

Redacted Minutes



4 January 2016

Our Reference FB 001/16

To Board

From Board Secretary

MINUTES OF THE MEETING OF THE FPSL BOARD HELD ON 8 DECEMBER 2015

Present:

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 *(nominated by Barclays Bank) (JH)
Melanie Martin	Director *(nominated by Citibank) (MM)
Jim Pettigrew	Director *(nominated by Clydesdale Bank) (JP)
Shirley Long	Alternate Director *(nominated by Dave Sanders) (SL)
Tony Richter	Director *(nominated by HSBC Bank) (TR)
Christian Kramer	Director *(nominated by Mark Curran) (CK)
Nick Middleton	Director *(nominated by Nationwide) (NM)
Helen White	Director *(nominated by Northern Bank) (HW)
David Greig	Director *(nominated by Royal Bank of Scotland) (DGre)
Robert White	Director *(nominated by Santander) (RW)
SDeB	Observer (Bank of England)
JJ	Attendee (FPSL)
MB	Attendee (FPSL)
FB	Attendee (FPSL)
SG	Attendee (FPSL)
CD	Attendee (VocaLink) (agenda item 235 only)
MC	Attendee (VocaLink) (agenda item 235 only)
DGro	Attendee (VocaLink) (agenda item 235 only)
GO	Attendee (FPSL) (agenda item 245 only)
CR	Attendee (FPSL) (agenda item 247 only)
JC	Secretary (FPSL)

Apologies:

Dave Sanders	Director (nominated by Co-operative Bank)
Mark Curran	Director (nominated by Lloyds Bank)
Andrew Grice	Observer

* Voting members of the Board of Directors - all 14 in attendance

235. PAYMENTS DATA INITIATIVE

ACTION

CD introduced this item which provides an update on progress made since the March Board meeting.

A presentation was tabled.

[Redacted - commercially sensitive]

CD, DGro and MC left the meeting.

Secretary's Note: The presentation was added to SharePoint following the meeting under reference FB 123/15.

236. DECLARATION OF DIRECTOR INTEREST

No additional declarations of interest were made during the meeting.

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

Secretary's Note: following the meeting the following declarations were made:

Christian Kramer: Alternate Director on SWIFT UK Ltd Board and Alternate for Cheque and Credit Clearing Future Clearing Model Senior Sponsors Group.

Robert White: Member of Cheque and Credit Clearing Future Clearing Model Senior Sponsors Group.

237. REPRESENTATION OF SERVICE USERS

FB asked the Board to note 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 this meeting are to be considered in light of their impact on service users.

FB advised that this item will appear on every Board agenda.

238. MINUTES OF LAST MEETING HELD ON 22 SEPTEMBER AND 10 NOVEMBER 2015

The Board **UNANIMOUSLY APPROVED** the full and redacted minutes of the meetings held on 22 September and 10 November 2015.

239. OFFLINE BOARD DECISIONS SINCE SEPTEMBER MEETING

There have been no offline decisions since the September meeting.

240. GOVERNANCE

FB updated on the following:

Rules and Governance Committee Report

FB summarised the proposed changes to the committee structure as set out in FB 103/15.

The Board discussed the proposal noting that the Development Committee and the Operational Committee will become Executive reporting committees and no longer chaired by Board Directors. This will allow both Committees to retain full representation from all Participants irrespective of the future Board membership model, including where appropriate representatives from the Aggregators.

The Board recognised that the Board sets the strategy for the Company, and the Development Committee supports the Executive Team in the delivery of the strategy. The Executive Team are held to account for delivery of the strategy on a day to day level. The Board also recognised that this is a key Committee / delivery group and plays a big part in the future of the Company.

The areas of responsibility of Committees will continue to report to Board through the Executive.

The Board also noted that, on the Committee structure chart, the dotted line from the Security Committee into the Audit and Finance Committee needs to be removed.

The Board **NOTED** the report and **UNANIMOUSLY APPROVED** the same.

