

Redacted Minutes



31 March 2015

Our Reference FB 039/15

To Board

From Board Secretary

MINUTES OF THE MEETING OF THE FPSL BOARD HELD ON 24 MARCH 2015

Present:

Nick Caplan	Independent Chairman *(FPSL) (NC)
Duncan Ingram	Independent Director *(FPSL) (DI)
Tanya Castell	Independent Director *(FPSL) (TC)
Craig Tillotson	Executive Director *(Chief Executive, FPSL) (CT)
John Hutton	Director *(appointed by Barclays Bank) (JH)
Jim Pettigrew	Director *(appointed by Clydesdale Bank) (JP)
Dave Sanders	Director *(appointed by Co-operative Bank) (DS)
Tony Richter	Director *(appointed by HSBC Bank) (TR)
Mark Curran	Director *(appointed by Lloyds Bank) (MC)
Helen White	Director *(appointed by Northern Bank) (HW)
Mike Roberts	Director *(appointed by Nationwide) (MR)
David Greig	Director *(appointed by Royal Bank of Scotland) (DG)
Robert White	Director *(appointed by Santander) (RW)
Andrew Grice	Observer (Bank of England) (AG)
DG	VocaLink (Agenda item 190 only)
MCo	VocaLink (Agenda item 190 only)
JJ	Attendee, Head of Operations (FPSL)
MB	Attendee, Head of Business and Service Development (FPSL)
SG	Attendee, Head of Risk Assessment and Assurance (FPSL)
FB	Attendee, Head of Legal and Corporate Governance (FPSL)
JC	Secretary, Operations Manager (FPSL)

Apologies: John Walsh Alternate Director *(appointed by Citibank)

* Voting members of the Board of Directors – 13 in attendance, 1 absent

190. VOCALINK PRESENTATION

ACTION

The Board invited VocaLink to give a presentation on a new VocaLink business initiative. [Detail redacted due to commercial sensitivity].

191. DECLARATION OF INTEREST

NC referred to FB 010/15 and asked Board Directors to declare any conflicts of interest not previously declared.

TR declared that he had been asked to Chair the European Payments Council Working Group on Immediate Payments.

MC declared that he is Chair of the Cheque Programme Board.

HW asked if the Company intended to seek external legal opinion on whether there is a requirement for a Director to declare if they have sight of the Scheme Company supplier's Board papers. FB advised that it is each Director's responsibility to declare if they have sight of supplier papers and this should be taken very seriously.

192. MINUTES OF LAST MEETING HELD ON 10 DECEMBER 2014

The minutes of the previous meeting held on 10 December 2014 were **APPROVED**.

193. GOVERNANCE

Articles of Association

The Company took an action from the Board at the December meeting to make it explicit within the Articles of Association that no Board Director is, or has ever been a concurrent Board Director of our infrastructure supplier. The amended Articles of Association were issued to the Rules and Governance Committee for recommendation to the Board.

The whole Board **APPROVED** circulation of the amended Articles of Association to the Members of FPSL for adoption by the Members by way of a Written Resolution.

FB advised they will be circulated to the Members offline for adoption.

Secretary's Note: The Articles of Association and Written Resolution was circulated to Members on 30 March under reference FB 033/15 with a return date by close of business 24 April. The Articles were adopted on 24 April.

Payment Services Regulator(PSR) Readiness

The publication of Board minutes and the prohibition of a Director sitting on the Board of a Central Infrastructure provider and a Payment Systems Operator will become effective from 30 April 2015.

A redaction policy is being developed and will be presented to the Rules and Governance Committee for agreement. Following

agreement the policy will be submitted to the Board for adoption. Board minutes will be produced in compliance with the redaction policy. **Action FB 193 (i)**

FB

CT attended the second PSR Strategy Forum Working Group meeting on 23 March where currently the focus is on representation and the engagement with service users.

Change in Personal Circumstances

The Board **NOTED** their responsibilities as set out in FB 012/15 including

- Their duty to act in a manner which promotes the success of FPSL in the long term for the good of all of its Members as a whole and the good of its employees.
- Change of residential address
- Criminal convictions, which excludes non-criminal driving offences.
- Disqualification orders

FB confirmed that executive responsibilities included adopting an appropriate Healthy and Safety Policy. Work is being undertaken with UK Payments Administration to develop a more appropriate Company policy. The Company will endeavour to present the Health and Safety policy to the June Board for approval. **Action FB 193 (ii)**

FB

Director Changes

The Board **NOTED** there were no Director changes since the December meeting.

