wilson	Director* (nominated by Royal Bank of Scotland) (MW)
Robert White	Director* (nominated by Santander) (RW)
Andrew Grice	Observer (Bank of England) (AG)
JJ	Attendee (FPSL) (JJ)
MB	Attendee (FPSL) (MB)
FB	Attendee (FPSL) (FB)
GO	Attendee (FPSL) (GO)
BL	Attendee (FPSL) (BL) (Agenda item 322 only)
JA	Observer (FPSL)
SV	Observer (FPSL)
JC	Secretary (FPSL)

**Apologies:** Helen White Director\* (nominated by Northern) (HW)

**\* Voting members of the Board of Directors - 14 out of 15 in attendance**

**310. DECLARATION OF DIRECTOR INTERESTS**

**ACTION**

NC asked the Board if there were any amendments required to the Director of Interests Register circulated with the Board pack.

BC declared that she sits on the PSO Consolidation Delivery Group.

NC declared he also sits on the PSO Consolidation Delivery Group.

*Secretary's Note: The Register has been updated.*

**311. REPRESENTATION OF SERVICE USERS**

NC reminded the board that the Company is required under PSR General Direction 4 to ensure the interests of service users are appropriately represented in the decision making processes at Board level.

**312. MINUTES OF LAST MEETING HELD ON 20 SEPTEMBER, 21 OCTOBER AND 9 NOVEMBER 2016**

NC advised that a number of comments had been received and tracked change versions have been circulated.

The Board **UNANIMOUSLY APPROVED** the full minutes of the meetings held on 20 September, 21 October and 9 November.

The Board also **UNANIMOUSLY APPROVED** the redacted versions and **NOTED** they will be available on the website within five working days.

*Secretary's Note: The redacted minutes for the September, October and November meetings were added to the FPSL website on 9 December.*

**313. OFFLINE BOARD DECISIONS SINCE SEPTEMBER MEETING**

There have not been any offline decisions since the November meeting.

**314. GOVERNANCE AND REGULATORY**

FB and NC updated on the following:

**PSR Update**

The PSR proposed remedies in respect of the market review into competition in the provision of infrastructure were published on 7 December.

CT stated that one remedy is competitive procurement of infrastructure at either the first breakpoint or by the end of the contract



in 2020 in the absence of break rights (and, in future, to tender every ten years).

CT said that another remedy is the move to ISO20022 standard messaging which FPSL intends to do as part of its competitive procurement of infrastructure. In the interim FPSL has mapped between ISO 8583 and ISO 20022

CT advised that a press release announcing the mapping tool will be issued on 8 December.

*Secretary's Note – press release has been delayed pending prioritisation of various other announcements.*

[Redacted for Confidentiality reasons]

### **PSO Consolidation**

All members of the Delivery Group have signed NDA's to ensure all communications are consistent.

The Terms of Reference was amended and is now in the public domain. The link will be circulated to Board. *Secretary's Note: The link was emailed on 9 December.*

The Delivery Group has made some progress and a communications plan will be produced.

The importance of a communications plan was noted and CT proposed that Board are copied in on staff communications regarding Scheme consolidation.

The Delivery Group meet fortnightly. EY have now been contracted and tasked to produce an initial plan by year end.

### **Rules and Governance Committee**

The key items discussed at the meeting held on 24 November were:

- **Reserved Matters**

The Matters Reserved to Guarantors, The Board and the Chief Executive have now been documented and recommend them to Board for approval.

- **Selection Criteria for Alternate Directors**

The new Alternate Director criteria, based on an amended Director Criteria, were recommended to Board for approval.

- **Rule Amendment – Schedule 2**

Schedule 2 of the Rules to be amended to include references to the Participant Assurance Framework Policy and recommend to



the Board for approval.

The Board **UNANIMOUSLY APPROVED** all recommendations with the addition to the Reserved Matters that, as in most organisations, key policies were approved by the Board, the procurement/outsourcing policy (under development) and the assurance policy would be added to the list of those requiring board approval.

