

# Minutes

**REDACTED DRAFT**



21 June 2018

*Our Reference* FB 060/18

**To** Board

**From** Executive Assistant

## **MINUTES OF THE MEETING OF THE FPSL DIRECTORS HELD ON 20 JUNE 2018 AT 10:30**

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**Present:**

Nick Caplan	Independent Chairman* (FPSL) (NC)
Duncan Ingram	Independent Director* (FPSL) (DI)
Tanya Castell	Independent Director* (FPSL) (TC)
John Jefferson	General Manager* (FPSL) (JJ)
Dougie Belmore	Director* (nominated by Clydesdale) (DB)
Stuart Bailey	Director* (nominated by Lloyds) (SB)
Robert White	Director* (nominated by Santander) (RW)
MH	Observer Chief Operating Officer (NPSO) (MH)
AM	Attendee (FPSL) (AM)
CR	Attendee (FPSL) (CR) (Agenda item 460 only)
PK	Finance Director (FPSL) (PK)
SG	Acting Secretary (FPSL)

**Apologies:**

Tony Richter	Director (nominated by HSBC)
JC	Secretary (FPSL)

**\* Voting members of the Board of Directors - 7 out of 8 in attendance**

### **448. DECLARATION OF INTERESTS**

**Action**

NC asked the Board if there were any additional declarations of interest.

The Register of Director Interests was **NOTED**.

NC advised he has added 2 interests to the updated register. One related to open banking and the other role is exploratory around the request to pay service and could be seen as a potential conflict, therefore NC informed the Board that he is stepping down as the Board Chairman and resigned as a Director. DI, as the Senior Independent Director, will take over as chairman until the Board, as

constituted, ceases.

The Board joined DI in congratulating NC for the transformation he has helped the company to achieve over the past five years.

Secretaries Note: NC left the meeting at 10:45.

DI welcomed MH to the Board. MH will attend the Board as an observer and not as a director. He has received advice about what he can contribute to the meeting, from an observer perspective.

DB asked that due to there being 1 director absent and an independent director resigning whether the Board was quorate. AM advised that the articles of association required 1 INED, 1 NED and 1 director to be quorate. Therefore DI confirmed that the board is quorate and able to continue.

*Redacted – Candid Debate*

**449. REPRESENTATION OF SERVICE USERS**

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

**450. MINUTES OF LAST MEETING HELD ON 25 APRIL 2018**

The Board **UNANIMOUSLY APPROVED** the full and redacted minutes for the meeting held on 25 April with the exception that a secretary note will be added to clarify Matthew Hunt's role within the Board meetings as an observer and not in a Director's capacity.

Board **NOTED** the redacted minutes will be available on the website within 5 working days.

*Secretary's Note: The redacted minutes for the April meeting were added to the FPSL website on 21<sup>st</sup> June.*

**451. OFFLINE DECISIONS SINCE THE APRIL MEETING**

Board **NOTED** the following offline decisions taken since the meeting held on 25 April:

- The offline approval of the FPSL Risk Appetite Statement issued under FB 043 18 on 26 April.
- The offline approval of the replacement authorities issued under FB 046 18 on 8 May.

**452. REGULATORY**

AM advised the GDPR programme has been finalised and FPSL has

implemented the actions that were required to be put in place.

Generic training has been distributed to the team in regards to additional layering on the GDPR.

The Modern Slavery Statement was agreed in the April board meeting which has now been published on the FPSL Website and available to the public.

A Regulatory Affairs Group has been created in the NPSO; the Group has started to meet regularly and is in discussions with the PSR in regards to redefining General Directions 2 and 4.

Two consultation papers have been published by regulators; 1) The levy fees of regulating financial market infrastructure and 2) the use of ISO2022 for the new real time gross settlement system for review.

TC asked about the implementation of controls relating to the Criminal Finance Act given that is now in force, and was discussed at the Audit Committee. It was understood that the policy updates had been completed. AM advised the regulation was reviewed at the time and a summary was prepared and sent to the company. One of the main changes was to roll out specific training for financial crime to the team, which has now been rolled out so pending completion by staff this action will be complete. PK advised that this is an on-going BAU piece of work, there are no open actions that will need to be handed over to NPSO and it is being monitored by the Legal and Regulatory team.

DI thanked the team that helped to roll out GDPR into FPSL.

Board **NOTED** the Legislative and Regulatory Developments Summary.

