

# Minutes

## REDACTED FINAL



4 October 2016

Our Reference FB 094/16

To Board

From Board Secretary

### MINUTES OF THE MEETING OF THE FPSL DIRECTORS HELD ON 20 SEPTEMBER 2016

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**Present:**

Nick Caplan	Independent Chairman* (FPSL) (NC)
Tanya Castell	Independent Director* (FPSL) (TC)
Craig Tillotson	Chief Executive* (FPSL) (CT)
Paul Scott	Director* (nominated by Barclays) (PS)
Melanie Martin	Director* (nominated by Citi) (MM)
Jim Pettigrew	Director* (nominated by Clydesdale) (JP)
Tony Richter	Director* (nominated by HSBC) (TR)
Mark Curran	Director* (nominated by Lloyds) (MC)
John Hutton	Director* (nominated by Nationwide) (JH)
Helen White	Director* (nominated by Northern) (HW)
Mike Smith	Director* (nominated by Raphaels) (MS)
Martin Wilson	Director* (nominated by Royal Bank of Scotland) (MW)
Robert White	Director* (nominated by Santander) (RW)
Andrew Grice	Observer (Bank of England) (AG)
Becky Clements	Observer (Metro) (BC)
JJe	Attendee (FPSL) (JJe)
FB	Attendee (FPSL) (FB)
SG	Attendee (FPSL) (SG)
GO	Attendee (FPSL) (GO)
CR	Attendee (FPSL) (CR) (Agenda item 305 only)
YC	Bank of England Supervision (YC) (Agenda item 296 only)
JJa	Bank of England Supervision (JJa) (Agenda item 296 only)
RT	Bank of England Supervision (RT) (Agenda item 296 only)
PC	Bank of England Supervision (PC) (Agenda item 296 only)
JC	Secretary (FPSL)

**Apologies:** Duncan Ingram FPSL Independent Director  
NC advised that Duncan Ingram had provided him with his proxy vote in the event that a vote was required.



**\* Voting members of the Board of Directors - 13 out of 14 in attendance plus one proxy vote**

**292. DECLARATION OF DIRECTOR INTERESTS** **ACTION**

JH stated that there is an error on his Register entry and confirmed that he has not worked for HSBC.

NC requested that the entry for Mike Smith is checked.

*Secretary's Note: The entry for John Hutton has been amended and the entry for Mike Smith has been updated.*

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

**293. REPRESENTATION OF SERVICE USERS**

NC 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 up to Board level. All decisions throughout the meeting are to be considered in light of their impact on service users.

**294. MINUTES OF THE PREVIOUS MEETING HELD ON 10 JUNE**

The Board **UNANIMOUSLY APPROVED** the full minutes of the meeting held on 10 June 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 21 September 2016.*

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

Board **NOTED** the offline approval of the FPS Rules version 9.3.

The Rules went live on 12 July.

**296. BANK OF ENGLAND RISK REVIEW FOR 2016 / 2017**

The YC, JJa, RS and PC from the Bank of England Supervision Team joined the meeting.

YC introduced document FB 078/16 and the Priorities for the coming year [Redacted – for commercially sensitive reasons]

RT referred to the five key Priorities as set out in document FB 078/16 [Redacted for financial stability reasons]



## Thematic Reviews

RT also advised that other areas of assurance work will include three thematic reviews being undertaken in the coming months which are:

- Financial Planning
- Tiering
- Outsourcing

RT advised that there are no longer Observations for the year.

[Redacted for commercially sensitive reasons]The Bank of England Supervision team left the meeting.

AG clarified his role on the Board as an Observer and stated that his primary role is running the payments business within the Bank of England.

AG reminded the Board that there is an open offer to absent himself from areas of the Board meetings to enable open discussion.

The Board accepted AG's offer to excuse himself from the meeting at this point. Following the departure of all Bank of England staff, the Board discussed the Risk Review.

CT stated that the Priorities are in their final form from the Bank of England, however there is a need to refine and agree the delivery dates at the October Board teleconference meeting for passing back to the Bank.

NC added there are a couple of items that we should consider pushing back on to ensure they are aligned to scheme's view on the risks they mitigate.

TC suggested that any push back should not be too hard given our risk appetite for compliance with Regulators.

