

Minutes

REDACTED FINAL



21 February 2018

Our Reference FB 013/18

To Board

From Board Secretary

MINUTES OF THE TELECONFERENCE MEETING OF THE FPSL DIRECTORS HELD ON 19 FEBRUARY 2018

Present:	Nick Caplan	Independent Chairman* (FPSL) (NC)
	Duncan Ingram	Independent Director* (FPSL) (DI)
	Tanya Castell	Independent Director* (FPSL) (TC)
	Craig Tillotson	Chief Executive* (FPSL) (CT)
	Paul Scott	Director* (nominated by Barclays) (PS)
	Melanie Martin	Director* (nominated by Citibank) (MM)
	Charles McManus	Director* (nominated by ClearBank) (CM)
	Jim Pettigrew	Director* (nominated by Clydesdale) (JP)
	Tony Richter	Director* (nominated by HSBC) (TR)
	Graeme Donald	Director* (nominated by Lloyds) (GD)
	Tom Dolan	Director* (nominated by Monzo) (TD)
	Anthony Parker-Stewart	Alternate Director* (nominated by John Hutton, Nationwide) (APS)
	Jonathan Glover	Director* (nominated by Northern) (JG)
	Martin Wilson	Director* (nominated by Nat West) (MW)
	Robert White	Director* (nominated by Santander) (RW)
	Julian Sawyer	Director* (nominated by Starling) (JS)
	Helen Rose	Director* (nominated by TSB) (HR)
	Andrew Grice	Observer (Bank of England)
	TY	Attendee (NPSO) (TY) (agenda item 426 only)
	MB	Attendee (FPSL) (MB) (agenda items 425 & 429)
	SG	Attendee (FPSL) (SG) (agenda items 427 and 428)
	JC	Secretary (FPSL)

*** Voting members of the Board of Directors - 17 out of 17 in attendance**

Apologies:

419. DECLARATION OF INTERESTS

Action

NC asked the Board if there were any declarations.

No declarations were advised although NC indicated that his declarations will need to be updated.

Secretary's Note: This has now been updated.

The Register of Interests (FB 005 18) was **NOTED**.

GD advised that he has updated his Interests and offered to step out of the meeting during the NPSO item. No concerns were raised and NC confirmed that GD may attend the entire Board meeting.

NC advised that this would be GD's last meeting as Board Director.

NC thanked GD for his significant contributions during his tenure and stated that his contributions would be greatly missed.

420. REPRESENTATION OF SERVICE USERS

NC reminded Board to consider interests of service users in all discussions and decision making processes.

421. MINUTES OF LAST MEETING HELD ON 12 DECEMBER 2017

The Board **UNANIMOUSLY APPROVED** the full and redacted minutes for the meeting held on 12 December and **NOTED** the redacted minutes will be available on the website within 5 working days.

Secretary's Note: The redacted minutes for the December meeting were added to the FPSL website on 20 February.

422. OFFLINE BOARD DECISIONS SINCE THE PREVIOUS MEETING

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

Ahead of the next item, NC commented that a number of people left the previous Board meeting prior to the Remuneration Committee update. During this item, it was advised that there would be changes to the Executive team and that CT would be leaving the Company on an agreed date. NC advised that CT has offered to leave the room to allow open discussion and comment. CT left the meeting.

NC advised that the current plan is to hand over the responsibility and accountability to the NPSO, subject to FMID non-objection, on 1 May 2018. However there is a risk should the non-objection not received by that point in time. Should this happen, the existing succession plan

could come into effect [Redacted – Confidential].

DI said that the length of the delay is a key factor. NC advised that he has been engaging with David Bailey, Bank of England who indicate that the FMID team are very focused on reaching a conclusion.

CT re-joined the meeting.

423. TRANSITION ASSURANCE COMMITTEE / CONSOLIDATION

NC stated that the last couple of months have been exceptionally busy and, rather than run through everything, he would provide an update on the current status.