### **Terms of Reference for Audit and Finance Committee, Risk Committee, Appointments and Assessment Committee and Rules and Governance Committee**

The Terms of Reference for the Committees were reviewed and updated and recommended to the Board for noting with a recommendation that they are reviewed every two years.

A number of observations were made by Board including:

- Terms of Reference for the Remuneration Committee should be reviewed.
- Terms of Reference for Risk Committee still includes within the 'Chair' section 'The FPSL Chief Executive will chair meetings as Deputy Chair in the absence of the Chairman.' This should be removed.
- Committee Structure – the Access Steering Committee should be marked as temporary.

### **Addendum**

The Addendum was updated and recommended to the Board for noting.

Individual Addendums will be created for Board Reporting Committees and Executive Committees.

The Board **NOTED** the Rules and Governance Committee minutes for the meeting held on 24 November.

### **Director Changes**

The Board **NOTED** the following Director change:

The appointment of Becky Clements, Director (nominated by Metro).

NC highlighted that an Alternate Director for Metro is yet to be appointed as the relevant paperwork is awaited.

### 315. 2017 BUSINESS INITIATIVES AND BUDGET

CT stated that the outline budget for 2017 was presented in September and, since then, further work and a detailed budget was presented to the Audit and Finance Committee.

CT referred to the 2017 proposed budget paper and made the following summarised comments:

- The detailed revenue budget is now £4m below the outline shared in September.
- The absolute charge to participants is 0.7% below 2016 budget.
- The Unit charge per transaction is 15.6% below 2016 levels.

PS asked whether the budget was sufficient given the amount of work currently being undertaken and listed within the Portfolio. CT stated that the funding for the PSO consolidation implementation work is not covered. CT also stated that there is not much contingency funding given the full set of initiatives.

NC asked what assurances there are that the revenue for the PKI Trust service (UTSP) can be achieved. CT stated that, based on the number of predicted Participants signing up for the service in the coming year, the income target would be achieved. This has also been discussed by the Audit and Finance Committee who had been assured that the Executive are comfortable this will be achieved and had asked for the approach for profit distribution from subsidiaries to be agreed.

MW asked whether there is a dependency on the anticipated number of Participants signing up to break even? GO confirmed that a number of Participants have already signed up to the service and, based on the lower number of Participants, the funding would be recovered within an acceptable timescale.

MW referred to the development fund held with the current Central Infrastructure provider [Redacted for commercially sensitive reasons].

MW stated that he was not sure the Company should be looking to do more things in 2017. PS asked what the running order of the priorities would be. CT proposed that this be the main topic for discussion at the ad hoc meeting scheduled for 7 February.

MW stated that, as an organisation committed to the interests of the consumer, given everything listed for 2017, we would need to keep up

with mandatory items.

PS suggested that the budget be heavily caveated given industry uncertainty in that it will not be able to support all possible demands that might materialise in 2017.

NC referred to the portfolio budget and proposed that, given the implications to both the Company and Participants, items to be progressed in 2017 should be discussed and agreed at the February meeting [Redacted for commercially sensitive reasons] JH suggested that maybe an item could be removed from the portfolio if there was a risk of shortfall.

CT highlighted that there has been a reduction of the year on year costs for the Managed Service as set out on page four of the budget paper.

NC acknowledged there had been some strong negotiations with VocaLink by the Executive team.

MC questioned whether the PSR are comfortable with the contract negotiations to relinquish the break clause rights for other benefits. CT confirmed that they had been briefed and were content.

The Board **UNANIMOUSLY AGREED** the proposed cost and revenue budget for FPSL with the understanding that discussions on the Portfolio priorities are held on 7 February.

The Board also **UNANIMOUSLY AGREED** that no further top-up or repayment of regulatory reserves was required in 2017.

### **316. STRUCTURAL REFORM**

FB stated that, with regards to the Structural Reform paper, she had considered a number of areas including competing institutions and determined that high level discussions are permitted from a Competition Law perspective. In the event that discussions get into detail then a bi-lateral discussion with the Scheme should be arranged.