FPS Rules

JJ summarised FRGC 037/15 which sets out proposed changes to Rule 4.3 and Rule 9.2.2 following discussions with the Bank of England FMI Supervision Team and the Bank of England Resolution Unit. Once



approved, version 9.1 of the Rules will be issued by 31 December 2015.

FB stated that, during discussions with the Bank of England lawyer, it was confirmed that the proposed rule changes are already in legislation.

The Board acknowledged that the proposed changes would, from a user perspective, allow continuity of service and are strongly in the interest of service users.

The Board **UNANIMOUSLY APPROVED** the changes subject to confirmation from JP, DG and RW by 11 December.

Secretary's Note: No issues identified and hence approval confirmed.

Director Changes

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

The resignation of M Roberts (nominated by Nationwide)

The resignation of Kyra Oattes (appointed by M Roberts)

The appointment of Nick Middleton, Director (nominated by Nationwide)

The appointment of Christian Kramer, Alternate Director (appointed by M Curran)

241. STRATEGY

CT provided a brief summary of FB 104/16.

It was agreed that the business case process should be added to the scope of initiative Z5 'Future Initiatives identification and Qualification Process'.

The Board also noted that this new process will be a key component of Service User engagement.

The Board **UNANIMOUSLY AGREED** the 2016 Business Initiatives.

242. STRATEGIC SUPPLIER MANAGEMENT

CT provided an update on developments and a proposed governance approach.

CT advised that there are four developing issues in this space:

The potential VocaLink/[redacted – commercially sensitive] deal

The Scheme will need to be assured that the deal does not adversely change the risk profile of the Scheme's relationship with VocaLink. A formal statement of the structure of the deal from VocaLink is awaited, following which, due diligence will be conducted and, where relevant, assurances will be sought to mitigate changes in risk.

[Redacted – Commercially sensitive]

Outcomes from PSR Review

There is a need to consider how the Scheme might react to various outcomes from the PSR review

Develop Strategic Approach

Finally, there is a need to develop the strategic approach.

[Redacted – Confidentiality reasons]

NC stated that there is a need to be conscious of any conflicts of interest and to look to do this sooner rather than later.

243. RETAIL PAYMENTS SYSTEM OPERATORS SERVICE USERS ADVISORY FORUM

NC referred to note FB 120/15 which outlines how Service User interests are considered and stated that whilst there is a gap should the forum not be established, there is also duplication of effort with the PSR. The PSR have confirmed that, in principle, they do not have an issue in sharing information. The Board suggested that there needs to be a continued focus on this area including feedback to the PSR on how FPSL are supporting service users. In the future papers will need to demonstrate how service users have been considered.

244. REGULATORY AND GOVERNMENT RELATIONS

FB updated on the following:

General Direction 4 submission – 26 October 2015

There have not been any follow up questions or clarification points. The

next submission will be in October 2016.

Payment Systems Regulator's Access and Governance report

Publication is due in December. FPSL was given the opportunity to review and comment on a draft section of the report. PSR indicated that comments from FPSL will be taken into consideration and it is anticipated that they will be reflected in the final report.

Secretary's Note: Published 15 December.

The PSR Strategy Working Group

Company staff are engaged, attending and influencing into sub-groups to the PSR Strategy Forum, as follows:

- User-needs working group
- Simplifying access to markets working group
- Horizon scanning working stream
- Financial Crime Working Group (Company staff are engaged to determine who is best placed to sit on this group).

PSR Regulatory fees – 2015/2016

One Member is still to pay. This must be paid no later than 10 December.

Secretary's Note: All fees paid by 18 December.

Market Review into ownership and competitiveness of infrastructure provision

In the last month, FPSL has received minimal questions or clarification requests from the PSR. The PSR aims to publish an interim report into its findings in February 2016.

KPMG Report

NC stated that he had written to each Director regarding the KPMG report commissioned by Payments UK which set out his thoughts. [Redacted – commercially sensitive] NC also stated that he had written to the Chairman of Payments UK. The Board noted and concurred with these concerns and approach.

