

# Minutes

## REDACTED FINAL



22 September 2015

Our Reference FB 090/15

To Board

From Board Secretary

### MINUTES OF THE MEETING OF THE FPSL BOARD HELD ON 22 SEPTEMBER 2015

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<b>Present:</b>	Nick Caplan	Independent Chairman *(FPSL) (NC)
	Duncan Ingram	Independent Director *(FPSL) (DI)
	Tanya Castell	Independent Director *(FPSL) (TC)
	Craig Tillotson	Executive Director *(FPSL) (CT)
	John Hutton	Director *(appointed by Barclays Bank) (JH)
	Melanie Martin	Director *(appointed by Citibank) (MM)
	Jim Pettigrew	Director *(appointed by Clydesdale Bank) (JP)
	Dave Sanders	Director *(appointed by Co-operative Bank) (DS)
	Tony Richter	Director *(appointed by HSBC Bank) (TR)
	Mark Curran	Director *(appointed by Lloyds Bank) (MC)
	Helen White	Director *(appointed by Northern Bank) (HW)
	Mike Roberts	Director *(appointed by Nationwide) (MR)
	David Greig	Director *(appointed by Royal Bank of Scotland) (DG)
	Robert White	Director *(appointed by Santander) (RW)
	AG	Observer (Bank of England)
	SL	Alternate Director (appointed by Co-operative Bank) (Observer)
	JJe	Attendee (FPSL) (JJe)
	MB	Attendee (FPSL) (MB)
	FB	Attendee (FPSL) (FB)
	SG	Attendee (FPSL) (SG)
	YC	Attendee (Bank of England) (agenda item 219 only)
	JJa	Attendee (Bank of England) (agenda item 219 only)
	RT	Attendee (Bank of England) (agenda item 219 only)
	GO	Attendee (FPSL) (GO) (agenda item 226 only)
	JC	Secretary, Operations Manager (FPSL)

\* Voting members of the Board of Directors – all 14 in attendance

**218. DECLARATIONS OF DIRECTORS' INTEREST**

**ACTION**

No additional declarations of interest were made.

**219. PRIORITIES AND OBSERVATIONS FOR 2015/16**

YC, JJa and RT from Bank of England Supervision joined the meeting at this point.

YC summarised the Annual Risk Review and stated that there had been good progress on 2014/15 Priorities and Observations.

JJa referred to the five key Priorities as set out in FB 087/15:

[Redacted for financial stability reasons]

RT set out the Observations and other key areas of work as:

[Redacted for financial stability reasons]

Other areas of work undertaken by the Supervision team will include:

- Member Requirements
- Financial Management and planning
- Governance

FB referred to the Governance item and asked if there would be any duplication of the work being undertaken for the PSR. JJa stated that there may be some overlap but the Bank of England will be looking at it from a different angle.

YC, JJa and RT left the meeting.

AG, the Bank of England observer, offered to leave the meeting at this point should the Board wish to discuss the Priorities.

The Board stated they were content for him to remain in the meeting.

The Executive advised that, upon receipt of the finalised Priorities and Observations from the Bank of England Supervision Team, they would circulate them to the Board with a cover note for offline endorsement.

**Action FB 219(i)**

*Secretary's Note: Issued under reference FB 088/15 on 29 September*

[Redacted for financial stability reasons]

The Board identified that, in the past during an incident, Payments Council was the voice of the industry. [Redacted for financial stability reasons]

The Board proposed that a road test should be carried out in Q1 2016 of the Interbank System Operators Coordination Committee (ISOCC)

**Scheme**

communications process. **Action FB 219**

**220. MINUTES OF LAST MEETING HELD ON 12 JUNE 2015**

The minutes (full and redacted) of the previous meeting held on 12 June were **UNANIMOUSLY APPROVED** subject to one minor amendment. The Board also agreed to publish the redacted minutes on the FPSL website.

TC requested that the minutes are circulated quicker in future.

Executive recognised that there had been a delay in the circulation of the June minutes due to peak holiday season and anticipates that they will be issued quicker in the future.