#### **453. STRUCTURAL REFORM**

JJ advised that HSBC will perform a legal separation on 1<sup>st</sup> July to become HSBC and HSBC UK. The two participants have been on-boarded by the scheme and have been running successfully.

*[Redacted for Confidentiality Reasons]* He reflected that as long as this is in place for the consumers it's less of a Scheme issue.

*[Redacted for Confidentiality Reasons]*

#### **454. CHANGE PROGRAMME**

Project AVON

JJ advised there was a request from the NPSO to FPSL while setting the budgets for 2018, for *[Redacted for Confidentiality Reasons]* funding to be included as a contingency to contribute in 2018 to the New Payments Architecture (NPA)/DEVON. A further *[Redacted for Confidentiality Reasons]* was approved to be used as a further contribution if needed for change projects. Both were approved by Board in December subject to, information on the use of the funds.. There is a request to release *[Redacted for Confidentiality Reasons]* for the Request to Pay Programme (AVON) which is now under control of the NPSO central change remit. The existing work has been delivered by *[Redacted for Commercially Sensitive Reasons]*, the funding for them will run out shortly, so the request is to ensure that the work and knowledge is transitioned over to the Central Change Team and remove the reliance on by *[Redacted for Commercially Sensitive Reasons]*. This means the team will have control of the Sandbox testing environment and the Microsite which are key features that allow third parties to view the system. This funding will enable by *[Redacted for Commercially Sensitive Reasons]* to continue that support for a limited time and the NPA programme cannot fund the initiative.

RW questioned the funding for this as he recollected that the reliance on by *[Redacted for Commercially Sensitive Reasons]* should have come to an end already. MH asked from an NPSO perspective, if the Scheme could confirm that FPSL has the funding available in the budget and that this release will not take the Scheme over budget. PK spoke to the end of May forecast accounts; and advised there is a total of *[Redacted for Confidentiality Reasons]* There is still a well-funded budget showing positive variances. TC advised that this was agreed by the Board and is within budget.

JJ advised that FPSL specifically challenged TY, Head of NPSO Change, as to the criteria of this funding and had set specific conditions for the release *[Redacted for Confidentiality Reasons]*

MH noted that PK has confirmed that there is budget available to do this. He also advised that it is vital when spending money on consultants, the business gets value from it. It had been confirmed previously with JJ that the extra three months will secure the knowledge transfer from by *[Redacted for Commercially Sensitive Reasons]* into the NPSO Change team.

DI advised that the primary purpose of the *[Redacted for*

*Confidentiality Reasons*] is to ensure a complete handover to the Change Team and that, withholding those funds is not going to contribute to an efficient handover. TC asked if there is resource in place to do this. JJ advised this was raised with TY and DH, Head of NPSO Technology Development. They have advised resources will be released to take this work forward.

RW advised that he is still uncomfortable with releasing more funding onto for Accenture and expressed concern that the transition had not happened already. JJ advised that there is a plan in place to use the extra three months for knowledge transfer so that the Company does not lose what has been completed already. *[Redacted for Confidentiality Reasons]*. If TY and DH were confident that by the end of the three extra months the knowledge transfer will be complete.

DI asked the Board if they were happy to approve the *[Redacted for Confidentiality Reasons]* release from the contingency budget. Board **UNANIMOUSLY AGREED** to release the additional *[Redacted for Confidentiality Reasons]* funding for *[Redacted for Commercially Sensitive Reasons]* for Request to Pay.

#### Scheme Transaction Limit Increase

JJ advised there was a response from FMID in May in regards to the paper submitted in January. Work has been completed regarding the questions that FMID asked and an updated paper was submitted to the FPSL Risk Committee on the 15<sup>th</sup> June where it was agreed to resubmit to BoE. It was sent to the NPSO Risk Committee which takes place today and, subject to the Committee not having any concerns, the response will be sent to FMID this week. RW asked what the position of FMID is with the £20M, JJ advised that FPSL are seeking non-objection from FMID to raise the transaction limit.

**ACTION 454.01 – FPSL BOARD TO HAVE A COPY OF THE SCHEME TRANSACTION LIMIT INCREASE RESPONSE TO FMID THAT WAS SHARED WITH THE FPSL & NPSO RISK COMMITTEES.**

JJ advised that the aspiration is to implement the limit increase by September, but no specific date is in place.