The Board discussed this issue at length and agreed that, in the first place, NC should engage with Marion King, Chair of the Payments Strategy Forum (PSF) Simplifying Access to Markets Working Group where issues of complexity of access should be properly considered.

NC

Action FB 244(i)

Secondly, NC agreed to seek clarification to fully understand the Terms of Reference of the consultancy work and determine the Scheme's future engagement in the Payments UK work. **Action FB 244(ii)**

NC

[Redacted – commercially sensitive]

245. ACCESS PROGRAMME

GO joined the meeting at this point.

GO summarised note FB 105/16 and highlighted the following:

[Redacted – Commercially sensitive.]

A question was raised around the liabilities in providing the PKI service. It was confirmed that this would be addressed in the consideration of the project generally and during contract drafting stage. An update on risks and liabilities will be presented to Risk Committee with escalation to Board if appropriate

GO stated that a 5th Letter of Intent had recently been approved by the Decision Makers and a 6th has been received and is currently being reviewed. GO advised that, for a number of reasons, Project Athens has decided to delay by one month.

[Redacted – Commercially sensitive]

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

GO advised that a deep dive workshop was held in November and attended by the Bank of England, the Regulators and FPSL Independent Directors. The output from the Anti Money Laundering (AML) Deep Dive is set out in note FB 106/15. The Board noted that, in

the wake of the recent terrorist attacks, the area of sanctions and AML will be tightened.

NC stated that he will be following up offline with GO with some questions regarding these matters.

The Board **NOTED** the outcome of the Deep Dive.

GO left the meeting.

246. DEVELOPMENT PROGRAMME

Automated Scheme Protect Measures

MB advised that the RAG status for the Automated Scheme Protection Measures project remains green. The project remains on track, with core monitoring functionality (Phase 1) due to go live at the end of January.

Faster Payment Request Proposition

MB provided context and background on the Project Initiation Document (PID) for the first phase of the Faster Payment Request proposition and stated that the focus has been on the needs of the consumer e.g. those with irregular incomes through self-employment or from having multiple part-time/zero hours contracts which means that having a fixed date for outgoings does not suit their finances. This would provide the consumer with flexibility, transparency, simplicity and affordability.

MB stated that now that the outline end customer experience had been developed, the Development Committee will be engaged in the process now.

Whilst acknowledging that the PID is light on detail re future stages, MB confirmed that this purely sets out the high level business requirements to take forward the discovery and definition phase only and therefore approval is sought up to section 5.2 the 'Define Phase'. The remaining sections (highlighted as 'Currently Out Of Scope') would be completed as and when the project moves forward, following tollgate approval by Board. To move the initial phase forward, [Redacted – Commercially sensitive] budget is required which would be taken from the [Redacted – Commercially sensitive] contingency project fund set aside within the 2016 budget.

MB also advised that the Independent Directors, the Chair along with

DWP, Toynbee Hall and Sage, as representative of different parts of the ecosystem, have been briefed and CT and MB will be meeting with HMT. This is an important step in ensuring the needs of service users are central to this important development.

MB stated that this piece of work will not move ahead to later phases without Board approval.

The Board **APPROVED** the Project Initiation Document for the Faster Payment Request proposition.

The Board **NOTED** the Development Committee Report (FB 108/15) offline.

247. OPERATIONAL PERFORMANCE AND RESILIENCE

CR joined the meeting at this point.

Quarterly Operations and Service Delivery Report

JJ highlighted the following:

- Settlement Cycle 2 on 28 August was delayed. This did not affect end users. Following a series of incidents, a meeting was held [Redacted – commercially sensitive] when common control failures were reviewed through frank and open discussions. JJ confirmed that he was satisfied with the actions taken by VocaLink but this would be kept under close review.
- Good progress has been made with the Bank of England Priorities and Observations.
- A new peak was seen for September with a volume total of 111.9 million payments being processed.