**221. OFFLINE BOARD DECISIONS SINCE JUNE MEETING**

CT stated that, going forward, any offline Board decisions will be noted under this new item and confirmation of such decisions will be advised to the Board after the closing date for responses.

The Board **NOTED** the offline approval of the funding proposal for the [Redacted for financial stability reasons] migration work as set out in FB 064/15 issued on 4 August.

The Board **NOTED** the offline endorsement of FPS Procedures Appendix K v12.1 – [Redacted for financial stability reasons]

**222. GOVERNANCE**

**Industry Director Criteria**

NC advised that the Rules and Governance Committee had approved the Industry Director Criteria in July and it had been adopted and is being used by the Appointments and Assessment Committee.

The Board proposed that item 1.7 of the Criteria requires a minor amendment to replace 'Expectations' with 'Priorities'.

The Board **NOTED** the Industry Director Criteria.

**Board Reporting Committees Terms of Reference**

The Board considered the Terms of Reference and Addendum for all Board reporting Committees and **NOTED** the changes. Board also proposed the following additional changes:

Rules and Governance Committee

Insert in the first bullet of Specific Objectives 'in respect of the rules and

governance of the Scheme' to read 'Maintain awareness of and to discuss any changes, developments or shifts in opinion or dynamic in the industry in respect of the rules and governance of the Scheme, and to consider any legal, political and/or regulatory ramifications for the Scheme.'

### Risk Committee

Remove the first bullet in the Objectives which states 'To review, agree and recommend to the Board the Financial Statements for the Company'.  
and

amend 16<sup>th</sup> bullet in the Objectives from 'To assign actions to the Cyber Security Project Steering Group concerning threat intelligence' to 'To assign actions to the Security Committee concerning threat intelligence'.

NC stated that a general review of governance will be undertaken by Rules and Governance Committee.

### **PSR Fees**

It was confirmed that the PSR will collect its fees in a manner such that the fees will not attract VAT. Invoices will be issued to participants during week commencing 2 November, payable within 30 days of issue. Collection of the fees will either be via direct billing to participants or via Scheme operators acting as collection agents.

HW stated that a refund of fees already paid is still awaited. CT agreed that enquiries would be made.

*Secretary's Note: A query was raised with the Finance Team on 22 September and Northern Bank have been contacted by the Finance Team.*

### **HMRC Treatment of Regulatory Reserves**

HMRC have confirmed that the CPMI-IOSCO Regulatory Reserves are viewed as capital contributions and therefore do not attract VAT. A VAT refund is being processed.

### **Fees Disclosure**

Following discussions and approval at the Rules and Governance Committee, the Board was advised that the cost to run the service will be

disclosed on a per transaction basis on the FPSL web site. This disclosure will include supplier costs and scheme costs as an aggregate figure, and PSR fees. This is in line with the PSR's focus on openness and transparency and the CPMI-IOSCO Principles for Market Infrastructures (PFMIs).

### **Redaction Policy V1.0**

The Board **FORMALLY ADOPTED** the Redaction Policy.

### **Board Appointments**

FB advised that the Appointments and Assessment Committee reviewed the CVs for those Directors / Alternates appointed on 12 June and all appointments have now been ratified by the Appointments and Assessment Committee under the new Governance process.

### **223. SCHEME BUDGET**

CT summarised the proposed 2016 budget paper (FB 069/15) and highlighted the changes from the outline budget for 2016 presented to the June Board. CT advised that the Audit and Finance Committee reviewed the proposed budget and recommended the inclusion of an additional £250,000 project contingency fund to provide a buffer against any unforeseen requirements during 2016.

HW stated that the Company is investing a lot to grow the business but is sufficient being invested to protect it. CT said that significant work and investment is being undertaken on the Automated Scheme Protection Measures (ASPM) and the Cyber Resilience project.

[Redacted for financial stability reasons]

The Board also raised the question of how the Access Model is to be funded going forward. CT agreed work with the Access Programme Steering Committee to establish a charging model within the next six months and present a clear strategy to the December Board. **Action FB 223**

CT

The Board **UNANIMOUSLY APPROVED** the FPSL budget for 2016.