PS suggested that regulatory teams within the Participant organisations could provide some guidance on what they are able to discuss.

JH sought clarification on what can be discussed. FB confirmed that anything that directly affects Faster Payments rather than the Participants themselves.

MB referred to the Structural Reform paper [Redacted for

confidentiality reasons].

NC stated he would like to understand where the risks lie if the data received isn't very good. Concern was also raised as to whether there could be downstream impacts for smaller financial institutions or corporates if the volumes of changes required increases significantly.

CT proposed that the Bulk Payment Re-directions Service (BPRS) manager be invited to the March Board. **Action FB 316(i)**

**Secretary**

Duncan Ingram suggested that this be included on the Risk Committee agenda. **Action FB 316(ii)**

**Risk  
Committee**

CT suggested that MC and BC, at the next Payments UK Board meeting, raise the question of communications being issued to consumer and business customers. **Action FB 316(iii)**

**MC/BC**

### 317. **PAYMENTS ORIGINATING OVERSEAS INVESTIGATION**

JJ provided background around the Payments Originating Overseas (POOs) issue and referred Board to page 20 of the Operations and Service Delivery Report. All Participants had been asked to confirm that they either had no POOs or that their POOs were correctly identified and coded. [Redacted for commercially sensitive reasons]

JJ advised that the findings will be shared with the Risk Committee and Board.

Following a discussion, the Board **AGREED** with the proposal [Redacted for commercially sensitive reasons]

### 318. **ACCESS PROGRAMME**

#### **Access**

MB advised that two new Participants are fully live with a further nine new Participants, including those involved in structural reform, during 2017. GO advised that the Access Steering Committee met on 16 November when outstanding work was discussed.

The Board discussed the continuation of the Committee and **AGREED** that the Committee should continue for circa three months given that the ASC had identified some key elements which were either not resolved (e.g. PKI) or where the committee still needed to bottom out the strategy (e.g. non-settling participants) or until there is a clear transition into business as usual with a defined governance structure and lessons learned.

GO confirmed that a Post Implementation Review is undertaken after the on-boarding of each new Participant involving the Scheme and the

new Participant.

GO stated that a lot had been learned from the on-boarding of the first two new Participants and once the programme had been closed down this would be reported to the Board as part of the PIR.

GO

### **Action FB 318**

#### **PKI**

GO advised that significant progress had been made and negotiations have taken place directly with the card issuer. The Company is now working with PKI supplier on its Agreement with no significant deal breaking issues being raised. This should be completed around the end of December after which it will be taken to Risk Committee and the Audit and Finance Committee from a finance perspective.

A decision, led by CT, to commit the funds will be undertaken in due course.

RW pointed out that he believed progress with PKI supplier had been slow. GO stated that the contracting process with the PKI supplier's lawyers could have been better [Redacted for confidentiality reasons].

### **319. RISK COMMITTEE**

DI highlighted the following points from the Risk Committee Report:

- **Risk Appetite**

The executive had been seeking to balance a cost effective long term solution for PKI Service participants with timely implementations.

- **Cyber Security**

[Redacted for financial stability reasons].

Looking to develop a dashboard.

- **Cyber Operating Model**

Redacted for financial stability reasons].

- **Deep Dive Risk Review**

Work continuing into early 2017 on cyber with results to follow.

- **FPSL Trust Service PKI Workaround**

A surprise review of the PKI workaround carried out by the Operations Team was undertaken. Some tightening up of processes was required.

- **Template**





A template is being introduced to ensure any future decision papers sent to Board or Board reporting Committees will include risk considerations to ensure informed decision making.

DI asked if there were any questions.

RW referred to the SIMEX16 exercise and the request to increase the limit and asked if the Scheme is comfortable with undertaking testing an increase in the limit. MB advised that testing is scheduled for Q2 2017.

