

Minutes

REDACTED FINAL



25 May 2016

Our Reference FB 028/16

To Board

From Board Secretary

MINUTES OF THE MEETING OF THE FPSL DIRECTORS HELD ON 22 MARCH 2016

Present:

Nick Caplan	Independent Chairman * (FPSL) (NC)
Duncan Ingram	Independent Director * (FPSL) (DI)
Tanya Castell	Independent Director * (FPSL) (TC)
Craig Tillotson	Executive Director * (FPSL) (CT)
Paul Scott	Director * (nominated by Barclays Bank) (PS)
Jim Pettigrew	Director * (nominated by Clydesdale Bank) (JP)
Dave Sanders	Director * (nominated by Co-operative Bank) (DS)
Anthony Richter	Director * (nominated by HSBC Bank) (AR)
Mark Curran	Director * (nominated by Lloyds Bank) (MC)
Helen White	Director * (nominated by Northern Bank) (HW)
Nick Middleton	Director * (nominated by Nationwide) (NM)
Martin Wilson	Director * (nominated by Royal Bank of Scotland) (MW)
Robert White	Director * (nominated by Santander) (RW)
AG	Observer (Bank of England)
JJ	Attendee (FPSL)
MB	Attendee (FPSL)
FB	Attendee (FPSL)
SG	Attendee (FPSL)
GO	Attendee (FPSL) (agenda item 266 only)
BF	Attendee (Eclipse) (agenda item 267 only)
CR	Attendee (FPSL) (agenda item 273 only)
JC	Secretary (FPSL)

Apologies: Melanie Martin Director (nominated by Citi)
John Walsh Alternate Director (nominated by Melanie Martin)

*** Voting members of the Board of Directors - 13 out of 14 in attendance**

260. DECLARATION OF INTERESTS

ACTION

NC declared he has been appointed to another Board.

Secretary's Note: Following the meeting NC advised that he is no longer on the Board of MyCSP. Nick also advised that he was appointed as a Director on the Supervisory Board of Aggregate S.A. (A real estate asset and development management Company) in January 2016. The Director Interests Register has been updated.

The Board **NOTED** the Register of interests.

261. REPRESENTATION OF SERVICE USERS

FB asked the Board to note that the Company is required under PSR General Direction 4 to ensure the interests of service users are appropriately represented in the Board's decision making processes. All decisions throughout this meeting are to be considered in light of their impact on service users.

A Service User Framework has been devised which will be incorporated into documents to evidence all actions taken by Company staff when considering Service Users. The Board will be required to acknowledge the framework.

262. MINUTES OF LAST MEETING HELD ON 8 DECEMBER 2016

The Board **UNANIMOUSLY APPROVED** the full minutes of the meeting held on 8 December 2015.

The Board also **UNANIMOUSLY APPROVED** the redacted version subject to the following changes:

Agenda item 242 Strategic Supplier Management – redact the first sub-title appropriately.[Redacted – Commercially sensitive].

Agenda item 249 Audit and Finance – un-redact the External Auditors item.

Secretary's Note: these changes have been made and the redacted minutes added to the FPSL website on 24 March.

263. OFFLINE BOARD DECISIONS SINCE DECEMBER MEETING

There have been no offline decisions since the December meeting.

264. INED REMUNERATION RECOMMENDATION

DI, TC and members of staff, less the Chief Executive left the meeting at this point. The Chairman and the Bank of England Observer also

offered to leave. This was accepted and the Chief Executive chaired the meeting for this item.

The Board reviewed document FB 009/16.

After some discussion the Board **UNANIMOUSLY AGREED** with the recommendations in the paper.

The Chief Executive and AR agreed to relay the tone of the discussions to the Remuneration Committee, due to be held the next day, when the Committee less the FPSL Chairman would be considering the Chairman's remuneration.

The Chief Executive agreed to communicate the Board's decision to the INEDs after the meeting.

Secretary's Note: this took place immediately after the meeting.

The Chairman, DI, TC, the Company staff and the Bank of England Observer re-joined the meeting.

265. **GOVERNANCE AND REGULATORY**

FB updated on the following:

Governance Review

A pre-read document FB 006/16 was issued to Board on 10 March.