### **224. SCHEME STRATEGY**

CT referred to the draft refreshed Company Strategy (FB 070/16) and asked for the Board to provide feedback to enable a final set of business initiatives to be presented to the November teleconference meeting.

A number of comments from Directors were received.

CT will circulate the final Strategy document and agenda prior to 10 November. **Action FB 224 (ii)**

CT

**225. RETAIL PAYMENTS SYSTEM OPERATORS SERVICE USERS ADVISORY FORUM**

NC advised that extensive conversations have been held with Payment Services Regulator (PSR) and other Payment System Operators (PSO's) and reached a view that there is a need for a mechanism to access service users.

NC stated that his intentions are to reframe the forum to:

- Be FPS specific
- Use INEDs as key interaction with service users
- Include representation from small businesses, consumer associations, Payment Service Providers, technology innovators and general public.

NC stated he will write a short paper for Board input. **Action FB 225**

NC

**226. ACCESS PROGRAMME**

GO joined the meeting at this point.

GO provided a high level summary of the Access Programme Report (FB 071/15) and advised that, potentially, there will be a take on of between three and six Payment Service Providers during 2016 based on what is known at this time. Additionally the Bank of England are reviewing their policy re eligibility criteria for Settlement Accounts.

DG stated there had not been any consultation with the Settlement Risk Committee and their expertise had not yet been used to develop revised Settlement models and suggested that the Company utilises the expertise available for further development of the proposal. Additionally DG stated that Member Treasury Departments should be consulted regarding the potential impact on Net Sender Caps of future models.

NC suggested that a high level programme timeline would be useful.

**Action FB 226(i)**

GO

GO highlighted that whilst the following are 'amber' status:

- Allocation of Sortcodes
- Net Sender Cap for Settlement sponsors
- Trust Service Public Key Infrastructure

they are classified as 'green' status for Phase 1 as the amber issues are not expected to impact the first Participants joining.

The Board requested that the status update reflected Phase 1 Payment Service Providers (PSPs) and Phase 2 PSPs updates. **Action FB 226(ii)**

GO

The Board **UNANIMOUSLY AGREED** the revised Access Programme Budget and requested that CT produce a full programme cost forecast how costs are to be accounted for / treated going forward and consider possible capitalisation and amortisation over a longer period. **Action FB 226(iii)**

CT

The Board **NOTED** a number of Letters of Intent and Letters of Commitment have been received.

GO left the meeting.

## 227. **DEVELOPMENT PROGRAMME**

MB reported on the following:

### **Scheme Transaction Limit**

As detailed in FB 072/15 at the June Board meeting, the Chief Executive was asked to review the implementation plan. This has now been completed and closes action 211(ii). A few amendments have been made (particularly around a regression plan and documented activities the Scheme would need to undertake if there was a need to revert back to £100,000.) [Redacted for commercially sensitive reasons]

One area that has proved slightly more challenging to achieve has been the requirement for proving payments at go live, where it was proposed that each participant receives a payment of £250,000.

[Redacted for financial stability reasons]

Within the last week a few Members indicated they were able to send, and the Scheme are now gathering more details to enable the Scheme to structure a set of live proving payments on the go live date.



The Chief Executive confirmed that the ability of each participant to receive a £250,000 proving payment was a requirement for launch. The live proving is likely to take place early during a mid-week, mid-month morning which will avoid peak processing days, and should minimise the risk of real customers being able to avail themselves of the higher limit.

In addition, Members have provided confirmation of their:

- ability to receive higher values
- their plans, if any, to offer higher limits to any customers
- ability to send higher value return payments (for those that don't intend offering a higher limit)

The Scheme has also discussed the increase with the Financial Fraud Action (FFA). They had no particular concerns.

The note also summarises the dependencies and deliverables, the key pre-requisite being prefunding, which goes live at midnight.

There has also been a slight amendment in that the Development Committee recommends that the limit be increased to £250,000 on Tuesday 10th November, not Monday 9 November.

The Board made the following comments / raised questions:

- What are the success criteria?
- What occurrence would result in regression?