[Redacted for financial stability reasons] [Redacted for commercially sensitive reasons]HW referred back to the Priorities and sought clarity on whether FPSL would be challenging any of the Priorities. CT said that following the discussion that had taken place, we were comfortable in delivering the Priorities; however there may still be challenges to overcome as we discuss the detail with the Banks.

NC proposed that, in the event that any discussions with Bank of England Supervision gets complicated, the relevant issue will be brought to Board.

AG returned to the meeting.

**297. PSR**

NC advised that the Scheme response to the Payment Strategy Forum strategy consultation had been submitted and he opened discussions and provided updates on the following topics:

**Common Participation Models**

Work is already underway and may need changes to Scheme Rules. Legal advice may be required on how information is shared to ensure there is no breach of the Competition Act. The project team will agree short, medium and long term objectives.

Rules and Governance Committee will undertake some of the work. Directors should have dialogue with their own institution who participate on the equivalent committee for other Schemes.

**Cheque Imaging**

NC referred to FPSL's comment in respect of the Cheque Imaging project in the PSF draft strategy response. It was noted that it was an observation more than an action.

Various Directors stated that they participated in the Cheque Implementation Group and may need to excuse themselves from this discussion item. No further discussion took place.

**Request to Pay / Request for Payment**

Plan to seek a go / no go decision at the December Board meeting with the intention to have an outline plan based on the requirements of all stakeholders.

MC said that he is not sure people know what they are agreeing to, what it means to the user and there is a need for clarity on reach and breadth.

HW asked if there is any danger of overlap of PSD2. CT said there is some opportunity to exploit changes being introduced for PSD2 to simplify delivery of a Request for Payment service.

CT confirmed that, should this project go ahead, as a first step there would be a need to develop the Rules, standards, etc.

**Payee Validation**

Board Chairs from Paym and FPSL have been in discussion and a proposal has been put to the Payment Strategy Forum.

TC asked if any risks had been identified. CT said there is a need to work this through as there are a number of privacy and effectiveness trade-offs to be



considered.

### **Connectivity Layer**

This is an area of work being looked at with Interbank System Operators Co-ordination Committee. FPSL need to consider their thinking.

### **Central Infrastructure Renewal**

FPSL will need to undertake a Central Infrastructure renewal with a view to a single payment architecture and seek to engage with Bacs regarding this concept. It was recognised that FPSL needs to commence this work as early as possible. MS asked if an extension to the current contract would be sought. CT stated that, as this has not been done before, there is a need to look at all the practicalities of changing infrastructure provider and also consider the impact on other PSOs. An extension should only be considered if safe and secure delivery of a transition requires it.

CT said that the Bank of England RTGS change must come first. MC highlighted that, if there is significant change for the industry, there is not enough experienced payment systems people available to carry out all the work. NC proposed that there is a need for a Project Initiation Document which should be presented at the December Board meeting. **Action 297**

GO

### **Bulk Credit and DD Evolution**

This is quite a complex undertaking. The economies of different solutions in this space will need careful analysis, supporting Bacs as the Subject Matter Experts.

## **298. GOVERNANCE AND REGULATORY**

[Redacted for commercially sensitive reasons]

### **Citi External legal Opinion**

FB advised this piece of work is not quite complete. MC asked how much longer this is likely to take. MM stated that Citi's external lawyers are working on this with its newly established committee for this purpose and is not in a position to provide a timeline.

### **Director Changes**

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

The appointment of J Hutton, Director (nominated by Nationwide)

The re-appointment of Anthony Parker-Stewart, Alternate Director, nominated by John Hutton (Nationwide)



The appointment of M Smith, Director (nominated by R Raphael and Sons)

The appointment of J Box, Alternate Director (nominated by M Smith, R Raphael and Sons)

The appointment of R Ardley, Alternate Director (nominated by P Scott, Barclays)

The resignation of D Sanders, Director (nominated by Co-operative Bank)

The resignation of S Long, Alternate Director (nominated by D Sanders, Co-operative Bank)

NC expressed thanks, on behalf of the Board, for the input and invaluable experience provided by D Sanders and S Long during their tenure as Directors of FPSL.

NC advised that Co-operative Bank had decided not to nominate replacement Directors. NC stated that this is the first time a Member has not taken up their seat on the Board and, as a result, there is a need to undertake a piece of work to determine how the Company communicates key items to Co-operative Bank as there may be information within Board papers that would need to be shared.

