

Minutes

REDACTED FINAL



8 November 2017

To FSPL Board

Our Reference: FB126/17

From Acting Board Secretariat, FPSL

MINUTES OF THE MEETING OF THE FPSL BOARD HELD ON 19 SEPTEMBER 2017

Present:

Nick Caplan	Independent Chairman* (FPSL)
Tanya Castell	Independent Director* (FPSL)
Duncan Ingram	Independent Director* (FPSL)
Craig Tillotson	Chief Executive* (FPSL)
Paul Scott	Director* (nominated by Barclays)
Melanie Martin	Director* (nominated by Citibank)
Charles McManus	Director* (nominated by Clearbank)
Dougie Belmore	Alternate Director* (nominated by Jim Pettigrew)
Tony Richter	Director* (nominated by HSBC)
Graeme Donald	Director* (nominated by Lloyds)
Becky Clements	Director* (nominated by Metro)
Tom Dolan	Director* (nominated by Monzo)
Anthony Parker Stewart	Alternate Director* (nominated by John Hutton)
Aidan Pearson	Director* (nominated by Northern)
Jonathan Glover	Observer (nominated by Northern)
Martin Wilson	Director* (nominated by Royal Bank of Scotland)
Karl Smith	Alternate Director* (nominated by Robert White)
Julian Sawyer	Director* (nominated by Starling)
Helen Rose	Director* (nominated by TSB)
Aidan Doherty	Director* (nominated by Turkish Bank)
Andrew Grice	Observer (Bank of England)
Yannick Cox	Bank of England FMID (Agenda item 387 only)
Justin Jacobs	Bank of England FMID (Agenda item 387 only)
Philippa Cohen	Bank of England FMID (Agenda item 387 only)
Shirley Chan	Bank of England FMID (Agenda item 387 only)
FB	Attendee (FPSL)
SG	Attendee (FPSL)
JJ	Attendee (FPSL)
PK	Attendee (FPSL)

CR Attendee (FPSL), (Agenda item 392 only)
CM Acting Board Secretariat, FPSL

Apologies:

Jim Pettigrew Director, (nominated by Clydesdale)
John Hutton Director, (nominated by Nationwide)
Robert White Director, (nominated by Santander)
MB FPSL
GO FPSL
JC Board Secretariat, FPSL

ACTION

379. DECLARATION OF DIRECTOR INTERESTS

The Chair welcomed new attendees: Charles McManus (Clearbank), Aidan Doherty (Turkish Bank), and Jonathan Glover, Observer (Northern Bank).

The Board **NOTED** the declaration of interests. Clydesdale stated they need to check and update their declarations. The Chair asked for any changes to be sent to the Board Secretary offline.

380. REPRESENTATION OF SERVICE USERS

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

381. MINUTES OF LAST MEETING HELD ON 23 JUNE 2017

The Board **UNANIMOUSLY APPROVED** the full and redacted minutes for the meeting held on 23 June (FB086/17) and **NOTED** the redacted minutes will be available on the website within 5 working days.

Secretariat Note: The redacted minutes for the June meeting were added to the FPSL website on 21 September 2017.

382. OFFLINE BOARD DECISIONS SINCE THE JUNE MEETING

There have not been any offline decisions since the last meeting.

383. GOVERNANCE AND REGULATORY

Head of Legal and Corporate Governance provided an update on the

Legislative and Regulatory Development Summary (FB091/17).

The consultation period for the Blueprint of the Future of UK Payments closes on 22 September. Given FPSL's extensive engagement with the PSF and working groups, Board were asked to agree that a formal response to the PSF was not required. The Board **UNANIMOUSLY AGREED**.

The GD2 (Access) and GD4 (Interests of Service Users) compliance report is being finalised and will be circulated to the Board ahead of being submitted to the PSR on 19 October.

Secretariat Note: This was circulated to Board on 17 October.