NC advised that the Company is currently producing appointment criteria in respect of serving as a Director on the Board. The Company has been made aware of impending changes to Directors and Alternate Directors therefore there will be a need to complete this task in time for the Appointments Committee to meet ahead of the June Board meeting.

Secretary's Note: The Director appointment criteria has been produced and uploaded into the Appointments Committee area on Livelink on 30 March.

194. RISK

DI provided an update on the following:

Risk Committee Report

A summary of the report was received. Attention was drawn to the Cyber Security update.

Faster Payments Risk Register

JH stated that his organisation has a more granular (percentage based) approach to their Risk Heat Map and agreed to provide more information to DI. **Action FB 194 (i)**

JH

The Board challenged the risk rating for Risk FP31. SG explained how the risks are assessed. The Board asked whether the risk description should be extended and DI agreed that it would be reviewed. **Action FB 194 (ii)**

Risk
Committee

SG stated that it wasn't clear where contagion to other risks occurred, and agreed to consider how this is transparent in the process for future reporting. **Action FB 194 (iii)**

SG

TC pointed out that it states at the bottom of each Risk Sheet that Audit and Finance Committee reviewed draft risks in February with proposed changes but this was not the case. This will be removed from each Risk Sheet. **Action FB 194 (iv)**

Risk Manager

The whole Board **REVIEWED** and **APPROVED** the Risk Register.

Draft Risk Dashboard

The Board **NOTED** the draft Risk Dashboard recognising that the content within the document is 'dummy' data. The Board acknowledged that good progress has been made.

Encryption

The Board discussed encryption. [Detail redacted for financial stability reasons]

195. CYBER

The Board discussed cyber security and confirmed support of the approach. [Detail redacted for financial stability reasons]

196. AUDIT

TC summarised the Audit and Finance Committee Report highlighting the following:

Terms of Reference (ToR)

The revised ToR was approved. This will be issued to the Rules and Governance Committee followed by presentation to the Board for

approval.

Internal Audit

The team is now fully resourced. Nine internal audit actions remain overdue.

VAT Recommendations

A possible historical over recovery of input of VAT has been identified. The Company has pro-actively contacted HMRC while it investigates further.

The Payment Systems Regulator is reluctant to say at present whether VAT will be charged on their fees.

The Board noted and accepted the approach as set out in FB 030/15

Member and Supplier Assurance

Infrastructure supplier assurance did not identify any control weakness but there was an issue with the independence of assurance received. Internal Audit is planning to work with Risk Team to gain additional assurances.

There is no current assurance on the UK Payments Administration service provision. This will be resolved via the contract that is being developed.

The Board raised the following points:

- Composition of the Committee – is the make-up of the Committee appropriate as set out in the report? There are five Committee members. Most of the internal personnel attend when required on an ‘attendee’ basis.
- Outstanding Internal Audit actions – the Board should have visibility of the outstanding actions. Reasonable target dates should be allocated and meet. Closure of historical ones to be achieved by the June Board meeting. **Action FB 196 (i)**
- External Auditors – consideration should be given to changing the external auditors from Deloitte given how long they have held this role. **Action FB 196 (ii)**
- Rules and Governance Committee to review and recommend approach to increased public disclosure of Scheme Tariffs. **Action FB 196 (iii)**
- Company to review whether contract structure with VocaLink

**Audit &
Finance
Committee**

**Audit &
Finance
Committee**

R&GC

MB

remains fit for purpose with wider participation. **Action FB 196 (iv)**

The Board discussed the mechanics of invoicing and actions taken in the situation when a participant fails to pay and agreed that this should be further reviewed by Rules and Governance Committee.

R&GC

Action FB 196 (v)

FPSL's Self-Assessment against the CPMI-IOSCO Principles for FMIs.

Head of Internal Audit had advised that FPSL performed the self-assessment diligently and believe stakeholders can rely on the quality and accuracy of the self-assessment.

The Board **ENDORSED** the disclosure of the assessment with part A being publically disclosed minus the RAG status and both parts A and B being disclosed to Bank of England.

FPS Scheme Tariff for 2015 from the Infrastructure Provider

The Board **NOTED** the contractual increase in the infrastructure provider charges for 2015. [Detail redacted due to commercial sensitivity]

197. STRATEGY ADVISORY GROUP

NC advised that the Company is working in collaboration with Bacs and Cheque and Credit Clearing Company and producing a Terms of Reference for the Group. The Group is a users group and not an exclusive group and will work in line with the PSR Strategy Forum as it develops.

