

# Minutes

## Redacted FINAL



19 August 2016

Our Reference FB 055/16

To Board

From Board Secretary

### MINUTES OF THE MEETING OF THE FPSL DIRECTORS HELD ON 10 JUNE 2016

---

<b>Present:</b>	Nick Caplan	Independent Chairman * (FPSL) (NC)
	Duncan Ingram	Independent Director * (FPSL) (DI)
	Tanya Castell	Independent Director * (FPSL) (TC)
	Craig Tillotson	Chief Executive * (FPSL) (CT)
	Roger Ardley	Special Alternate Director * (nominated by Paul Scott, Barclays) (RA)
	Melanie Martin	Director * (nominated by Citi) (MM)
	Jim Pettigrew	Director * (nominated by Clydesdale Bank) (JP)
	Sue Yarham	Alternate Director * (nominated by Anthony Richter, HSBC) (SY)
	Mark Curran	Director * (nominated by Lloyds Bank) (MC)
	Anthony Parker-Stewart	Alternate Director * (nominated by Nationwide) (APS)
	Helen White	Director * (nominated by Northern Bank) (HW)
	Martin Wilson	Director * (nominated by Royal Bank of Scotland) (MW)
	Robert White	Director * (nominated by Santander) (RW)
	Andrew Grice	Observer (Bank of England) (AG)
	JJ	Attendee (FPSL)
	FB	Attendee (FPSL)
	SG	Attendee (FPSL)
	GO	Attendee (FPSL)
	CR	Attendee (FPSL) (Agenda item 287 only)
	JC	Secretary (FPSL)
<b>Attendee Variation</b>	Christian Kramer	Alternate Director * (attended for M Curran for items 278, 279, 280, 281, 283, 284, 285 and 286)
	Jonathan Bye	Alternate Director * (attended for M Wilson for items 278, 279, 280, 281, 283, 284, 285 and 286)
	Karl Smith	Alternate Director * (attended for R White for items 278, 279, 280, 281, 283, 284, 285 and 286)



<b>Apologies:</b>	Paul Scott	Director (nominated By Barclays Bank)
	Dave Sanders	Director (nominated by Co-operative Bank)
	Shirley Long	Alternate Director (nominated by Dave Sanders)
	Anthony Richter	Director (nominated by HSBC Bank)

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

**278. DECLARATION OF INTERESTS**

**ACTION**

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

DI declared he is now a Governor of Kings College School Wimbledon.

MW declared he has been appointed as a Non-Executive Director to E-Serve, the delivery arm and a subsidiary of OfGem.

No other interests were declared.

The Register of Interests will be updated.

**279. REPRESENTATION OF SERVICE USERS**

FB reminded the Board that the Company is required under PSR General Direction 4 to ensure the interests of service users are appropriately represented in the decision making processes at Board level. All decisions throughout the meeting are to be considered in light of their impact on service users. As a result, documents now include responses to the following questions:

- Which service users might be impacted by this decision?
- How have we consulted with service users and how have their interests been considered in our decisions?
- How should we communicate any impact of this decision to service users?

**280. MINUTES OF LAST MEETING HELD ON 22 MARCH 2016**

The Board **UNANIMOUSLY APPROVED** the full minutes of the meeting held on 22 March 2016.

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

*Secretary's Note: Redacted minutes were uploaded onto the website on*

13 June.

**281. OFFLINE BOARD DECISIONS SINCE THE MARCH MEETING**

There have been no offline decisions since the March meeting.

**282. GOVERNANCE AND REGULATORY**

FB referred to document FB 034/16 and highlighted the following:

**Corporate Governance Project**

NC provided background for the Corporate Governance project and summarised the work undertaken at the Board Directors and Alternates Workshop held on 18 May. NC stated that the Target Operating Model could accommodate the potential consolidation of Schemes proposed by the Payments Strategy Forum Simplifying Access to Markets (SAM) Working Group, focusing on Bacs and Cheque and Credit Clearing Company. To move this forward, NC proposed that he discuss this with the Independent Chairs of the two other Schemes.

NC opened the matter up for discussion.