JJ advised that, during the SIMEX16 exercise, one Participant requested for the Scheme limit to be increased but was told the ability to increase from the current limit is not yet available.

MB confirmed that a plan to increase the scheme limit is being developed and would take into account the potential cap and liquidity impact. The Board asked for visibility over the timetable.

The Board **APPROVED** the additional risks added to the Risk Appetite Statement (RA20, RA21 and RA22) concerning Liquidity, Payment Flows and Settlement.

The Board **NOTED** the Risk Committee Report and the Risk and Assurance Dashboard.

### **320. AUDIT AND FINANCE COMMITTEE**

TC advised that the minutes from the ad hoc meeting held on 29 November were not yet available.

TC provided an update on the items discussed at the meetings as follows:

#### **2017 Budget**

Agreed and recommended to the Board for approval.

#### **Licence to Occupy**

The final version of the document was agreed at the Audit and Finance Committee meeting on 29 November. JJ confirmed that the Scheme expected to sign the agreement later in the week.

*Secretary's Note: This was signed on 8 December.*

### **UKPA Contract**

The contract is due to be signed on 8 December.

*Secretary's Note: This was signed on 8 December.*

### **2017 Internal Audit Plan**

This was approved and will be circulated to Board for information.

**Secretary**

### **Action FB 320**

The Board **NOTED** the minutes from the Audit and Finance Committee meeting held on 15 November. TC noted that the results of an internal audit review of Participant On-boarding had been positive.

## **321. REMUNERATION COMMITTEE**

Company staff and AG left the meeting at this point.

CT offered to re-leave, but was asked to stay.

The Board ratified the appointment of Melanie Martin to the Committee replacing John Hutton when he left Barclays. TC summarised recent Rem Co business:

- Annual compensation review had been completed for 2016/2017.
- Remuneration Policy was discussed with further work to be done.
- A revised terms of reference had been proposed but this needed to be reviewed by Rules & Governance Committee before being submitted to the Board for approval
- It was agreed that for his work on the PSO Consolidation Deliveries Group, the chair would be paid in addition to his normal fees based on his daily rate.
- A short discussion concerning the PSO consolidation reinforced that a focus on staff retention needed to be maintained.

Company staff returned to the meeting.

## **322. OPERATIONAL PERFORMANCE AND RESILIENCE**

BL joined the meeting at this point.

JJ referred to the Operations and Service Delivery report and highlighted the following:

[Redacted for financial stability reasons]

### **Metro Go-Live**

The Metro go-live completed successfully at 20:30 on 2 December.

[Redacted for financial stability reasons]

### **Graph 4 on page 3**

This graph needed to be updated to include August to October data.

*Secretary's Note: This has now been updated.*

### **Credit Payment Recovery (CPR)**

JJ referred to the CPR item and asked if there were any questions.

MC referred to page 6 of the report and asked for an explanation of the recovery rates. [Redacted – Candid debate].

RW referred to the poor quality data and asked if a centralised system e.g. a technology driven 'post office' could be devised in 2017. JJ said that this could be included as part of the infrastructure renewal.

**MB**

### **Action FB 322**

JJ noted that there are still issues with incomplete, inaccurate and late data being received from Participants.

[Redacted for confidentiality reasons] referred to page 19 of the Operations and Service Delivery report regarding Participant Router replacement, in particular the statement that [Redacted for confidentiality reasons] refused access to their data centres to replace them. [Redacted for confidentiality reasons] said he would have hoped that this would have been escalated within [Redacted for confidentiality reasons]. JJ advised that this issue was escalated to senior management level.

### **Returning Payments**

RW asked about the method of returning payments to Participants. JJ stated he had already written to participants via the Service and Operations Committee to comply with the Procedures as some institutions are returning payments back via a different method and not to the originating sort code.

The Board **NOTED** the Operations and Service Delivery Report.

BL left the meeting.