198. DEVELOPMENT

MB provided an update on the following:

Access Steering Committee

The Committee has met twice in the course of 1Q; and has provided input into the work plan. The work on economic modelling has established that there is a sufficiently large market to make the offering of aggregation services a self-sustainable service with a minimum of 3 vendors, even taking a very narrow (Faster Payments only) view of the market.

The work assesses the market size; now and in 2020 taking various



scenarios into consideration including organic growth in Faster Payments volumes and an increase in market share for what are today's "challenger banks". The costs and revenue opportunities for vendors and Payment Service Providers (PSPs) have been socialised with interested parties, who have validated and challenged where appropriate.

The final pieces of work in this space will be a) to finalise the "sales packs" for PSPs and vendors, which give an economic modelling tool as well as some softer business rationale for entering the market, and b) to produce a new white paper that follows on from the vision in December with a confirmation that the market is viable.

The Company is now in the process of transitioning from a small team of project personnel from Accenture to a long-term Programme Director. Accenture has established the project, with a clear project definition and a firm plan. The Programme Director is picking this up and elaborating further in terms of longer term resource requirements.

The Company has a clearer idea of resource requirements to make the programme a reality; which will require additional funding. [Detail redacted due to commercial sensitivity]

The PSR continue to be pleased with the progress made to date.

The Board **APPROVED** the budget increase [Detail redacted due to commercial sensitivity] and requested the following:

- The 'sales pack' and white paper are circulated to directors for information. **Action FB 198(i)**
- Company to arrange one or two 'one-off' sessions to be held in April after the circulation of the 'sales pack' and white paper to bring Directors up to speed and provide a set of Q&A's.

MB

MB

Automated Scheme Protection Measures (ASPM)

Automated Scheme Protection Measures is a mechanism to monitor abnormal processing by one or more participants, to ensure that remedial action can be taken at the earliest opportunity to minimise systemic issues

The Technical Group, Development Committee and the ASPM Working Group have all reviewed the options and support the recommended approach of utilising the Transaction Analyser tool. [Detail redacted due to commercial sensitivity] Note FB 021/15 includes estimates of the costs of rectifying a major incident; indicating that ASPM would only need to prevent a couple of major incidents to “pay for itself”.

NC sought confirmation of the principle on deciding how the costs are charged by the infrastructure provider.

JH highlighted that there are a number of areas which is resulting in additional costs e.g. PSR fees, Cyber Programme and proposed increase in transaction fees to support ASPM.

Following a discussion the whole Board **APPROVED** a proposed solution with some dependencies. [Detail redacted due to commercial sensitivity] The Board requested that a more detailed paper be issued including possible payment options. **Action FB 198(iii)**

MB

Ringfencing

A discussion was held around challenges faced by some Members. [Detail redacted for financial stability reasons]

The Board considered the need to establish a cross scheme working group. NC stated that he is attending the Scheme Chairs & Managing Directors meeting week commencing 13 April and could raise this topic at the meeting to co-ordinate some areas of the work. Any ring-fencing work will also be co-ordinated with Payments Council.

Settlement Pre-funding

JJ advised that the independent review of the Bank of England’s RTGS outage on the 20 October 2014 is due to be published on 25 March. The Company will re-engage with the Bank of England during April to agree implementation timescales. The Company will re-iterate to the Bank that a minimum of eight weeks is required to re-engage with Members and a number of weekends have already been allocated for the infrastructure provider to undertake crucial maintenance work.

Scheme Transaction Limit (STL)

CT advised that work cannot progress to increase the STL until Settlement Pre-funding goes live. However a draft plan will be issued to Development Committee members within two weeks. **Action FB 198(iv)**

MB

199. CREDIT PAYMENT RECOVERY

The Scheme runs the Credit Payment Recovery process on behalf of the industry.

JJ referred to FB 023/15 and provided a detailed summary of the work undertaken to date with full support of the proposal to adopt the improved operating guide and the introduction into the next version of the Procedures from two indirect participants and all but one Direct Member. This decision by the Steering Group was subject to the Financial Conduct Authority (FCA) responding directly to Members with regard to any concerns raised around potential regulatory breaches. The FCA has indicated that they will provide their responses following the receipt of queries from all Members.