Board considered document FB 010/16 and **NOTED** the Service User Framework and the Project Plan.

Broad Service User engagement has been undertaken and discussions were held with approximately thirty institutions when drafting the Principles. Board **UNANIMOUSLY AGREED** the Principles and Criteria/Guiding Questions.

Directors were asked to set aside 18 May for the third round of Corporate Governance Project Workshops.

Payment Strategy Forum

CT advised that the Simplifying Access to Markets Working Group had recently met to consider scheme governance issues. CT attended this meeting as well as MW. At the Working Group meeting it was agreed that tactical simplification work between schemes will be taken forward by a programme under Interbank System Operators Co-ordination Committee (ISOCC) governance. Strategic governance issues will be led by Scheme Independent Chairs, Marion King (Working Group

Chair), the Bank of England and the Payment Systems Regulator. The Board all agreed that this was the right way to take forward these issues.

Director Changes

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

The resignation of J Hutton, Director, (nominated by Barclays)

The appointment of P Scott (nominated by Barclays)

The re-appointment of K Patterson, Alternate Director (nominated by P Scott)

The appointment of A Parker-Stewart, Alternate Director (nominated by N Middleton)

The resignation of D Greig, Director (nominated by Royal Bank of Scotland)

The appointment of M Wilson, Director (nominated by Royal Bank of Scotland)

The re-appointment of Jonathan Bye, Alternate Director (nominated by M Wilson)

Board were also advised that the Appointments and Assessment Committee met on 21 March and re-appointed Nick Caplan, Independent Chairman, for a further three year period.

266. ACCESS PROGRAMME

GO joined the meeting at this point.

GO summarised document FB 011/16 and highlighted the following:

Assurance

The Company still awaits feedback on the new Assurance Model from Bank of England Supervision. Non objection will be taken as acceptance. The framework to current Participants will commence in May unless there is any formal objection.

Bank Codes & Sort Codes

The issues around bank codes had been resolved and a short-term workaround for sort codes was possible, if required.

PKI Trust Services

The availability of the PKI solution is delayed due to technical issues with the proof of concept. A question was raised regarding the

financial stability of the vendor. The Company continues to address issues regarding liabilities and an ad-hoc Risk Committee meeting will be arranged to review prior to the contract being signed. When the Company is in possession of the final costings the proposed cost recovery model will be presented to the Audit and Finance Committee for agreement. The RAG status is currently marked as red. However new joiners were being kept fully informed and the problems would not delay any of them.

Finance

The expenditure forecast for 2016 has decreased by £114,000 to £1.3 million.

The Chairman asked what impact the on-boarding of a number of new Participants would have on the Operations Team. JJ advised that there are different flavours of new Participants and an operational on-boarding plan had been devised for the team to work to. Additional resource is also being put in place. GO stated that, in the event of any delay, the go-live date for the delayed Participant would be pushed back to the next available slot which could be 1 – 2 months in the future. It was suggested that the plans used for the on-boarding of [Redacted – Confidentiality reasons] be 'dusted off'. **Action FB 266(i)**

MB

Three Members affected by the structural reform regulations ring-fencing) are currently scheduling to make structural changes in 2017 which also had to be factored into FPS' resourcing plans.

MC expressed concerns, with the introduction of overseas banks, about the assurance the Company can obtain from its Participants around Payments Originating Overseas and the payments being appropriately tagged. CT confirmed it is in the Participant Assurance Questionnaire and this will be reviewed in light of Board concerns

Action FB 266(ii)

SG

The Board **NOTED** the Access Programme Report.

GO left the meeting at this point.

267. FASTER PAYMENT REQUEST

BF joined the meeting at this point.

BF gave a presentation on the work undertaken by Eclipse testing the concept of a Faster Payment Request service with Service Users.

BF left the meeting.

Board discussed the presentation and supporting document FB

012/16.