A meeting of the Guarantors and a number of Board Directors took place on 11 January where an overview of phases T1 (transition of Guarantors to NPSO), T2 (transfer of responsibility and accountability to NPSO) and T3 (transformation of operation) was provided. NC advised that a number of institutions had concerns about the set-up for the period between T1 and T2 and therefore requested that they take place simultaneously. After a significant amount of discussion with NPSO, Bank of England, Bacs and some institutions, the conclusion was reached that T1 and T2 should take place on the same date with some caveats. It has been agreed that this should occur at the end of April. Bank of England FMID has suggested that NPSO resubmit their plan and for FPSL to consider if there are any risks arising from this change.

For FMID to provide non-objection, they need to satisfy themselves that NPSO are in a position to take over the responsibility and accountability of running FPSL. David Bailey has requested that FPSL ensure that it is in a position to be handed over to NPSO and for FPSL to provide an attestation to confirm this.

The Transition Assurance Committee had agreed that an attestation letter would be drafted and presented to the Bank to ensure it is satisfactory and meets their requirements after which time the Board would approve this prior to formal handover. It is hoped that the formal sign off would occur during the April Board meeting, if not, before.

Tom Dolan joined the meeting.

NC stated that work was underway to obtain a good understanding of the operating model and the organisational structure post T2.

NC referred to governance and stated that NPSO, whilst they know

what their committee structure will look like, the handover and how it will operate post T2 is still being debated. This will include whether there is still a requirement for an FPSL Board and Board committees to provide some continuity and knowledge transfer. This work is being overseen and reviewed by the TAC and it was agreed that TAC had the Board's delegated authority to undertake all activities related to consolidation with only the final agreement on the recommendation from TAC regarding Attestation to be reserved to the Board.

NC referred to note FB 006/18 and stated that set B of the documentation will be executed no later than the end of February. A small number of documents from institutions (those being represented by A&O) are still to be received. A slightly amended version of Documentation Set A, following the change of order of implementation, is currently being drafted by CMS in parallel with discussions with A&O and should be signed in executable form by the end of March. Set A of the documentation will be held pending order by CMS. The release will be triggered on receipt of non-objection to the change from Bank of England FMID.

TC sought clarification around the timing of documentation. NC confirmed that the Written Resolution, related to set A, will be issued in April for signing within 28 days.

RW requested that, to assist A&O with their understanding, a summary of the paper setting out what has been agreed by Board is clearly documented.

FB

Action 423/1 FB to produce a summary paper clearly documenting what has been agreed by Board to date.

Board **NOTED** FB 006/18 and the change in plan.

DI asked whether the attestation could be completed by the end of March with a confirmation at the end of April that nothing has changed. NC stated that every effort would be made to work to the end of March target date as suggested.

424. TECHNOLOGY OUTSOURCING AND PROCUREMENT STRATEGY COMMITTEE

CT provided an update on the current position as follows:

- Issued the Request for Information to potential vendors for Project Devon in January following a short delay arising from

the PSR discussions.

- Project Devon team are undertaking a second round of procurement for procurement support to ensure our process is robust and assist in the mechanics of the RFI and RFP process. Looking at procuring a company to assist us over the next 6 – 12 months.
- [Redacted – Commercially sensitive]
- [Redacted – Commercially sensitive]

NC stated that the TOPS Committee is taking a very detailed view of this and requested Board to delegate [Redacted – Commercially sensitive]TC pointed out that the Terms of Reference for the Committee indicates that it would make recommendations to the Board.

NC explained that, given the timeline involved, he is asking Board to delegate their authority [Redacted – Commercially sensitive].

CT provided some clarity around how the delegated authority would be used:

- The final review will be received [Redacted – Commercially sensitive].
- The Executive will consider the review [Redacted – Commercially sensitive].
- Once the Executive are comfortable with the proposal, it will be presented to TOPS Committee for approval in principle.
- Executive will seek approval from PSR for FPS to continue [Redacted – Commercially sensitive].
- [Redacted – Commercially sensitive].

Board **UNANIMOUSLY APPROVED** the request to delegate authority [Redacted – Confidential]to the TOPS Committee.

RW sought clarity that Board are comfortable delegating authority to TOPS Committee for the following:

- The responsibility to understand and approve [Redacted – Confidential].
- Approach the PSR to engage in the discussion [Redacted – Confidential].