The Board **RECEIVED** an update on GDPR (FB092/17). FPSL has a data lawyer running this matter in-house with external lawyers. The matter is ahead of schedule with reference to milestones and dates agreed with the Bank of England. The Chair stated that, from his experience of sitting on other company Boards, suppliers are seeking to put caps on liability in respect of data when amending contracts to make them GDPR compliant and expressed a desire that FPSL does not agree to this. FB noted this comment. [Redacted – Commercially Sensitive Reasons] It was noted that all corporate parties will need to undertake this exercise and will be expecting requests to add GDPR compliant clauses into existing contracts.

The Board **ENDORSED** the Risk Committee Terms of Reference (TOR) (FB093/17) but **NOTED** that the version issued to Board did not include tracked changes. The Chair requested that any Terms of Reference issued to Board going forward show all amendments. Board noted that the changes to the TOR were administrative changes e.g. Audit and Finance Committee changed to Audit Committee.

The Board **NOTED** the following appointments:

- Graeme Donald, Director, nominated by Lloyds Bank
- Christian Kramer, Alternate Director, nominated by Graeme Donald (Lloyds)
- Aidan Doherty, Director, nominated by Turkish Bank
- Resat Bilgin, Alternate Director, nominated by Aidan Doherty

(Turkish Bank)

- Charles McManus, Director (from Alternate Director), nominated by Clearbank
- Nick Ogden, Alternate Director (from Director as nominated by Charles McManus)

The Board was advised that the Rules and Governance Committee minutes from the meeting held on 17 August 2017 (FRC031/17) are not currently available as some points are still being reviewed before publishing. It was reported that Barclays are uncomfortable recommending the rule changes to the documentation and, as a consequence, signing documentation (to be held pending completion) until NPSO is up and running with a Board. Therefore these changes were being recommended by a majority of the committee. The minutes will be circulated to the Board offline once it has been made available.

Secretariat Note: Martin Wilson and Julian Sawyer joined the meeting.

384. STRUCTURAL REFORM

Head of Operations gave a verbal update on Structural Reform, stating that sortcode migration is well advanced for Barclays and HSBC. The change for RBS Group means that RBS will resign as a member on 10 November and Nat West will be on-boarded in their place.

The CEO raised a concern [Redacted – Financial Stability Reasons] which is contrary to the spirit of the Structural Reform Regulations and might potentially impact on settlement finality. The Company has raised their concerns with the Regulators and are currently awaiting a response. Graham Donald queried whether there were any issues around operating processes given that some of the software changes and it was confirmed that FPSL was working closely with the bank redirection team and Participants to ensure there were no issues.

385. CONSOLIDATION

The Board **RECEIVED** a verbal update. The new Chair of NPSO is Melanie Johnson and the CEO is still to be announced. The Delivery Group (DG) has completed its work and implementing the DG vision has been passed to



NPSO, its Chair and CEO (once appointed). The Chair expressed his concerns with the current approach of NPSO's lawyers in relation to the consolidation of the schemes; he will express this to Melanie Johnson. UKPA is now being considered in scope for consolidation and it was noted that there were some potential liabilities to be understood. The Chair expressed his concerns about the timetable as completion before the New Year looks challenging.

The Board **NOTED** that the main amendment to the Rules (for post consolidation) is the change from "Member" to "Participant". Board **APPROVED** FPS Rules v10.2 (FB088/17) pending completion of consolidation.

The Board **AGREED** the approach of MPSCo / Paym becoming a wholly owned subsidiary of FPSL (FB094/17). This paper reflects one that went to Paym Board in June. This paper requests approval for FPSL to talk to MPSCo and move MPSCo to be a wholly owned subsidiary of FPSL rather than NPSO. Duncan Ingram mentioned that MPSCo is staffed by FPSL and as a limited subsidiary any liability would remain separate from FPSL.