The quality of work and analysis work done over the last six months was endorsed and the following points and comments were discussed:

- remuneration for Directors when employed by a Participant (JP).
- composition of the Board, the existence of Alternate Directors and voting rights (HW).
- whether a change of governance at the current time is appropriate in light of Scheme consolidation matters being considered in the industry. It was recommended that FPSL 'pause', look to the wider community and wait for the landscape to develop to ensure collaboration with other Schemes and eco-systems (MC).

FB and NC responded as follows:

- Remuneration of Directors would be dealt with during implementation.
- Composition of the Board should be as concluded at the May Workshop, and consideration would be given to how the value of Alternate Directors might be retained in an environment of individual Board appointments. The voting structure will remain largely as today, namely one director one vote, with no clearing volume limit as a result of the board's functions and decisions being separate from its customers / participants.

- an appropriate operating model, which can accommodate the future, needed to be defined to be used as a framework to facilitate merger discussions with the other Scheme Chairs.

MM stated that the next stage is to develop the next layer of detail in the model.

Further comments were as follows:

- the appropriateness of continuing to develop a Company model rather than “pausing” and allowing the landscape to move forward and change, and waiting for the wider review where this governance model can be our contribution to the wider debate. A concern was raised that if we press on with developing our new model, we may progress in the wrong direction, although the work done to date could act as our input into the debate. (MW)
- concern as to whether the proposed Company model was still a good fit for a completely different landscape. Whilst this was a good piece of work the question was raised again as to why this matter was being rushed and could we not continue with the current governance arrangements for the time being. There was some concern that FPSL would end up having to change its governance twice within 18 months. The question of whether a Board of 16/17 people was such a bad thing was raised. It was commented that external validation of the proposed model would be required (RW and MC).
- a recommendation that we should wait for the outcome of the Payment Strategy Forum consultation due in July (SY).

NC responded that our thinking is further ahead than other Schemes and that our implementation can be adapted to accommodate the new landscape. The next step is to get a more detailed framework from which to start and to be able to discuss this with other Scheme Chairs, rather than immediate implementation; for this, a reasonably well defined TOM / Framework is required to enable Scheme consolidation discussions to progress. It was noted that the Carl Pheasey report done for the PSF SAM Working Group stated that current governance work being undertaken by the payment systems should continue. FB stated that we have been collaborative throughout the Corporate Governance

project (consulting a very wide range of stakeholders) and that such collaborative approach would continue, and at some point one party would need to lead. FB confirmed that governance experts at Deloitte LLP were involved in the design of the proposed company model and that external validation had been received throughout the process. It was emphasised that the proposed Company model is flexible.

MM stated that understanding the next layer of detail of the proposed Company model would enable us to agree the basis of our input into the wider debate, and that this was what was required. MM also reminded the Board that developing the next level of detail did not imply immediate implementation. This would be a separate decision for a future Board meeting. HW asked what could be agreed on as the step ahead of September Board.

DI reinforced this view and stated that if the decision in respect of Scheme consolidation was no change for a number of years, FPSL would need a new governance model, and consequently the next level of detail was necessary.

JP and APS commented that we should engage with other Schemes ahead of September Board.

MW stated he had queries in respect of paper FB 033/16 and it was agreed that possible Scheme consolidation discussions may clarify these questions as there was no desire to re-run the debate concluded at the May workshop.

### **Mergers and Acquisitions**

It was noted that discussions around Scheme consolidation took place during the FPSL Strategy Day, and that this topic will also be discussed at the next Bacs and Cheque and Credit Clearing Board meetings. FPSL Board discussed the feasibility of developing an implementation plan for Scheme consolidation. It was noted that this would be done in a collaborative way and that the functioning of the Schemes would not be put at risk. The scope of this work is initially FPSL, Bacs and C&CCC.

RW stated that this would be an extensive project, that consideration would need to be given to the different cultures across the Schemes,



and that FPSL has a good culture.

Following this extensive discussion the Chairman proposed that a way forward that accommodated the differing views across the Board was that the work completed to date in respect of FPSL's corporate governance should be used as a framework to hold discussions with other Schemes around consolidation, but that further FPSL corporate governance work should be paused for the time being to allow these discussions to take place.

RW stated he was supportive of this approach. T/he majority of the Board **agreed** to proceed in this way, noting that NC, DI, CT, HW and MM were of the view that, at the very least, the next layer of detail on the TOM should be completed.

The Board requested an update at the September meeting.