HW asked whether individuals at Co-operative have a right to see the Board papers. FB confirmed they were not entitled to access papers. GO stated that a number of other new joiners may also go down the same route and not take up a place on the Board.

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

The Board **NOTED** the minutes from the Rules and Governance Committee meeting held on 25 August.

FB advised that the Committee undertook a substantive review of all Board reporting Committees Terms of Reference.

FB also advised that draft amendments including clarification on Committee members (those individuals who are entitled to vote) and attendees (those who are not entitled to vote) will be presented to the next Committee meeting.

The Board **APPROVED** the revised Terms of Reference for the following Board reporting Committees:

- Appointments and Assessments Committee
- Rules and Governance Committee
- Audit and Finance Committee
- Risk Committee
- The Addendum that supports all Terms of Reference.

## 299. SCHEME STRATEGY AND PLAN

GO advised that the purpose and strategy remains unchanged. The 2016 initiatives have been updated to include the following new items:

- Common Participation Models – Project Initiation Document been produced
- New Connectivity Model – in early concept stage
- AML Sanctions – Draft Project Initiation Document being produced

GO stated that there are two items with a red status which are

- PKI solution (discussed under agenda item 300)
- Strategic Governance Review (paused after June Board meeting, covered under agenda item 298)

[Redacted for commercially sensitive reasons]GO confirmed that a number of items have been completed or closed.

HW asked why the AML sanctions item is green but with no timeline. GO stated that this is not a lengthy project and will be undertaken during Q4 2016. The Board noted a typing error in B2 of document FB 066/16.

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

CT stated that there will be additional focus around certain elements of the business initiatives during the forthcoming quarter which will come together at the December Board meeting.

MC referred to the AML Sanctions and expressed concerns around Payments Originating Overseas (POOs) and whether these payments are being appropriately identified. MC suggested that some work be undertaken to determine whether POOs are being transmitted under cover in FPS.

RW stated that he was aware that payments are being processed via FPS and not being identified as a Payment Originating Overseas.

NC stated that more investigations are needed and also look into possible Rule breaches.

*Secretaries Note: This piece of work is already underway and a Project Initiation Document is being written.*

GO provided an update on Business Initiative Z4 Change Framework and advised that all Project Initiation Documents being developed are using a common framework.

## 300. ACCESS PROGRAMME



### **New Participants**

GO advised that the programme continues to progress well. Metro are now due to promote main sortcodes early in November.

*Secretary's Note: At Metro's request, promotion of their main sortcodes has now moved to 2 December 2016.*

GO also advised that a further six new Participants are expected to join the Scheme and an additional three due to the banking structural reform.

### **Trust Service (PKI Solution)**

The provision of the Trust Service has taken longer than expected to procure as it took some time to determine liabilities and due to delays in legal responses from suppliers although this is getting closer to completion.

A new wholly owned subsidiary company (UTSP) has now been set up.

Six Participants have indicated an intention to use the service and, currently, there is a workaround in place to support R Raphaels and Sons and, now, Metro Bank during their Friends and Family phase.

CT advised that the Trust Service contract will be presented to the Audit and Finance Committee from a finance and budget perspective and the Risk Committee from a new service provision perspective. Subject to legal negotiations concluding, the aim is to seek approval at the Board teleconference meeting on 21 October.

MC asked that the Risk Committee be very clear around liabilities, in particular what the Company is liable for in the short, medium and long term and also the financial viability of Trustis and Gemalto. GO confirmed that checks are being undertaken.

MC also asked whether there was a plan B if any issues or concerns are raised.

GO advised that one option would be Vasco and some enhancements to the PSW website.

NC stated that, depending on the level of liabilities, it may require Board approval and Member approval.

## **301. CENTRAL INFRASTRUCTURE SUPPLIER MANAGEMENT**

CT referred to the work undertaken by the Board sub-group and the Company response to the Infrastructure review issued on 14 September under reference FB 079/16. CT asked the Board if they were content with the response. Board **CONFIRMED** they were content.



[Redacted for commercially sensitive reasons]

CT advised that responses from PSR are expected in November.

CT thanked the sub group for their assistance with this work.