NC stated that it will be the Executive who will approach the PSR but

the sign off will come from TOPS Committee.

CT advised that the Committee discussed Project Avon and the need to document what has been achieved so far and ensure the NPSO has a proposition which can be handled competitively in the current market.

NC stated that the work undertaken so far around an overlay service should also be properly documented as a working standard.

CT stated that Project Durham was also discussed at the TOPS Committee meeting.

NC advised that the minutes will be available within the Board area of SharePoint.

Secretary's Note: These are now available.

425. PROCUREMENT POLICY EXCEPTION – REQUEST FOR PAYMENT

MB joined the meeting.

CT stated that FB 007 18 was circulated to the Board and that an exception was sought for not undertaking a procurement process but to continue with [Redacted – Confidential] with the Request to Pay work because they are best placed to continue with the work and their proposition offers value for money.

TC referred to the note which states the Procurement Policy and Principles are guidance however the wording within those documents are stronger than 'guidance'. TC commented that she understood the rationale in not switching the consulting company midway through the work. TC also asked how FPSL is sure that this cost model is good value for money. CT advised that the [Redacted – Confidential] staff work on site and the Company has good visibility of their input. NC confirmed the quality of the work was good.

MW stated that he believed the additional cost was identified at the December Board meeting as [Redacted – Commercially sensitive] but in FB 007 18 it is identified as [Redacted – Commercially sensitive].

CT confirmed that the additional funding for this work has always been [Redacted – Commercially sensitive] and has not changed.

The Board **UNANIMOUSLY APPROVED** the divergence from normal procurement process in retaining [Redacted – Confidential] for their consultancy services for the Request to Pay project [Redacted – Commercially sensitive].

Agenda item 429 was covered next after which MB left the meeting.

426. NPSO

TY joined the meeting.

NC provided the background to this item advising that NPSO advised at the December Board meeting of the need for funding [Redacted – Confidential]. Following detailed discussion at December Board, it was agreed that this would be assigned within the budget however requested that TY produce and present a paper back to the Board with a more specific and detailed request.

TY referred to note FB 009 18 and stated that NPSO are mobilising a major programme which will have significant impact on the payments landscape over the next few years. TY stated that some calculations have been included within the note to ensure there is sufficient funding in place and expressed appreciation for the contribution that has been made by FPSL.

TY asked if there were any questions with regards to the detail within the note.

TC referred to Project Devon and not duplicating work, and stated that discussions took place in TAC concerning not being able to share information with NPSO relating to Devon.

CT stated that those discussions were regarding not sharing pricing and detailed information but general information is fine.

NC reminded Board that FPSL and NPSO are still separate entities until such time at T1 and T2 takes place and care needs to be taken when sharing information. NC stated that legal advice has been received which states that care needs to be taken when commercially sensitive items are being discussed.

TY advised that the correct level of information sharing at the weekly co-ordination meeting is underway but he is mindful and respectful of the points raised during this item.

TC asked why the funding is being structured in this way e.g. via the Schemes rather than the way the previous funding was obtained. TY advised that, as part of the PSF workstream, Paul Horlock approached Participants to assist in the funding. A number of Participants 'gifted' the funds during 2017. TC asked how FPSL Board would obtain sight of how the FPSL funding is being spent. NC stated that this will be covered later in the agenda item.

MW referred to the work programme scheduled for the coming months and stated that there is no mention of a Programme Director. TY stated that NPSO will be recruiting for this position in H1 2018 which is another reason why additional funding is being sought. This position has been advertised internally within TMS and, if necessary, may need to be advertised externally.

RW stated that there should be transparency of contributions.

NC agreed with this and suggested that the NPSO provide an individual statement of works which will provide clarity as the note (FB 009 18) is not clear enough on what service is being delivered. This will need to be subject to a contract being in place.

NC suggested that the ability to execute on the contract be delegated to TOPS Committee up to the value of the amount agreed by Board [Redacted – Confidential] as a maximum and for the mechanisms to be put in place to ensure transparency on what the funding is for and how it is being spent.

Board **UNANIMOUSLY APPROVED** the delegation of this piece of work to TOPS Committee.

TY left the meeting

427. RISK REGISTERS

SG joined the meeting.