The Board **AGREED** the establishment of a FPSL to NPSO Transition Assurance Committee (TAC) and **APPROVED** the Terms of Reference (FB095/17). The following people will sit on this committee: Jim Pettigrew, Tony Richter, Robert White, Duncan Ingram, Tanya Castell and will be chaired by Nick Caplan. This is a Board reporting committee and will be the body responsible for recommending the decision to the Board as to when it is appropriate for FPSL to pass the management of the Faster Payments system and company to the NPSO Board. The Board **DECIDED** to add "reviewing risks" to the responsibilities of this committee **ACTION 385/01 FLISS BERRIDGE.**

F Berridge

The Board **AGREED** setting up a Technology, Outsourcing and Procurement Strategy (TOPS) Committee and **UNANIMOUSLY APPROVED** the Terms of Reference (FB095/17). The following people will sit on this committee: Robert White, Julian Sawyer, Duncan Ingram and will be chaired by Nick Caplan. Dougie Belmore may also sit on this committee but will confirm this with the Chair offline. The committee will provide oversight on prioritisation of change activities before making recommendations to the Board including reviewing the PDDs in detail before

submission to the Board for approval. Tanya Castell noted that the policies referenced needed to go to the Board so the TOR should be amended to state “approaches” instead of “policies”. **ACTION 385/02 FLISS BERRIDGE**

F Berridge

Martin Wilson expressed his concern that FPSL is taking on too much work pre-consolidation. The Chair agreed this is something that will be discussed later on in the agenda within Business Initiatives and 2017 Priorities.

386. CHANGE PROGRAMME

The Board **RECEIVED** an update on Project DEVON and **DISCUSSED** the key strategic risks (FB111/17). CA011 (delays in decision making due to scheme consolidation) was discussed and decided that this should be a higher level of risk. **ACTION 386/01 G ODLING.**

G Odling

The Chair also suggested that Participants can’t meet timetables of CA001 (Participant Migration delayed) and CA008 (legislative change causing delivery slippage) due to GDPR. Duncan Ingram requested to add a new risk: if the outsourcer does not deliver on time or the infrastructure does not work properly **ACTION 386/02 G ODLING.**

G Odling

The Chair requested to add another new risk: other “regulatory” requirements may cause Participants not to meet FPS’ timelines, or that calls on Participants’ resources for other activities are underestimated **ACTION 386/03 G ODLING.** Tony Richter and Martin Wilson agreed. Helen Rose requested mitigants are discussed more within the report, rather than just the risks **ACTION 386/04 G ODLING.**

G Odling

G Odling

[Redacted – Commercially Sensitive Reasons] The Chief Executive stated that the Vocalink contract currently ends on 30 June 2020, [Redacted – Commercially Sensitive Reasons] Anthony Parker Stewart questioned the capacity performance of VocaLink. It was noted that by the end of 2017, TPS will have been doubled. [Redacted – Commercially Sensitive Reasons] The Board **NOTED** that this decision will need to be made soon. [Redacted – Commercially Sensitive Reasons] Martin Wilson asked if we should be pursuing DEVON. It was understood that DEVON is supported by the Design Hub to ensure it fits the NPA blueprint. FPSL will not finish this programme but it needs to progress this work so that NPSO can meet the timescale when it takes over.

The Board **RECEIVED** an update on Project AVON and **UNANIMOUSLY**

APPROVED the Project Definition Document (FB096/17) subject to a review by the Board later on as it continues to evolve and incorporation of how the market will be managed and the risks being more clearly articulated. **Action: 386/05 G Odling**

G Odling

Request to Pay is likely to generate a lot of real time payments; this offers another option to direct debit. The Board discussed the market opportunity, what FPSL's role would be (rules and co-ordination rather than technology), the costs involved and the potential hurdles for billers. Billers see benefits of Request to Pay. India has a Request to Pay system and they have seen a 60% uptake and this is by the e-commerce users. We need to include within the project a review of the UK market. This is one of the deliverables of the PSF.

The Board **DISCUSSED** the proposal to increase the Scheme Limit, subject to Bank of England approval (FB097/17), however Lloyds are not able to commit to this until March. [Redacted – Financial Stability Reasons] It was also noted that there were cap management implications for Participants to consider. There's a concern the scheme could be restricted if it has to wait for all Participants and two Participants want a £20million scheme limit. The Board **DECIDED** to set a target for mid-March 2018, with clear deliverables at the December Board for a go / no-go decision at December Board. Participant Directors were asked to identify any concerns and send to the Head of Operations with any concerns, and take opportunity to talk to the Company regarding risks prior to taking this decision. **ACTION 386/06 PARTICIPANT DIRECTORS.**

**Participant
Directors**

[Secretariat Note: Andrew Grice left the meeting.](#)

387. BANK OF ENGLAND RISK REVIEW FOR 2017 / 2018

Prior to the arrival of the FMID team the Board discussed the Chief Executive's paper (FB112/17). The Chair stated he had had a dialogue with Yannick Cox and David Bailey requesting that the priorities they set this year weren't looking too far ahead, given the planned merger into NPSO. They have listened to that, and focussed their priorities on the most material issues. The Chief Executive's paper provided an executive commentary and fuller context for the various points made by FMID in their letter, to support the Board in their interpretation of the issues the Bank had identified.