Some of the points raised were:

- This may be beneficial to service users that need to manage their finances carefully / and should meet some user needs.
- It will provide an opportunity to start a dialogue between biller and payer.
- This proposal will form part of a bigger picture by engaging with other areas of the payments community.
- A benefit to the industry (addresses a number of detriments identified by the Payments Strategy Forum).
- Determine the end to end proposition detail before looking at the implementation or infrastructure (starting hypothesis is that some form of central build would be required).
- Potentially this need was more about messaging than payments.
- The extent to which the advent of PSD2 would impact the project
- It was important to keep the momentum rather than present to the Payment Strategy Forum and wait for a response.
- Aim to introduce within this Parliament.

A question was raised about whether we are spending sensibly and, following discussion, the Board considered the proposal to invest [Redacted – Confidentiality reasons] for the next phase of the project. The Board **AGREED** the proposal but questioned whether [Redacted – Confidentiality reasons] would be sufficient, and requested a more detailed paper before making a decision to spend above this level.

Secretary's Note: A copy of the presentation was issued on 23 March under reference FB 025/16.

268. SUPPLIER MANAGEMENT AND PSR MARKET REVIEWS

CT updated on the following:

PSR Review – Indirect Access

There are some complimentary remarks within the Indirect Access interim report about FPSL. The document will be reviewed comprehensively and a response will be submitted. It is not expected that this response will be contentious. The Access Steering Group will review any comments before submission.

A review of the document will be undertaken and those parties compiling the response on behalf of FPSL will be asked to consider any conflicts they may have as set out in document FB 013/16. The Board **AGREED** the recommendation.

The infrastructure Supplier Change of Ownership

A change of ownership of the main FPS Infrastructure Supplier is planned. Initially there were three potential buyers which recently reduced to two. Over the next one – two weeks, there is likely to be a move to a single bidder. The infrastructure supplier has commenced an internal competition law review which will delay any further announcement for a few weeks. Once a preferred bidder is announced this may lead to a more formal competition and regulatory reviews, potentially by the Competition and Markets Authority and Directorate-General competition (European Commission).

PSR Review – Infrastructure Supply

Given that the PSR review of infrastructure supply alleges that FPSL has not been able to make decision on its infrastructure supply from the supplier without undue influence from the supplier's large shareholders, the Board **UNANIMOUSLY AGREED** that it would only be appropriate for Directors who had no connection with the Infrastructure Provider to compile the response on behalf of FPSL. Consequently, to increase separation even further, this will be delegated to a sub-committee to be made up of all Independent Executive Directors (INEDs), the Chief Executive and Directors / Alternate Directors who are not shareholders of the supplier. This group will also oversee on behalf of the Board FPSLs response to the supplier's change of ownership and responses to a current commercial offer from the supplier. The question was raised as to whether PR support was required to support development of FPS' communications strategy.

It was noted that this sub-committee will work without further consultation with the full Board.

269. SUCCESSION PLANNING

All members of staff, less the Chief Executive, left the meeting.

The Bank of England Observer offered to leave the meeting also. The Board agreed with his suggestion and he left the meeting.

The Board had a broad-ranging discussion around the succession planning for the Chief Executive and the Executive Team.

The Board concluded that:

- [Redacted – Confidentiality reasons]

270. RISK MANAGEMENT

All members of staff and the Bank of England Observer returned to the meeting.

DI referred to document FB 016/16 and highlighted that RA13 on the Dashboard is incorrectly marked as red and note 3 had not been updated to reflect compliance. This should be green.

DI advised that there are no material changes to the risks in the Risk Register.

The reputational issue [Redacted – financial stability reasons] was noted and SG confirmed that reputational risk is considered as part of the Risk Assessment process for all risks.

JJ confirmed that a revised draft contract with a significant supplier to FPSL had now been received and the Company is currently managing the supplier against Key Performance Indicators (KPIs).

The Board reviewed and **UNANIMOUSLY APPROVED** the Faster Payments Risk Register.

[Reacted – confidentiality reasons]. Risk Committee are seeking the delegation for the approval of the Security Code of Conduct from the Board to the Risk Committee.

The Board **AGREED** to delegate authority for the approval of the FPSL Security Code of Conduct to the FPSL Risk Committee.

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

271. AUDIT AND FINANCE

TC summarised document FB 017/16 and highlighted the following:

- BDO, external auditors, presented their audit strategy report for the 2015 audit for review. The cost had increased slightly due

to the support being provided for the switch to FRS10.