### 302. RISK COMMITTEE

SG highlighted the following from the report:

#### **CPMI-IOSCO Cyber Resilience Guidance**

The Company will be self-assessing and reporting against the Cyber Resilience guidance as part of the next CPMI-IOSCO self-assessment due to be submitted in March 2017. This work will commence in the coming weeks.

#### **Bank of England Supervision Themed Review - Risks Emanating from Participants**

This piece of work is in hand.

#### **Business Continuity Framework Policy**

This was approved by the Committee with the exception of minor amendments being made.

The risk impact for R0034 has decreased from 'significant' to 'minor' based on the work done on business continuity.

TC asked when this was last tested and NC stated that he believed the move to 'minor' was rather premature and suggested that this is taken back to Risk Committee for further consideration. **Action 302 (i)**

SG

#### **New Risks**

Two new risks have been added to the Risk Register which are FPSL Trust Service and FPSL Aggregators.

NC stated that the risk on the Register regarding Aggregators should have a broader pitch and not just focus on Aggregators but common technology suppliers.

**Secretaries Note:** *This is being considered by the Risk Team as part of their work on Aggregator and outsourced supplier risk which will be reported through to Risk Committee.*

#### **[Redacted for financial stability reasons] Increase in Scheme Limit**

An introductory paper was presented to the Committee and an enhanced paper articulating any risks with a further increase will be presented at the next meeting scheduled in Q4 2016.

NC said that it had been brought to his attention that a number of service users had not been able to access the higher Scheme limit of £250,000.

CT added that this had been raised by Service Users at the Affiliates Group. However he did recognise that the offer of the increased limit was determined by the fraud and risk appetite of each individual Payment Service Provider.

NC asked what action could the Company take to assist service users.

MC proposed that the Board Chairman write to each of the Scheme Direct Participants reminding them that the limit has increased to £250,000. **Action**

**302 (ii)**

**NC**

The Board **NOTED** the report.

### **Risk and Assurance Dashboard**

SG referred to R0024 and advised that the Committee would like a residual risk rating of 'medium' achieved.

The Board discussed how the Company would respond to an information security incident.

[Redacted for financial stability reasons]MC asked if the Company had looked at the attestation model. SG stated that the Company had looked closely at the boundaries of where the Participant risks end and the Scheme risks begin.

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

### **303. AUDIT AND FINANCE COMMITTEE**

TC advised the Board of the following:

#### **Additional Committee Attendees**

There are two new Committee attendees, one provided by HSBC and the other from Santander. There is one further interested party.

#### **External Auditors**

BDO have been reappointed as the Company's external auditors.

#### **UKPA Contract**

This remains an outstanding item.

#### **Financial Management of the Company**

The Committee determined that the financial management was adequate.

The Board **NOTED** the minutes of the Audit and Finance Committee meeting held on 23 August 2016.

### **2017 Outline Budget**

CT stated that the outline budget for the forthcoming year had been issued three months later than usual for a number of reasons including a) the Bank of England Priorities are now received in September and b) the final strategy from the Payment Strategy Forum will be received in November.

CT summarised document FB 069/16 and stated that, as a worse case, the potential change project costs are more likely to be nearer £5.5m rather than the estimated £6.5m currently quoted in the outline budget.

NC asked whether the PKI insurance cost was included within the outline budget. GO advised that the figure became available after the budget document was issued and is included in the current Profit and Loss within the Access Programme

MC commented that the layout of the document was sensible. MC also said that FPSL treat the Regulatory Reserves slightly differently to another Scheme Company whereby Members 'write off' any monies paid into the Reserves. However some other Scheme Companies treat the Reserves as client funds and asked if FPSL could review the treatment of the Reserves.

CT advised that the final budget for 2017 will be issued to the Audit and Finance Committee in November including how we calculate the Reserves followed by the Board in December.

### **304. REMUNERATION COMMITTEE (REMCO)**

Company staff left the meeting at this point.

TC gave a report on the most recent meeting of RemCo.

TC reported that following agreement at a previous Board, recruitment of a part time Financial Director was underway.

[Redacted for commercially sensitive reasons]

Company staff returned to the meeting.

### **305. OPERATIONAL PERFORMANCE AND RESILIENCE**

CR joined the meeting to answer any questions on the Cyber Operating Model.

JJe provided an update on the following;

#### **UKPA Contract**

Version 7 of the contract should be received by close of business 20 September.