Secretariat Note: BOE FMID joined the meeting.

The Board **RECEIVED** the 2017 / 2018 Bank of England Risk Review (FB103/17). Yannick Cox introduced her team of Justin Jacobs and Philippa Cohen and FPSL's new lead supervisor, Shirley Chan. Yannick recognised that for various reasons there had been more turnover in the lead supervisor than they would have liked over the recent period, but that Shirley would now be leading for FPS and Bacs in anticipation of the merger into NPSO. Yannick informed the Board that the review is now done thematically so FPSL can be benchmarked against other FMIs. Against this backdrop the Bank's expectations of all recognised payment systems have been heightened. FPSL came out well in core assurance reviews including its management of the outsourced Vocalink contract. FPSL also stayed operationally resilient during the period of significant change and uncertainty during the last year. [Redacted – Financial Stability Reasons] They have struggled to fully understand these proposals and the associated risk assessments, and this has affected their general view of the effectiveness of the risk management framework being used by the company. However it was confirmed that FMID have now accepted our cap management proposals. This has also made the working relationship between FMID and FPSL more difficult. However, they take comfort in the fact there are open and frank conversations.

Justin Jacobs talked through the strategy for the year stating that the Company is having to manage through some complex changes at the moment and that this must have enough Board airtime and management focus. In particular he queried whether there was enough capacity to handle the fraud data analytics work.

He then talked through the Priorities: P17-01: *Transition to the NPSO* - FPSL must maintain its high level of operational performance during this critical time, mitigate transition risk and make the necessary preparations to merge safely;

P17-02: *Preparedness for structural reform* – This significant change has gone well so far and FPSL has played a very constructive role identifying important broader issues for the Bank;

P17-03: *Preparedness for the GDPR*. This was important given the amount of personal data processed through the system.

Past Priorities are either closed or on-track apart from the review of the aggregator assurance model which needs further adjustments from FPSL if it is to be non-objected to by FMID. Justin noted that FPSL's approach



seemed to be a hybrid of the two models used elsewhere.[Redacted – Financial Stability Reasons]

Philippa Cohen talked through the Core assurance reviews undertaken over last year in relation to tiering, outsourcing and financial management and the Bank of Englands perspective in these areas. Next year thematic reviews were planned on infrastructure resilience and market resolution.

Tanya Castell asked for more detail, concerning the risk review, where it mentioned CPMI-IOSCO and stated that *“there are a number of areas in which FPSL is either partly, or broadly, observant, reflecting our supervisory assessment of governance, risk management and outsourcing”*. This suggests that the Bank has taken a more critical view of FPSL’s compliance with the PFMI’s than has the Company. The executive had asked the Bank for more information about their assessment when they received the risk review letter and the Bank team stated to the Board that they plan to go through these findings in more detail with the executive but haven’t had the opportunity to do this yet. Charles McManus asked whether the difficult relationship between FPSL and FMID is being addressed by the Company. Yannick Cox stated that progress is now being made to improve the working situation.

Secretariat Note: BOE FMID left the meeting.

The Chief Executive also confirmed that he thought that the working relationship with FMID had improved over the last couple of months. The Chair mentioned he has started a dialogue with David Bailey and Yannick Cox and that the Chief Executive needed to continue to work with FMID to find tangible ways to improve the effectiveness of our interactions with them **ACTION 387/01 CRAIG TILLOTSON**. Graeme Donald commented that Justin Jacobs considered that FPSL is doing too much at the moment, going back to Martin Wilson’s earlier point about overheating.