[Redacted for financial stability / commercially sensitive reasons]

MB advised that one failed payment would result in regression and confirmed that a full review of capabilities and full Member testing would be carried out prior to a move to increasing the limit. [Redacted for commercially sensitive reasons]

The Board **NOTED** that a Press Release will be issued after the increase has been implemented. This has been drafted and is with Corporate





Communications for review.

The Board proposed that the Press Release is issued one week after implementation.

The Board **UNANIMOUSLY APPROVED** the proposal to increase the transaction limit to £250,000 on 10 November.

### **Automated Scheme Protection Measures**

The development of the core functionality is now underway. [Redacted for financial stability reasons]

### **Development Committee Report**

The Board **NOTED** the report.

DG highlighted that the take on of new Members is not sustainable if Members Transactions Per Second (TPS) are not reduced. Also a review across different payment types should be undertaken. DG asked that the Company look at peak requirements not the full 24 hour window to determine whether existing capacity levels are sufficient.

MB advised that the Annual Volume Forecast will provide an indication of Member requirements. Ahead of the PSR Market Review of Infrastructure, planning medium-term needs and solutions would be challenging.

[Redacted for commercially sensitive reasons]

CT stated that there is more than enough TPS availability outside of the Standing Order window.

## **228. OPERATIONAL PERFORMANCE AND RESILIENCE**

### **Scheme Operations Report**

JJe referred to the FB 074/15 and stated that the format of the report had been changed based on feedback at the June Board.

DG stated that the new style was much better and the report much clearer. He then referred to section 3.1 and the number of service incidents that occurred during the three month reporting period which raises questions around change management.

[Redacted for financial stability reasons]



The Board **NOTED** the report.

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

JJe summarised FB 075/15 which sets out the background and progress made since the review programme commenced in November 2014.

JJe highlighted that the CPR Steering Group proposal that the review programme is closed and moved into Business as Usual (BAU). Additionally the dormant Queries Working Group be transformed into the CPR Participant Group with a new Terms of Reference and will meet by the end of October. This Group will comprise of the FPS Scheme Members plus those participants of CPR who are not Scheme Members. The reporting of CPR data will be included within Scheme Operations Report.

HW asked whether the Scheme is engaged with the reformed Payments UK Misdirected Payments Working Group. JJe advised that this is focused on prevention of misdirected payments rather than recovery which is the focus of Credit Payment Recovery (CPR). The Scheme has been invited to attend and will work with Payments UK as appropriate.

The Board considered whether the closure of the programme was premature. JJe stated that this piece of work will continue to report into the Operations Committee and the Board.

The Board **ENDORSED** the proposal to close the CPR Review programme.

### **Cyber Resilience Steering Committee**

JJe summarised FB 076/15 [Redacted for financial stability reasons]

JJe advised that the proposal is for the Cyber Resilience Steering Committee to be closed down following the meeting scheduled for 23 September [Redacted for financial stability reasons] migration project move to the Development Committee for monitoring. Additionally any outstanding actions be moved to Risk Committee for monitoring. The Board will continue to receive updates as part of the Development Committee and a specific Cyber Resilience report from the Risk Committee. This will be added to Risk Committee agenda as standing agenda item, and the Terms of Reference should include a requirement

for the Committee to provide a Cyber Resiliency report to each Board meeting.

JJe stated that the Security Committee is now chaired by the FPSL Head of Security who is an expert in the cyber field and also sits on the Risk Committee.

The full Board **APPROVED** the recommendation to close down the Cyber Resilience Steering Committee and asked that:

JJe

- The paper presented is morphed to set out what has been achieved and what is still outstanding. **Action FB 228 (ii)**
- The final bullet is reworded to say that the Security Committee will recommend strategy
- That the skillset required on the Security and Risk Committees are kept under review.

### **Operational Committee Report**

The Board **NOTED** the report.

Following the discussions agreeing the closure of the Credit Payment Recovery programme and Cyber Resilience Steering Committee, it was agreed that the company needed to more comprehensively apply its project methodology. Specifically, more formal Project Initiation Documents, and Project Closure Reports would be beneficial. The company also needed to be more precise in the designation of 'steering committees' as 'project steering committees' so that closure of project steering committees was a natural part of project closure, verses changes to any standing board or executive committees which would require substantial debate as such a change would impact the company's governance model.