#### **Rules and Governance Committee**

No significant amendments were made to the Rules, mainly minor changes and a change to the collection of the Company Calls.

*Secretary's Note: Version 9.3 of the FPSL Rules were circulated to Board on 28 June and approved offline.*

The Citi legal opinion is currently waiting for their Board approval.

The Board **NOTED** the Rules and Governance Committee Report.

#### **PSR Update**

##### **PSR Regulatory Fees 2016/2017 Consultation Document**

The PSR published its final response to their consultation document in April on their proposed approach for allocating, calculating and collecting PSR's fees. FPSL submitted a formal response confirming its agreement with the PSR's approach. The final response document also sets out further proposals for consultation. FPSL responded on 3 May 2016 confirming its agreement with the PSR's further proposals and a copy of the response was shared with the Board.

The PSR have yet to publish a final response to the further proposals.

### **PSR Regulatory Fees 2016/2017**

All collected on-account payment monies from Direct Participants were transferred to the PSR on 30 April 2016. The remaining PSR fees for 2016/17 will be collected on behalf of the PSR during Q3 2016.

### **Proposed Changes to Reporting Requirements for General Directions 2, 3 and 4 Consultation Document**

Following the responses received on 26 May 2016, the PSR adopted all proposed changes to the reporting requirements for General Directions 2, 3 and 4. FPSL confirmed it agreed with the PSR's proposals of introducing a single compliance report under general direction 2, 3 and 4 and the deadline for the combined compliance report to be 31 October 2016. PSR will provide FPSL with a template report.

FPSL's response was shared with the Board on 3 May 2016 and dialogue with the PSR regarding their proposed draft single compliance report is ongoing.

### **Director Changes**

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

The resignation of N Middleton, Director (nominated by Nationwide)

The resignation of K Patterson, Alternate Director (nominated by P Scott, Barclays)

## **283. ACCESS PROGRAMME**

GO referred to document FB 035/16 and highlighted that, as at the time of the meeting, six vendors had passed phase one of the technical accreditation process. Additionally the following workstreams are nearing completion; the new Participant assurance model and the Aggregator accreditation. However, within the Aggregator workstream, the provision of PKI Trust Services is currently rated as red as we are still working towards a contract with the proposed supplier.

Anti-Money Laundering/Sanctions is to be progressed in a separate project to include both new Participants and current Participants.

FPSL have engaged extensively with the Bank of England on the Flawed Asset Default Arrangement to support maintenance of the current settlement and liquidity risk management model should the Bank of England widen settlement account access to some Electronic Money Issuers (EMIs) and Payment Institutions.

GO stated that, following the go live of the first two new Participants, the



Company aims to achieve an orderly closedown of the Programme in September (subject to satisfactory progress) and any outstanding items will be delegated to the Executive Team.

NC stated that this is one of the first projects that used the new project methodology and the Company, as part of the Post Implementation Review process, will need to consider if any improvements can be made to the methodology.

GO confirmed that the programme remains within budget.

#### **284. SUPPLIER MANAGEMENT**

CT reminded the Board that all decision making on these supplier matters has been fully delegated to the Board sub Committee that excludes any Director employed by a current VocaLink shareholder.

CT updated the Board on the following:

##### **Payment Systems Regulator (PSR) Market Review**

A number of meetings have been held with the PSR since FPSL issued a response in April and FPSL is in the final stages of the feedback sessions. FPSL responded to the PSR on the key findings. A final report with the findings is expected in July followed by a consultation on the remedies.

##### **Contract Changes**

Prior to the Market Review, FPSL had been in discussion with the Infrastructure supplier to consider trading the break clauses in the contract with other items of greater value to Service Users and FPSL. The Infrastructure Sub Committee received a proposal from the Executive Team recommending that it was not in the Service User interest to invoke either of the two break clauses. Once a decision is made by the Sub Committee and agreed with the supplier, the Executive Team will issue a note to the Board ahead of the September Board meeting which will coincide with the notification to the PSR.

*Secretary's Note: This was issued on 30 June 2016.*

##### **Change of Ownership**

There is a clause within the current contract that provides an option to terminate in the event of change of ownership. A teleconference meeting of the Sub Committee to discuss this matter is scheduled for 15



June.

In the light of the proposed change of ownership of a key supplier, a question was raised whether the Scheme's ability to manage supplier relationships with scale organisations needs review.