C Tillotson

The Board **DISCUSSED** P17-03 (Preparedness for the GDPR) and confirmed that it should be completed by the end of October and the plan for gap closure agreed by the end of November.

Secretariat Note: The GDPR paper was sent to the Bank on 27 October.

The Board then discussed the timing of P17-01 (Transition to the NPSO). The Board agreed that completion of the work by the end of the month

would be premature and agreed to commit to end of October so that the Risk Committee (meeting scheduled for 12 October) can review the work prior to final Board review near the end of October.

Secretariat Note: This was sent to FMID on 27 October following a Board review on 23 October.

Secretariat Note: Andrew Grice returned to the meeting.

386. CHANGE PROGRAMME (CONTINUED)

The Board **RECEIVED** and **ACCEPTED** a strategic paper on the Business Hours proposition (FB098/17). It was noted that band 4 Participants were less than 1% of the volume and the proposal was CPMI IOSCO compliant from a settlement finality perspective. Dougie Belmore questioned how FPS would communicate the proposal so it is in the public domain; however this mainly needs to be announced to the smaller players. This enhances the experience for service users and will reduce the number of Qualified Acceptances for Participants. It was agreed that no formal announcement was required but there could be mention of the company's web site.

The Board **RECEIVED** a verbal update on Industry Co-ordination and **NOTED** the updated Collaborative Industry Change Tracker (FB099/17)

The Board **NOTED** Fraud Data Analytics Board Summary for September (FB113/17), and **RECEIVED** an update on Project DURHAM and **UNANIMOUSLY APPROVED** the Project Definition Document (FB114/17). The Board **NOTED** that the Company proposed to undertake a value for money review. [Redacted – Confidentiality Reasons] TOPS Committee will review progress on this project.

The Board **NOTED** the Business Initiatives and **DISCUSSED** priorities for the remainder of 2017 (FB100/17), confirming that the company should go ahead with the projects shown in the top four boxes on page 3 (BoFE Priorities and initiatives, PSR and Payment Strategy Forum related projects and those related to service user engagement). Chief Executive, Head of Business and Service Development and Programme Director have about 30% more available time in their diaries now as the PSF demands are all diminishing. There is work on Account Name Verification Service within MPSCo which will only require a small amount of time from FPS resource. It

was noted that some of the work would address issues raised by the Which super complaint where a response from the PSR was awaited.

Martin Wilson stated that in his view organisations typically close down their workload pre-merger, but FPSL is taking on more workload which will be future workload for NPSO. Chief Executive stated that these projects are driven by regulatory requirements e.g. the need to tender for a replacement supplier currently with a June 2020 deadline. It is not yet finalised what NPSO will look like, or what workload it will generate, but it is a merger of three schemes and the company, on behalf of the NPSO must ensure that projects, especially those that deliver service user benefits, must carry on. Tony Richter stated that, on that basis, only the service user projects could be postponed – but FPSL also needs to bear in mind their best interests. However NPSO has a strategic roadmap already. Melanie Martin asked for an analysis of which resources are required for each project (as was done for the Access Programme) to assist the Board in understanding the impact and options of what could be deferred. The outcome of the review will go to the Board to approve as part of the submission to the Bank of England to meet their Priorities. **ACTION 386/07 GEORGE ODLING.**

G Odling

Secretary to arrange an ad hoc Board meeting via conference call.

Secretary's Note: The meeting was held on 23 October 2017 when the Board approved the business initiatives proposal for 2018

The Board **NOTED** the PIR for the Access Programme (FB101/17)

The Board **RECEIVED** and **NOTED** the Development Programme Report (FB102/17)

388. UTSP UPDATE

Chief Executive gave a verbal update on UTSP: 7 Participants are up and running; the 8th Participant will be up and running in the new year, and then there will be a further 8 Participants in 2018. The [Redacted – Confidentiality Reasons] investment is being paid back. The tactical solution will be closed next week.

389. FINANCE

The Board **NOTED** the outline 2018 budget (FB104/17) which will go for



Board **APPROVAL** in December.