NC sought confirmation that an ad-hoc Risk Committee meeting was scheduled for 22 February to run through the detail of the CPMI-IOSCO review for recommendation to the Board. DI confirmed that was the case.

SG advised there has been no material changes in the last quarter to the existing risks on the register however there are three risks currently trending upwards which are:

RO27 - External Change. Dialogue with PSR had been slow at the time of reviewing these risks but weekly meetings are now in place.

RO94 – Scheme Consolidation risk - to be expected as the consolidation work ramps up.

TC sought clarity around the reference for RO27 to an implementation plan due by the end of the year. SG stated that this is in relation to the NPSO plan. CT stated that the FPSL plan will be in place for T2. SG stated that this risk will now be reassessed.

Action FB 427/1 Risk Committee to re-assess RO27

Risk Committee

RO41 – Scheme Change Programme Failure – due to the delay to the RFI for Project Devon.

Four new risks were approved by the Risk Committee.

R127 – De-prioritisation of important projects. TC asked why the timeframe is set for end 2018. DI advised that this is the timeframe that NPSO are working towards to create their operating model.

R128 – Non-compliance or failure to meet regulator expectations of transition management – How prepared staff are to fulfil regulatory requirements at short notice and meet the demands of the Regulator

R129 – Potential non-committal to contracts from third parties – as FPSL moves towards consolidation the commitment to contracts might deteriorate by third parties, including suppliers and Participants. TC questioned why this risk was considered likely and it was pointed out that one of the third party contracts [Redacted – Confidential]. NC suggested that the term 'non-committal' be changed to 'fulfil'.

DI agreed that the change should be implemented.

Action FB 427/2 SG to arrange the amendment to the Risk Register by replacing 'non-committal' with 'fulfil'.

SG

RO144 – Loss of Senior Management and / or key FPS staff – this is due to consolidation. [Redacted – Confidential]

The Board **UNANIMOUSLY APPROVED** the Risk Register.

SG highlighted that FPS is outside risk appetite on RA23 – Tiering. TC asked what actions are being taken. SG advised that FPS are waiting for a response from the Bank of England in relation to the criteria for Non-bank PSPs. NC stated that it is hoped that this will be coming to a resolution soon.

The Board **NOTED** the Risk Dashboard Report.

428. PARTICIPANT BANDING

SG referred to note FB 012 18 and advised that the banding proposal and recovery timescales has been presented to the Service and Operations Committee, Technical Group and Development Forum. No objections were received to the principles / model of the banding proposal although there were discussions around the recovery times. Discussions will be held with those Participants to reach a resolution. SG advised that the challenging areas and risks will be mitigated by the Automated Scheme Protection Measures (ASPM).

TC asked if Participants can meet the recovery times allocated for their banding. SG advised that there are a few ongoing discussions concerning whether the timescales are realistic. NC sought clarification that institutions will be expected to self-assess and, if necessary, seek a derogation in the event that they are not in a position to achieve the recommended tolerance level. SG confirmed NC's understanding was correct and advised that, to date, no derogations have been received and that institutions can direct any concerns via their Director.

NC asked if anyone had any concerns. MW advised that the summary provided at this meeting is slightly different to the way it had been presented to him. He understood that it was presented to Development Forum with no time for questions and presented to the Service and Operations Committee at a very high level and for any questions to be raised at their Performance Review meetings. MW said that he believed concerns should not be raised via the Director as they are not representing their organisation when sitting on the Board and there are organisational forums in place. GD advised that he agreed with MW's comment that, whilst no-one has approached him, any organisational concerns should be directed through the appropriate forum rather than Board and ensure positive feedback is received. RW suggested that specific confirmation is sought from each organisation. CT stated that his understanding was that the paper was circulated to each group in advance of the meeting, with a walk through at each meeting and an opportunity to ask questions.

NC suggested that there are three points to be taken away from this which are:

1. Are these appropriate levels being set by the Scheme in terms of resilience?
2. Seek clarity from each Participant that they will be able to meet and self-assess to meet the requirements
3. How do we make sure that the appropriate feedback is received via the committees going forward.