**285. RISK COMMITTEE**

DI summarised document FB 036/16 and highlighted the following:

**Risk Appetite Statement**

The Statement (FB 037/16) has been reviewed and tidied up. The number of risk appetite levels reduced from 5 to 4 as it was difficult to differentiate between level 1 and 2.

SG walked through the changes to the risks.

*[Redacted – Financial Stability reasons]*

The Board **UNANIMOUSLY APPROVED** the Risk Appetite Statement subject to any necessary amendments following consideration being given to the pace of change arising from areas such as Regulators/ Regulatory change, Payment Services Forum, Aggregators, or similar and whether FPSL has the correct resource levels to accommodate such change whilst maintaining BAU operations.

This will be brought to December Board for ratification.

**Risk Register**

The Register was reviewed by the Risk Committee.

NC advised that, in respect of Priority 15-03, he would like a walkthrough and, potentially, a test of the processes including the role of the Board. **Action 285**

JJ

The Board also discussed the Infrastructure provider assurance

*[Redacted – Confidentiality reasons]*

There are no current derogations.

CT advised that some settlement position modelling work had been undertaken in advance of the EU Referendum and each Participant has been written to individually.

AG stated there could be a greater demand for trading activities and, in the event of any issues with the Bank of England Settlement system, there is the option of using MIRS (Market Infrastructure Resiliency Service) managed by SWIFT. NC said there could be a significant increase in volume and Net Sender Caps should have sufficient headroom.



### **Risk Management Framework Policy**

The Policy has been reviewed and updated with the removal of the Settlement Risk Committee as it has been merged back into the Risk Committee and replaced "Members" with "Participants".

The Board **UNANIMOUSLY APPROVED** the Risk Management Framework Policy.

Risk awareness training is held regularly with Company staff with the last training sessions being conducted during Q4 2015 and Q1 2016.

The Board observed that the presentation on the Risk Contagion analysis work is still to be undertaken.

### **Risk Management Assessment Policy and Process**

The Board **DELEGATED** the approval of the Risk Management Assessment Policy and Process, going forward and with immediate effect, to the Risk Committee

### **Risk and Assurance Dashboard**

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

The Board **NOTED** the Risk Committee report.

The Board **AGREED** that, for future Board meetings, a report will continue to be issued for the Risk Committee. However for the Audit and Finance Committee and the Rules and Governance Committee the meeting minutes will be issued instead.

## **286. AUDIT AND FINANCE COMMITTEE**

TC referred to document FB 039/16 and highlighted the following:

### **BDO External Audit Report**

It was very helpful to have fresh pairs of eyes undertaking this piece of work.

### **2015 Financial Statements**

The Committee reviewed the 2015 Annual Accounts and, following minor changes and clarification of contractual arrangements with the third party supplier who processes the Company payroll, recommended the Accounts to Board for approval and the Chief Executive sign the Financial Statements and Letter of Representation on behalf of the



Board.

The Board **APPROVED** the Draft 2015 Directors Report and Financial Statements and **APPOINTED** Craig Tillotson to sign the Financial Statements and Letter of Representation on behalf of the Board.

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

### **Collection of Company Calls via Direct Debit**

The Board discussed the collection of Company calls via Direct Debit and the associated granting of an open-ended indemnity for payment of Company Calls. It was agreed to include the risk of a Participant invoking the Direct Debit Guarantee to recover their FPS fees to the Risk Register. **Action 286**

**SG**

The move to Direct Debit will reduce cash flow risk for the Company and new Participants will sign up to paying by Direct Debit as part of the on-boarding process. Should a Direct Debit Guarantee be invoked, existing processes would be followed to recover fees due.

The Board **UNANIMOUSLY AGREED** the commencement of setting up the process.

The Board **NOTED** that the Company Call due in July 2016 will be payable by the current method.

### **Internal Audit Charter**

The Internal Audit Charter was reviewed and, subject to a number of minor clarifications, recommended the Internal Audit Charter to the Board for approval.

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

*Secretary's Note: The revised Internal Audit Charter was duly signed immediately following the meeting.*

The Board also **APPROVED** the Public (Summary) disclosure of FPSL's Self-Assessment against the CPMI-IOSCO Principles for FMs as recommended by the Audit and Finance Committee.