TC observed there continues to be no contract to support the services provided to FPSL by UK Payments Administration. JJ stated that the contract should be in place by February / March 2016 and advised that Key Performance Indicators on the services provided have now been agreed which will cover all areas including internal audit.

The Board **NOTED** the Quarterly Operations and Service Delivery Report (FB 109/15) and the Operational Committee Report (FB 110/15) offline.

Cyber Resilience Target Operating Model

JJ introduced the executive summary and final draft Cyber Resilience Target Operating Model (TOM) (FB 111/15) and handed over to CR.

CR summarised FB 111/15 and stated that there will be a need to be adapted over time. However two electronic schemes, the infrastructure supplier and the Payments Systems Regulator are all aligned. The principles set / model can also be audited against.

CR stated that the TOM had been through two external audit review processes commissioned by another electronic scheme, the output of the first external audit is included within FB 111/15.

A discussion ensued with the following points being raised:

- What roles and responsibilities come out of this?
- Where do the liabilities lie if this is introduced and it is flawed?
- Need to understand the consequences for service users

The Board recognised the following:

- There is a need to keep the operating model the same as another electronic scheme.
- Bank of England were involved in the development of the TOM and meets the CPMI IOSCO requirements.
- It meets the terms of the Bank of England Priority.
- The document has been to Security Committee and Risk Committee.

The Board **UNANIMOUSLY AGREED** to adopt the TOM going forward, subject to having visibility of the current external audit being commissioned by another electronic scheme. The Board acknowledged that FPSL may be required to contribute towards the costs of the current external audit.

CR left the meeting.

248. RISK MANAGEMENT

SG summarised the Participant Risk Assurance Policy and the note issued to the Risk Committee which details the steps taken from the old model to the new. The new model will allow FPSL to review the

Participant's self-assessment evidence should there be a concern, or when an issue has been identified.

SG advised that a number of 'Policy Best Practice' comments had been received from one of the Independent Directors. The policy was approved subject to circulation of a final tracked changes version. A tracked changes version will be issued in due course. **Action FB 248(i)**

SG

DI stated that there is still a requirement to increase the representation with risk specialists on the Risk Committee. The date of the original November meeting had to be moved as the Committee would not have been quorate.

TR stated that he will propose an individual to join the committee.

The Board **NOTED** the Risk Committee Report (FB115/15) and the Risk Dashboard (FB 113/15) offline.

249. AUDIT AND FINANCE

External Auditors

TC advised that, as recommended by the Board earlier in the year, a tender process has been undertaken to select external auditors. As a result, BDO have been successful in the tender and Audit and Finance Committee are content to recommend the change of auditors from Deloitte to BDO to the Board.

The Board **UNANIMOUSLY APPROVED** the appointment of BDO as the external auditors for FPSL.

The Board **NOTED** the Audit and Finance Committee Report (FB115/15) and the Financial Update (FAC 097/15) offline.

CPMI IOSCO Governance Proposal

SG referred to FB 116/15 which sets out that, historically, the full CPMI IOSCO Disclosure report has been issued to Risk Committee, Audit and Finance Committee and the Board. As a means of improving the governance process the note sets out a proposal that an internal audit would be undertaken and then reported to the Audit and Finance Committee. Additionally, the Risk Committee would receive a detailed paper setting out the impact of the assessment on the risks and controls

of the Scheme. The full report would only be issued to the Board for approval.

The Board **UNANIMOUSLY AGREED** the new approach.

250. CHIEF EXECUTIVE REPORT

The Board **NOTED** the Chief Executive Report offline.

251. BOARD ACTION LOG

The Board **NOTED** the action log (FB 118/15) and the update on the Managed Service Contract Side Letter (FB 119/15) offline.

252. ANY OTHER BUSINESS

Future Meetings

NC proposed that future face to face meetings are extended by one hour.

253. SUCCESSION PLANNING

This item will be the first item on the March meeting agenda.

Date of next meeting
10 February 2016 at 10:30
Face to Face with teleconference facilities available
Followed by a Risk Contagion presentation

And
22 March at 10:30