390. RISK COMMITTEE

The Board **RECEIVED** and **NOTED** the Risk Committee Report (FB105/17). The Board **AGREED** criteria for the banks holding the reserves should be based on credit-rating not on ring-fencing. The Chair requested more detail on Cyber breaches and attacks in the report for the next Board meeting
ACTION 390/01 DUNCAN INGRAM.

D Ingram

The Board **ENDORSED** the appointment of Nathan Tofts as a member of the Risk Committee.

It was noted that feedback had been received on the definition of a systemic risk manager to ensure the breadth of the remit was clear.

The Board **UNANIMOUSLY APPROVED** Risk Appetite 26 reflecting government ownership / ring-fencing now falls within appetite.

The Board **RECEIVED** a verbal update on amendments to the Risk Banding Proposition and Risk Appetite, particularly the DR resilience requirements and a proposal would be provided to the next Board meeting.

The Board **NOTED** the Risk and Assurance Dashboard (FB106/17)

391. AUDIT COMMITTEE

Tanya Castell gave a verbal update on the Audit Committee. The FPSL Risk team have recruited someone to bridge a gap for risk management between the first and second lines. There have been changes to the Internal Audit plan due to the Head of Internal Audit leaving in June and an ad hoc meeting had been held in early September to approve a revised plan. It was noted that the cyber target operating model (TOM) audit report was delayed. Helen Rose noted the importance of this audit and asked if FPSL has access to external resources regarding cyber. The Chief Executive explained that it's typically external however the cyber TOM has been reviewed externally and internally.

TC reported that, following the material increase in past due audit points, the

ad hoc meeting had also reviewed these in detail and had agreed that a material number had been addressed (though in some cases in a different way to the original recommendation), some were still to be done but would be complete by year end and others (relating primarily to service user engagement monitoring) would be more relevant for the NPSO to address given that service user needs had been addressed by the PSF. TC also noted on the issues identified in the UK Payments ISAE 3402 report which were being followed up. The concern relating to finalising the aggregator assurance model was now closer to resolution following the recent discussion with the Bank of England.

The Board **NOTED** the Audit Committee Minutes from the meeting held on 22 August 17.

392. OPERATIONAL PERFORMANCE AND RESILIENCE

The Board **RECEIVED** and **NOTED** the Operations and Service Delivery Report, including the 2016 / 2017 Priorities (FB108/17) Both the VocaLink service and Participant performance has generally been good although one Participant has had repeated failures of SLAs which has triggered the Performance Enhancement Review process. A meeting is being arranged with the Participant concerned.

The Board **AGREED** learnings and closedown of the Payments Originating Overseas incident. A summary of key lessons learnt could be shared and circulated **ACTION 392/01 JOHN JEFFERSON**. The Chair thanked [Redacted – Confidentiality reasons for being open and letting the review take place.

J Jefferson

The Board received an update on Credit Payment Recovery, in particular the percentage volume of claims being rejected. Board were advised that this is primarily due to the funds having been returned already by the time the claim is received by the Participants involved. Board were also advised that recovery rates for one large Participant are significantly below the other Participants of a similar scale. A Performance Enhancement Review meeting has been arranged for this Participant on 29 September to discuss this and any remedial actions which may need to be taken.

Board were also made aware that the FCA had requested the latest version of the framework which has now been provided. The FCA had also asked if there were any figures, regarding this process, in the public domain and the



company advised there was not. The Head of Operations advised it is expected that these figures will be requested and need to be published in the future.

The Chair raised a question around the cyber security related MI being reported to Board. Board were advised that the Security Team are working with VocaLink to provide some data that may be shared.

393. CHIEF EXECUTIVE REPORT

The Board **NOTED** the Chief Executive's Report (FB109/17)

394. ACTION LOG

The Board **REVIEWED** FPSL Board Action Log (FB110/17) and changes have been reflected in the updated Action Log (FB127/17).

395. ANY OTHER BUSINESS

N/A

396. REMUNERATION COMMITTEE

Secretariat Note: Company staff and Andrew Grice left the meeting.

Tanya Castell gave a brief summary of the 2016 committee report. The Board noted that, following comments from the Chair, the Remuneration Committee would be meeting shortly to discuss the implications of the scheme consolidation.

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