- The Internal Audit plans for 2014/15 were completed. There is one open audit point which is not overdue.
- At the time of the Audit and Finance Committee meeting, three Participants were still to pay the H1 Company call due for payment by the end of January 2016 but these had since been paid. Late payment has an impact on the Company's cash flow.
- The Committee has concerns over the delay in receiving assurances from Bank of England (Settlement provider) for 2015 which has resulted in material slippage in the annual risk work plan. The Chief Executive will be discussing this with the Bank of England to agree a way forward.

The Board **UNANIMOUSLY AGREED** that the Chief Executive may use funds in the Reserves in the event of a cash flow issue.

The Board **NOTED** the Financial Forecast for the end of 2015.

[Redacted – Commercially sensitive]

The Board **NOTED** the Audit and Finance Committee Report.

This is the fourth occasion the annual Self-Assessment against the CPMI-IOSCO Principles for FMI's has been undertaken. FPSL is now fully compliant following the implementation of Settlement Pre-funding and the publication of the pricing structure on the website.

The Board **UNANIMOUSLY APPROVED** the detailed disclosure of FPSL's Self-Assessment against the CPMI-IOSCO Principles for FMI's as recommended by the Audit and Finance Committee. Approval of the Public disclosure will be sought at the June Board meeting.

MB summarised document FB 018/16 highlighting that, with the introduction of a number of new Participants in the near future, it was an appropriate time to align the costs to the current usage of Faster Payments rather than using historical data approach used since 2008.

The Board **UNANIMOUSLY APPROVED** the new cost allocation as recommended by the Audit and Finance Committee and the use of Direct Debit to collect Company call effective from H2 2016.

272. REMUNERATION COMMITTEE

The Chief Executive and Company staff left the meeting at this point. The Bank of England Observer offered to leave the meeting also. The Board agreed with his suggestion and he left the meeting.

The Chair of the Remuneration Committee provided an update on the work done over the past year, the rationale for the approach taken and the outstanding items to be reviewed. In response to a query from the Audit and Finance Committee, it had been clarified that any decision of the RemCo which would cause FPS to exceed the overall budget of the company then board approval would be sought. However a certain degree of flexibility was required within the overall approved budget for the CEO (and RemCo) and this would be formalised in the delegated authorities being developed.

The Chief Executive, Company staff and the Bank of England Observer returned to the meeting at this point.

273. OPERATIONAL PERFORMANCE AND RESILIENCE

CR joined the meeting at this point.

JJ referred to document FB 020/16 and highlighted the following:

- This had been a good period of operation for the infrastructure supplier
- The Service and Operations Committee is being scaled back and moving away from a 'one size fits all'
- Monthly 1:1's with Participants are being held
- Bank of England Priority 15-03 – Business Continuity – close to completing the Business Continuity Plan.
- Bank of England Observation 4 – Substitution – working towards a cross scheme playbook to include a dispersal incident.
- The Credit Payment Recovery project deliverables had been completed and there would be more information available in June.
- Cyber Target Operating Model – The Bank of England have not identified any material issues. CR is working through a gap analysis with the infrastructure provider and is targeting 30

June to embed.

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

CR left the meeting at this point.

274. DEVELOPMENT PROGRAMME

MB highlighted the following:

Automated Scheme Protect Measures

Phase one was delivered successfully in January 2016 with Phase two scheduled [Redacted – Financial stability reasons].

Development Forum

Work will commence after Easter around the future increases to the Scheme Transaction limits with Service User engagement commencing during the summer.

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

275. CHIEF EXECUTIVE REPORT

CT summarised document FB 022/15 highlighting the headcount has now increased to the agreed level.

The Board **NOTED** the Chief Executive Report

276. ACTION LOG

The Board **NOTED** the action log. CT confirmed that:

- 178 (iii) would remain open
- 237 a proposal for a proof of concept would need approval shortly and the Board agreed to delegate this to the iNEDs.
- 244(ii) would close when the PA Consulting report had been circulated.

277. ANY OTHER BUSINESS

None