## **323. SERVICE USER ENGAGEMENT**

MB referred to the Service User Engagement report and pointed out that it was the first report produced. Internal Audit were now doing a

review of the work done in this area. A consultation on business hours was underway.

MB highlighted that the Company expects to receive the PSR report with Scheme responses in relation to General Direction 4 in January 2017.

*Secretary's Note: PSR advised the Scheme on 8 December that this is now likely to be late February 2017.*

A Service User Engagement quarterly report will be produced going forward and Board were asked whether they wanted the report included in the Development Forum report, the CEO report or as standalone document.

TC asked for a plan for the delivery of the Service User strategy.

**Action FB 323**

**MB**

*Secretary's Note: The plan will be produced in Q1 2017*

The Board **NOTED** the Service User Engagement Report.

Board **AGREED** that a standalone report is preferred and this should be the first item on the agenda going forward.

**324. DEVELOPMENT PROGRAMME**

MB referred to the Development Forum report and asked if the Board had any questions.

NC suggested that care should be taken over phraseology in relation to 'business hours' for potential Direct Participants who are unable to offer a full real time solution.

RW asked if the Development Forum were monitoring the generation of USMs for Automated Scheme Protection Measures (ASPM).

MB confirmed that the Technical Solutions Manager is monitoring ASPM USMs each time they are generated.

TC referred to the SHA256 migration, the governance and the suspension of testing.

MB confirmed that trust service providers and card producers have a contract with each Participant using their service. It is the trust service providers that are slowing down the testing as SHA 256 cards are not yet available for testing. This will not impact on the September 2017 completion.

JJ advised that the trust service provider will not be providing cards

until February.

The Board **NOTED** the Development Forum Report.

### **Request for Payment**

MC advised that the flowchart within the Request for Payment update was not PSD2 compliant. MB agreed to review and amend as part of the next steps re RfP. **Action FB 324**

**MB**

The Board agreed that the proposal to move to the next phase be brought to the Board meeting scheduled for 7 February.

### **325. CHIEF EXECUTIVE REPORT**

CT referred to his report and asked whether there were any questions.

TC said that she understood the legal opinion from external lawyers around any competition law implications concerning Scheme consolidation would be shared with the Board. **Action FB 325**

**CT**

MB stated that the PSR had approached the Scheme regarding Iranian Banks. TC noted that the Scheme did not make assessments of the quality or reputation of Participants rather it relies on the PRA to take decisions on whether banks should be allowed to operate in the UK.

CT asked Board if they still found the report useful. Board agreed that is was informative and for CT to continue producing the report.

The Board **NOTED** the Chief Executive Report.

### **326. BOARD ACTION LOG**

NC ran through the action log and proposed the following:

**Action FB 285** – a date should be arranged for the walkthrough.

**Action carried forward.**

**Action FB 297** – Project Initiation Document for the Central Infrastructure renewal to be presented to the Board on 7 February.

**Action carried forward.**

**Action FB 298** – NC will confirm with Co-operative Bank that, given their decision to not take up a seat on the Board, communications are sufficient. **Agreed to close.**

**Action FB 302(i)** – Risk R0034 will be considered at the next Risk Committee meeting scheduled for 12 January 2017. **Action carried forward.**

**Action FB 302(ii)** – NC will rephrase the question to Participants and



ask how they respond to customers and SMEs who wish to submit higher value payments, within the Scheme limit, via Faster Payments. Take into account the Which? super complaint. **Action carried forward.**

**Actions FB 305, 306 and 310 agreed to close.**

**Action FB 314** NC to reword the action to cover communication with guarantors, Participants and directors. **Action carried forward.**

**Actions FB 316 (iii), (viii), (ix) and (x) agreed to close.**

**Actions FB 316 (i), (ii), (iv), (v), (vi) and (vii)** merge into one action. **Action carried forward.**

**Action FB 317(i) and (ii) agreed to close.**

The Board **NOTED** the action log.

**327. ANY OTHER BUSINESS**

NC proposed that the meeting scheduled for 7 February should now be face to face and not via teleconference.