#### DEVON

JJ advised that the Structural Renewal Programme has now been

fully transitioned to the NPA Programme within the NPSO and is part of Workstream A. This is being managed alongside the Bacs Programme. *[Redacted for Commercially Sensitive Reasons]* The NPA Programme and FMID have been requested to do a high level piece of work with *[Redacted for Commercially Sensitive Reasons]* to understand what the costs might be should the NPA Programme go beyond June 2023 and what the latest date would be to renew if additional hardware and other infrastructure are needed.

#### **455. NPSO COO REPORT**

MH advised that although NPSO is a new company, it is responsible for systemically important and mature BAU operations of the schemes. Bacs and Faster Payments became subsidiaries of the NPSO on the 1<sup>st</sup> May 2018. Transfer of UKPA was delayed due to legal issues and is planned to transition into the NPSO alongside C&CCC on 1<sup>st</sup> July 2018. This will then complete the acquisitions and enable the NPSO to move forward as a whole.

Key work that needs to be completed over the summer will include the Target Operating Model 2.0 and the NPA Programme Design.

The Target Operating Model 2.0 needs to be designed and implemented with staff. A Town Hall meeting was held on 31<sup>st</sup> May to keep staff informed of timelines. The target is to move to TOM 2.0 in November. Staff have been advised that, unlike TOM 1.0 where everyone remained in their existing legal entities and contacts for Participants remained the same, it is not yet confirmed that that will remain the same for TOM 2.0. Furthermore potentially not every role will exist in its current form, though it has been advised there will be interesting and important work to be done and opportunities available in the NPSO.

The NPA Programme is the other key piece of work to be completed. There are a number of agile sprints being organised which will help to design each part of the NPA and informal consultations with industry stakeholders to ensure that this is working as it should be. The consultative process is crucial for the success of the NPA. The main principle is to build something robust and resilient, but it should be structured in such a way to invite innovators to plug into it and enhance competition. A vendor session was held on the 4<sup>th</sup> June with the aim of informing vendors of how the consultation will be done. The PSR requires progress to be made over the summer and they will be

kept informed of progress. FMID will be made aware of each stage.

Regulatory interaction is a new process for the NPSO, the Schemes are helping with this, and the NPSO are dedicated to building good relationships with the Regulators.

The strengths and challenges are different across each Scheme.

*[Redacted for Confidentiality Reasons]* DB advised in the last month, there has been a lot of knowledge loss from FPSL. TC advised that an audit was completed on the documentation of key processes to ensure they were secured.

SB asked about the NPA consultations and if a formal consultation will take place. MH advised that it is important is that the NPSO are consulting sufficiently to ensure that all sizes of banks and non-banks are all sufficiently on-board with the design and that it would be viable to connect into.

#### **456. HANDOVER ACTIVITIES**

JJ advised, in terms of the current structure of FPSL, a number of people have been given temporary roles which had been signed off by the NPSO and TAC. Time has been dedicated over the last few weeks from HR, MH and JJ to help those that have stepped up into new positions. DM has taken on a larger role to support FPSL. MS, from Paym, has also been engaged to pick up escalations from the FPSL Operations area. RW asked if the NPSO Board is aware of the concerns of the changes to the structure and losing key knowledge from the SMT. MH noted that there were issues around the transition periods due to how quickly people left. JJ advised that in TOM 1.0 those people's positions had been deemed redundant and due to their enduring work being transitioned elsewhere they had a limited and dwindling workload so they were potentially becoming a distraction. SB asked if there are any adverse behaviours being followed for example sickness and lower work rates, JJ advised that the work has remained stable, there have been some resignations since the transition and there are a couple of people off on sick leave which is being monitored. The board acknowledged the work done by the team to ensure continuity.

TC raised concerns that assets and contracts are potentially being moved from FPSL to the NPSO and stated that the governance needs to be clarified to ensure this is done correctly. DB asked if there are

contracts that don't novate from FPSL will the FPSL Board be released of all obligations under those contracts due to them being under a different management. MH advised that although there are target dates in place it is vital that the Scheme is able to function as a business. There is a 90 day period to novate all contracts from FPSL to NPSO but if there is a reason for exceptions, this will be discussed. The NPSO agrees that there should be an element of flex as to when the FPSL Board should cease. DI advised that the FPSL INEDs (except for NC) and NEDs agreed to stay on until the end of October to help ensure this process is completed properly. AM advised that there are a number of contracts that shouldn't be moved over to the NPSO such as the PKI trust service as it was set up as a ring-fenced structure for a reason and the contracts should be reviewed carefully. MH advised that the legal team will be briefed in regards to what needs to happen. DB asked if a plan is in place that is being followed. MH advised there is an aspirational date scheduled for TOM2 and the contract novation which was still to be confirmed.