#### **Licence to Occupy 2 TMS**

Hopefully this will be finalised and be brought to Board on 21 October.



### **Credit Payment Recovery**

JJe referred to document FB 071/16 and highlighted Credit Payment Recovery. NC asked about any targets and suggested that volumes are included within the update as well as percentages.

JJe advised that there continues to be issues in obtaining the data from Participants in a timely manner.

MC referred to the pilot being undertaken by a number of Participants [Redacted for commercially sensitive reasons]

MC suggested that a paper be presented to the December Board setting out the following:

- Take stock
- Service User implications
- Moving forward – ambitions / what now?

MC stated that he would be happy to sponsor this piece of work to drive it forward. **Action 305**

JJe

### **Change to Settlement Cycle Times**

HW raised the subject of changes to Settlement Cycle times and the importance of engaging with Participants when proposing such changes.

JJe reminded the Board that the proposal had been presented to the Development Forum and Service and Operations Committee.

JJe confirmed that the pre-advice times will change from 15 minutes down to 5 minutes on 13 October followed by the Settlement cycle time changes on 19 October.

### **CASS**

MC stated that, with the new structural reform, CASS processes need to be fit for purpose and there is a need for Participants to interrogate their systems and ensure action is taken to reduce redirections and mitigate risk.

### **Cyber Operating Model**

JJe advised that cyber work is ongoing to ensure the Cyber Operating Model is fully embedded. JJe asked if the Board had any items to raise regarding the Cyber Operating model. No items were raised.

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

JJe advised that a review of the Procedures had been undertaken to primarily incorporate the use of Aggregators and amend the terminology of Members to Participants. There were no material changes. A tracked change version together with a Change Register was issued to Service and Operations Committee for noting.

The Board **ENDORSED** the Procedures version 13.1 which will go live immediately following the Board meeting and an advisory email will be issued.

*Secretary's Note: Procedures available via SharePoint and an advisory email issued to Committees and the Board at 15:48 on 20 September.*

CR left the meeting.

### **Reserves Account**

JJe advised that the bank holding the Company Reserves have requested full details of Board Directors as part of its KYC obligations. The Company administrator requested the information from Directors however some responses are still outstanding. JJ requested that responses are provided as soon as possible.

## **306. DEVELOPMENT PROGRAMME**

JJe referred to FB 073/16 and asked if there were any questions.

JJ advised that a Project Initiation Document is being developed for the 'Instant SIP' work. A question was raised regarding the necessity for Participants to undertake testing the new payment type. GO confirmed testing will apply to any Participant using ZAPP.

NC referred to the future Scheme Limit and asked why the proposal is, ultimately, £20m.

MM confirmed that this would bring the limit in line with Bacs. GO stated that the Company intends to present a follow-up paper to Risk Committee and then to Development Forum after which a project plan will be created.

MC suggested that the drivers and strategy looking at the eco-system and where there are architectural issues is documented.

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

NC referred to FB 074/16 Service User Engagement Strategy and stated that, as an Independent Director, he had not had visibility of the document to undertake the review but acknowledged that the other two INEDs participated in the review.

Board agreed that the author of the document will circulate to the Board Directors for comment. The finalised document will be presented to Board on 21 October for approval.

**307. CHIEF EXECUTIVE REPORT**

CT referred to the report and asked Board to note FB 075/16.

NC pointed out that the RAG status on the Balance Scorecard was incorrect. CT confirmed that the RAG status for Planned outages should be green and not amber and the RAG status for Unplanned outages should be amber and not green.

The Board **NOTED** the report.

CT advised that the RTGS Strategy consultation has now been published with responses required within the next two months.

**308. BOARD ACTION LOG**

CT referred to the action log and advised that FB 178 (iii) will be incorporated into the consolidation work. This action is now closed.

CT also advised that action FB 285 remains open and FB 286 is now closed.

The Board **NOTED** the action log.

**309. ANY OTHER BUSINESS**

**Additional Board Date**

NC proposed that an additional Board meeting be held, via teleconference, on 21 October to discuss dates for the completion of the Bank of England Priorities and approve the Licence to Occupy Thomas More Square and the Service User Engagement Strategy.

The date set on 9 November as a teleconference will now be a face to face planning meeting.