A number of Directors were pleased that the new procedures were now available and would allow a consistent approach for the benefit of customers.

MC raised a concern that whilst these were positive changes, more work needed to be done around Management Information (M.I.)

The Board considered this but agreed that the enhancements should not hold up the implementation of the current proposal. This was endorsed by the Independent Directors.

JJ confirmed that M.I. will be issued shortly and a series of meetings have been scheduled to monitor the process through in project style. There is also a need to have a standard set of processes before this is extended to indirect participants.

MC stated that he would support the recommendation subject to more sophisticated M.I. incorporating dashboards and targets being produced and circulated. The Company will produce the required M.I. and engage MC's team during the process. **Action FB 199**

JJ

The whole Board **ENDORSED** the following recommendations from the Credit Payment Recovery Steering Group:

- The revised Operating Guide can be adopted and introduced into Scheme procedures
- The timescale for implementation of the revised process through updated Scheme procedures is set for the end of June 2015 with a phased approach for some Members depending on the scale of changes required.

200. SCHEME PERFORMANCE

Performance Presentation

The Board received a presentation from one Member on the challenges they are facing and steps being taken to improve their performance. [Detail redacted due to financial stability reasons]

Chief Executive Summary

CT drew the Board's attention to three particular items from the report Market Developments – PSD2

TPP access requirements emerging for banks, although risk of premature UK Government API requirements being applied ahead of this.

Participation – one participant has submitted a Letter of Intent with an intention to go live in H2 2016.

Organisation

The number of employed staff before and after being TUPE'd across from UK Payments Administration (UKPA) to Faster Payments Scheme Limited with no detrimental impact to staff and the shared resources provided by UKPA.

Balanced Scorecard

This was a first draft of the balanced scorecard and is work in progress.

Scheme Operations Report

It was noted that the figures in the Appendix for either January or

February were incorrect as they appeared to have been duplicated. No further comments were received on the Scheme Operations Report.

Secretary's Note: The report was re-issued on 26 March 2015.

The Board **NOTED** the reports.

201. UPDATE FROM COMMITTEES

The Board briefly reviewed the Scheme Committees Report.

An observation and questions were raised as follows:

- Increasing demands from HMT – this needs to be channelled through the PSR Strategy Forum.
- Is the decision not to look at increasing the overall TPS capacity the right approach?
- What is the governance for the customer proposition document?

MB responded to the questions as follows:

Customer Proposition

This piece of work was delegated to the Development Committee in June 2014. A note will be issued setting out what changed within the customer proposition document. **Action FB 201 (i)**

MB

Overall TPS Capacity

Taking on board comments that volume is increasing by 20% per year, Development Committee members will be asked to advise what allocation their organisation requires for each payment type. When responses have been received the Company will request a high level estimate from the infrastructure provider. **Action FB 201 (ii)**

MB

Depending on the responses received, one option may be to extend the Standing Order window or introduce weekend processing.

CT agreed to carry out a strategic piece of work to look at increasing the capacity with the introduction of new direct members / participants in the near future. **Action FB 201 (iii)**

CT

202. BANK OF ENGLAND PRIORITIES AND OBSERVATIONS

CT referred to FB 028/15 and highlighted the following two Priorities that have a red RAG status:

P13-01 Pre-funding

The independent review of the Bank of England's RTGS outage on the 20 October 2014 is due to be published on 25 March. The Bank is aware that Members and the Company will require a minimum of eight weeks notice of the go-live date.

P14-02 Tiering

Tiering data is still awaited from one Member and one arm of a further Member. This data is now required as a matter of urgency.

The Board noted there had been significant changes in personnel within the Bank of England Supervision team. An agreed list of actions setting out what is required to close a number of Priorities is being produced. A Gant chart to monitor progress will be produced ahead of the June Board meeting. **Action FB 202**

JJ

The Board **NOTED** the Priorities and Observations Tracker.

203. ACTION LOG

The Board **REVIEWED** the Action Log.

204. ANY OTHER BUSINESS

NC advised that he has asked CT to look at how we may handle the Board meetings differently given that the Board meetings are becoming more time-pressured. **Action FB 204 (i)**

CT

This will be discussed at the June Board. **Action FB 204 (ii)**

JC

The Board extended thanks to Lloyds Bank for their hospitality in hosting the Board meeting in their offices in Edinburgh.

Date of next meeting and Strategy Event
11 and 12 June 2015