### **229. RISK MANAGEMENT**

DI summarised the Risk Committee Report (FB 078/15) and highlighted the following:

#### **Risk Contagion Analysis**

This piece of work resulted in one change to the Risk Register, in particular Key Risk FP21.

It was agreed that a presentation on the contagion analysis work would be arranged for those Board Members that are interested in attending.

NC and TC stated that they would like to attend. **Action FB 229 (i)**

**Risk**

### **Cyber Security**

[Redacted for financial stability reasons]

#### **Deep Dive into Key Risk FP31**

Following the Deep Dive, four recommendations were made as detailed in the Risk Committee Report.

CT and the CEO of Bacs will arrange a meeting with the Head of Market Services Division at the Bank of England [Redacted for financial stability reasons]

The Board considered the FPSL Risk Review Framework Policy.

The Board **UNANIMOUSLY APPROVED** the FPSL Risk Framework Policy subject to the following amendments:

- Clarify the final bullet in 8.1 which currently states 'Obtaining an independent view from the Audit and Finance Committee.'
- Ensure a Tax Category is incorporated into the diagram within 12.1.

The Board **UNANIMOUSLY APPROVED** the FPSL Risk Management Policy and Process.

TC stated that this policy was too detailed for Board level, and felt it didn't need to come to Board for approval. Her comments were noted for the future. The Company agreed to circulate the track-change versions of the Policies with the Board minutes.

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

## **230. AUDIT AND FINANCE**

TC referred to the Audit and Finance Committee Report (FB 082/15) and highlighted the following:

### **External Auditor Selection**

A shortlist of three companies is being considered.

### **Assurance Activities**

A new Member Assurance questionnaire has been compiled.

Internal Audit has issued their report on VocaLink assurance activities.

#### **Financial Quarter Summary**

The financial forecast had been discussed and noted that the Access Programme represents the largest figure of unbudgeted spend.

#### **2016 Budget and Refund of VAT on Company Reserves**

The 2016 budget was reviewed and proposals incorporated into the final budget.

HMRC have accepted that Regulatory Reserves are treated as capital and outside the scope of VAT. The refund of previously charged VAT to Members on the Reserves can take place.

The Board **UNANIMOUSLY ENDORSED** the revised Internal Audit Charter and **AGREED** that Nick Caplan, in his capacity as Independent Chairman, signs the Charter on behalf of the Company.

The Board **NOTED** the 2015 forecast and the Audit and Finance Committee Report.

#### **231. PSR COMPLIANCE**

FB summarised the Payment Systems Regulator Governance Update (FB 084/15) and highlighted the following:

##### **General Direction 2 – Access Requirements**

Compliant from June 2015.

##### **General Direction 4 – Governance (Service Users)**

On track to be compliant by 30 September and to submit the requisite compliance report by 30 October 2015

##### **General Direction 1 – Relationship with PSR, General Direction 5 – Conflicts and General Direction 6 – Publication of Board Minutes**

Fully compliant.

FB advised that FPSL is in dialogue with the PSR regarding the Market Review into Infrastructure Provision and satisfying the extensive information request is underway.

#### **232. CHIEF EXECUTIVE REPORT**

Board **NOTED** the Chief Executive Report (FB 085/15).

**233. ACTION LOG**

The Board **UNANIMOUSLY AGREED** that, on this occasion, an update on the Action Log should be provided offline.

**234. ANY OTHER BUSINESS**

**28 August 2015**

TR expressed thanks for the support and assistance his organisation had received on 28 August and apologised for any inconvenience caused.

**Succession Planning**

TR stated that a succession planning exercise had not been carried out recently and proposed this item be added to the December agenda.

**Action FB 234.**

**Settlement Pre-funding**

JJe stated that Settlement Pre-funding was on track for 'go live' at midnight and a confirmation email has been issued.

**Secretary**

Date of next meeting

Teleconference call on 10 November at 14:30

And

8 December 2015, 10:30 at Thomas More Square