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

The Board **NOTED** the Audit and Finance Committee Report and the Annual Audit and Finance Committee activities report.

## **287. OPERATIONAL PERFORMANCE AND RESILIENCE**

JJ summarised document FB 043/16 highlighting the following:

### **Operational Performance**

This reporting period saw new monthly peaks in both volume and value.

The service from the infrastructure provider has been excellent and an improvement to the settlement SLA has been agreed.

Overall, this has been a very good period of the end to end service.

### **Credit Payment Recovery**

JJ noted that now we have complete M.I. it is being reviewed so that improvements can be brought to the Participants Group and benchmark targets developed.

### **Bank of England Priorities and Observations**

AG left the meeting

JJ noted the progress made on Priorities and Observations as detailed in FB 043/16.

### **Thematic Review**

*[Redacted – Financial Stability Reasons]*

### **UKPA Contract**

AG returned to the meeting

A further draft contract will be received by the end of June. It is anticipated that this process will be concluded around the September Board meeting. Monthly Service Review meetings are being held. Service Level Agreements are now in place for all services with the exception of Internal Audit.

### **Office Accommodation**

The current lease was signed in 2009 by UKPA at a time when all staff were employed by UKPA and contracts existed between the Payments Council and the Schemes. *[Redacted – Commercially Sensitive]*

### **Directors and Officers Insurance**

The Directors and Officers Insurance was renewed on 31 December 2015.



CR joined the meeting

### **SHA256**

SHA256 was successfully deployed on 14 May.

### **Secure Socket Layer Upgrade**

The upgrade has been deferred by three weeks and will now be deployed at the beginning of July to enable Direct Corporate Access clients to meet the deadline.

*Secretary's Note: This was completed on 2 July.*

With the roll-out of the Aggregator solution, the Company will incorporate learnings from this experience into future plans.

### **Cyber Operating Model**

CR advised that work with VocaLink continues. *[Redacted – Commercially Sensitive]*

CR referred to Appendix 3 and confirmed next steps.

NC requested Appendix C be sent to him.

*Secretary's Note: This was sent on 14 June.*

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

CR left the meeting

JJ advised that a full review of the Procedures was undertaken with amendments including LiveLink to SharePoint, removal of voicemail messages, change to the maintenance process and general updates.

The Board **ENDORSED** the FPS Procedures v13 with an effective date of 13 June 2016.

## **288. DEVELOPMENT PROGRAMME**

### **Development Forum Report**

CT stated that the Development Forum report is a comprehensive summary of work being undertaken. No questions were raised.

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

### **Faster Payment Request Project**

CT referred to document FB 048/16 and sought approval for the additional funding to move forward with the next phase of the Faster Payment Request project.

The following points were raised:

- There is a need to move forward with the project (NC).
- There is a need to look at the biller aspect as well as the payer aspect. A consumer experiencing financial stress has a different aspect (RA).
- £130,000 has been spent to date to reach this point. The Executive proposes to spend a further £130,000 to get this to a go/no go point in H2 2016 (CT).
- The Executive need to ensure this is well spent (MC).
- There is a need to consider whether this is value for money (TC).
- Would not want to spend additional money over and above this request until a number of questions have been answered, (MC) including the business case at UK plc, Payment Service Provider (PSP) and biller level has been developed (NC).
- Be careful not to encroach into the competitive space rather than the collaborative space (NC).

The Board **UNANIMOUSLY APPROVED** additional funding of £130,000 to reach a go / no go decision.

### **Change to Settlement Times**

HW said she expected a discussion on the change of Settlement times. JJ advised that the changes were agreed at the Service and Operations Committee.

### **Summary**

For the benefit of those Directors who joined the meeting late, CT summarised the discussions during agenda item 284. MW asked if the Company was properly equipped to face up to a commercial supplier in the future. CT agreed this was an important question and will need to be dealt with as we develop our infrastructure supply strategy and retendering capability.



**289. CHIEF EXECUTIVE REPORT**

CT summarised document FB 046/16.

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

CT thanked everyone who participated in the Strategy Event held on 9 June and stated that key items from the event had been covered elsewhere within the Board meeting.

**290. ACTION LOG**

The Board **NOTED** the action log.

CT confirmed that action 178(iii) will remain open.

All other actions were closed.

**291. ANY OTHER BUSINESS**

None