TC asked what are the implications for the Scheme if multiple Participants are unable to meet the requirements and the potential systemic risk? CT advised that, in most cases, there would not be an issue.

Board debated this further including systemically important

organisations and the impact on the eco-system.

NC suggested that Board approval is obtained with a caveat that a validation from each Participant is sought to ensure they have an expectation to achieve the tolerance level and, if derogations are received, they do not equate to more than a specified total of the peak volume. TC stated that she would be more comfortable with that suggestion.

MW asked why this has become a major issue at this point in time; have the Participants in the past missed targets or been in exceptional difficulty and also why is further change being added on top of significant changes scheduled for the near future which will add to the risks?

CT responded that there was a significant outage a few years ago which created 2 weeks of work to rectify. As FPS becomes more systemically important and volumes increase, the expected time to resolve issues will become shorter. CT also stated that this piece of work has been on the Scheme's agenda for some time. NC stated that this provides assurance that the Scheme sits within the risk appetite.

NC suggested that, rather than focusing on the recovery time as set out in the paper, the focus should be on the volume of payments and the time it takes to process an agreed volume at a peak time.

This topic was debated further.

NC sought Board approval that the tolerance level for a clean outage is set at 50,000 payments.

Board **UNANIMOUSLY APPROVED** the tolerance level for a clean outage at 50,000 payments and the Banding Proposition excluding the suggested timeframes at this stage. The Scheme will work with Participants to understand the implications of this and will report back on the outcome of the analysis to Risk Committee and Board.

429. SCHEME TRANSACTION LIMIT INCREASE

MB referred to FB 008 18 and stated that the Executive undertook a review to look at all concerns raised including that of Credit Payment Recovery processes raised by JP at the December Board meeting. The concerns raised and the work undertaken / response / action taken is documented in Appendix One. MB asked JP if this now resolves any concerns he and his organisation had. JP confirmed that they are now in a good position and no longer have any

concerns. JP expressed his thanks to the Head of Operations and his team for all their hard work undertaken with his organisation.

NC referred to item number 5 which resulted in action number 6 which was 'to enhance CPR MI reporting and dashboard to include information on claims sent and received above £250k'. NC stated that there is already enhanced MI on claims on items over £100k and proposed that this should remain unchanged at £100k and not differentiate between £100k and £250k.

RW stated that, he believed that there are still significant gaps in the responses received in CPR claims and when looking at the monthly dashboard, it shows there are still gaps in the process, in particular within some institutions.

CT stated that [Redacted – Confidential] recovery rates were extremely low (15% for December) but following enhanced engagement over the last 12 months, their January data is now indicating recovery rates at 67%. NC referred to the enhanced performance review undertaken by FPSL and himself and the Scheme is now starting to see improvements with [Redacted – Confidential] recovery rates. TC asked what enforcement actions can be taken if another institution does not adequately perform. NC advised that the Procedures have been enhanced to ensure that non-compliance would have the same outcomes as other failures and as a consequence goes through normal resolution processes.

MB advised that the other outstanding item, other than the final go / no go decision, is the formal 'non objection from the Bank of England FMID Team.

RW extended his thanks for the update but expressed frustration that the note does not accurately reflect the concerns raised at past Board meetings, including the December meeting, that there have been ongoing issues with the implementation of the CPR process for some time but not reflected within FB 008 18. NC advised RW that this will be included within the minutes. RW confirmed he was content with that approach.

TC raised a question around a statement on page three of FB 008 18 and the reasoning behind the Scheme working on the basis that a NIL return from the Development Forum will be taken as final sign off against the criteria, that they have consulted with their Service and Operations Committee representative and also confirmation of



readiness. TC asked whether this was correct for such a material change.

NC stated that Participants have been consulted many times regarding the increase. MB advised that no Participant is an outlier.

Board **UNANIMOUSLY APPROVED** the increase in the Scheme Transaction Limit [Redacted – Confidential] subject to receipt of non-objection from Bank of England FMID Team and the outcome of the go / no go decision by the Executive.

430. ANY OTHER BUSINESS

Future Meetings

NC advised that there may be a need for a number of ad-hoc Board meetings up to the point of handover to the NPSO Board.