AM explained paper FB054/18 which related to Participant Directors. There were a discussion about whether a Power of Attorney was the best approach and it was agreed that this would probably not be necessary and to defer the decision. DI advised that the INEDs have Service Contracts.

**ACTION 456.01 – PAPER FB054/18 TO BE REVIEWED AT THE BOARD IN SEPTEMBER WITH A PAPER FROM JJ AS TO THE TRANSITION WORK COMPLETED.**

RW questioned AM leaving the Company to which AM advised that there is a new lawyer joining the team and the central legal counsel function will be providing support, however there will be a handover from AM to the new lawyer due to her doing a large portion of the work on non-Bank PSP's. This is a complex piece of work and it is vital that it is taken over correctly.

JJ advised that AM already works as part of the General Counsel legal team so CB is already aware of this. He has been working with JJ to ensure that this piece of work is transferred and the FPSL service is covered correctly. AM advised that the BoE and the FCA have been working alongside FPSL in regards to non-bank PSP's and hopefully the major issues have already been resolved and the knowledge is wide spread; the bulk of the model is in the process of



being finalised soon.

RW asked, in terms of a handover, whether the INED's will need to remain in post until it is complete. JJ advised that this will be considered prior to the September Board meeting.

DI asked that JJ looks into who needs to be involved in the DMAG and LOI meetings now that an INED has resigned.

**ACTION 456.02 – A REVIEW IS TO BE COMPLETED ON THE DMAG APPROVAL PROCESS.**

**457. RISK REPORT**

DI advised Board of the following:

The Risk Committee, after consolidation became a subcommittee of the NPSO Risk Committee. The NPSO had asked if FPSL Risk Committee was comfortable for the meeting on the 15<sup>th</sup> June to be the last one held by FPSL, to which the Committee confirmed that they were given the handover of activities that had been completed.

There were no major changes to the Risk Appetite and the risks overall. *[Redacted for Confidentiality Reasons]* GC is comfortable with this change. The NPSO Risk Committee was asked through GC whether they would like to review the level of systemic risk currently set at *[Redacted for Confidentiality Reasons]*. The FPSL Risk Committee would have done so had it continued.

DI advised that the NPSO has a Risk Committee, but they are also setting up an ExCo Risk Committee that will meet monthly.

TC asked about the Participant Assurance Policy. There were discussions about having contracts with Aggregators, *[Redacted for Confidentiality Reasons]* DI advised that it was agreed that each Participant should take responsibility for any aggregator they use, TC asked on the back of that whether anything is going forward with Aggregators. JJ advised that there are some aggregators in use by Participants already; the paper allowing FPSL to also implement a contract with Aggregators going forwards has been sent back to the BoE and FPSL is waiting for the BoE to non-object before FPSL can take on any new aggregators. Each Participant will have to complete assurance for their aggregator as part of the on-boarding process before they go live.

DI advised that Assurance Policy had some minor changes proposed at the last Board and it has been presented for information only.

**458. AUDIT REPORT**

TC advised the accounts were approved at the last Board; the minutes are complete and have been published for information. The FPSL Audit Committee is beginning to close down much like the Risk Committee. TC has completed a comprehensive handover report which has been sent to Rob Stansbury and the other two relevant non executives on the NPSO Board.

The audit points that were overdue related to changes to the Cyber Operating Model mentioned in the General Manager's Report.

The audit report on the documentation and governance of critical processes had been given the top possible review rating in terms which provided comfort around continuity for the safe and secure running of the scheme. The report on Supply Management was very good; it was found that some of the smaller contracts may need more oversight where some documents appeared to be missing. UKPA HR Payroll Benefits Internal Audit Report was completed, *[Redacted for Confidentiality Reasons]*. JJ advised that there have been a small number of issues, the service is being closely monitored and will be addressed in TOM 2.0.

TC has suggested to the NPSO that the two co-opted accountants might be retained short term to provide the audit committee with some continuity.

Direct Debit Status

PK advised that the implementation of direct debit has been an ongoing topic at the Board, and the Audit Committee has escalated this again given the board's previous decision for all Participants to pay via Direct Debit.

Each Participant has a Direct Debit with FPSL for the amounts that are invoiced and collected by *[Redacted for Commercially Sensitive Reasons]* as agents of FPSL. There are two Participants that are refusing to set up DD's to pay half-yearly Participant invoices of which one is consistently late making payment. There have been a total of six new Participants join the Scheme of which three have so far

signed up to direct debit mandates. The question is what should be done with the major banks that are refusing to pay on time. JJ advised there is a Participant that is continually being chased and can take 3-6 months to submit these payments. DB advised if no action is taken then FPSL board is allowing a Scheme rule breach. *[Redacted for Confidentiality Reasons]*

MH asked if this has been raised to the Participants' Heads of Payments to which JJ advised it has. DI advised that this should be escalated and punitive rates considered being charged.

**ACTION 458.01 – PK TO DRAFT A LETTER TO THE INSTITUTION THAT REFUSES TO MAKE PAYMENT IN A TIMELY MANNER WHICH WILL BE SENT FROM MH TO THE OFFENDING INSTITUTION, CHECKS ALSO TO BE CARRIED OUT TO CONFIRM WHETHER PUNITIVE INTEREST CAN BE CHARGED.**

DB advised that a bank's non-payment of debt could be a financial instability indicator.

#### **459. GENERAL MANAGER'S REPORT**

JJ **NOTED** the General Manager's Report.

TC asked that in the next report within the Finance Update there should be figures to back up the information shared verbally. PK advised the finances were still in line with the budget presented in December with two small adverse variances on projects more than offset by a favourable BAU variance. The only change is that the participating banks in the Fraud Data Analytics Project (DURHAM), have decided to fund the full project. This is moving from a relatively small project to a large project which will cost over *[Redacted for Confidentiality Reasons]*. This money will be raised by FPSL from the Participants and paid to *[Redacted for Commercially Sensitive Reasons]*. FPSL has a contract with *[Redacted for Commercially Sensitive Reasons]* so therefore FPSL has a legal obligation to pay. There is no reason to believe that the Participants will not pay up.

DI asked that in the next meeting a schedule is attached to ensure that the Board are comfortable with the figures.

*Secretary's note: PK has confirmed that the next Board will receive a report of the budget compared with the latest financial update.*

RW asked about the soft end of 2018 deadline mentioned on SIP

messaging. JJ advised that the Development Forum is discussing it to see if this can be removed as it doesn't apply to every Participant. It will be a 'nice to have' by the end of the year.

TC asked about the UTSP software updates to which JJ advised FPSL is up to date and current.

#### **460. OPERATIONS AND SERVICE DELIVERY REPORT**

*CR joined the meeting.*

JJ advised the Board that the Service Delivery Report continues to be produced as before.

RW asked in regards to 6.6.1- Security Events, it shows that there are 13 thousand security events every month. DI advised that the major points to look out for are Security Incidents.

*CR left the meeting*

RW asked about the introduction of the amended Bank Error Recovery Indemnity. JJ advised that this has been missed from the pack and has not yet been circulated, but will be circulated offline for comments.

#### **ACTION 460.1 - INTRODUCTION OF THE AMENDED BANK ERROR RECOVERY INDEMNITY PAPER TO BE CIRCULATED OFFLINE TO THE BOARD FOR COMMENTS.**

DB asked in regards to 3.3.8 relating to Payments Originating Overseas (POOs) – the graph and the commentary explaining the sudden drop off in payments - whether analysis been completed on the drop to ensure that the Scheme is comfortable as to where those payments have gone. JJ advised that anything coming through is received from *[Redacted for Commercially Sensitive Reasons]* and FPSL are having conversations every month with each of the Participants that are sending POOs, FPSL understands why the POOs volume has dropped. The assurance attestation from Participants is now asking for more information and if an organisation was to hold information back then the Scheme will bring in external reviewers to look into this.

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

#### **461. ACTION LOG**

Please see separate action log for new actions.

**462. ANY OTHER BUSINESS**

DI advised there is a TOPS meeting on Monday 25<sup>th</sup> June. DI has asked JJ and TY whether this meeting should be the final one as it seems now to replicate activity elsewhere in NPSO. Their view was that it was no longer necessary. Assurance will be sought at that meeting to ensure that the Committee's responsibilities have been correctly handed over prior to formally ceasing it. Board **UNANIMOUSLY AGREED** that this Committee should close, subject to TOPS Committee receiving and being satisfied with the assurances.

DRAFT