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## MINUTES

**TO** Board  
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**DATE** 20 December 2017

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### MINUTES OF THE BOARD MEETING HELD ON 12 DECEMBER 2017

<b>PRESENT</b>	David Rigney	Bacs ( <b>Chair</b> )
	Rachel Langworth	Bacs ( <b>Secretariat</b> )
	Mike Chambers	Bacs
	Dave Stockwell	Bacs ( <i>Attendee</i> )
	Anne Pieckielon	Bacs ( <i>Attendee</i> )
	Andy Hollingdale	Bacs ( <i>Attendee</i> )
	Mike Morrissey	Bacs ( <i>Attendee</i> )
	Julie Nash	Bacs Legal Adviser ( <i>Attendee – AI2/17.06 only</i> )
	Mark Rodgers	Bacs ( <i>Attendee – AI 12/17.14 only</i> )
	Martin Henry	AIB
	Andrew Grice	Bank of England ( <i>Observer</i> )
	James Meyrick	Barclays
	John Walsh	Citi ( <i>via conference call</i> )
	Dougie Belmore	Clydesdale
	Vicki Hassan	Northern Bank
	Sue Yarham	HSBC
	Anne Trolland	Lloyds Banking Group
	Mark Nalder	Nationwide
	Liz Cooper	Santander
	Ian Smith	TSB
	David Malley	RBSG
	Alan Duff	Virgin Money
	Ailsa Beaton	INED
	Jo Kenrick	INED
<b>APOLOGIES</b>	Resat Bilgin	Turkish Bank (UK)
	Kathy Lennon	RBSG
	Fergus Ryan	Bacs

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ID	ITEM	ACTION
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**12/17.01 MINUTES OF THE PREVIOUS MEETINGS**

The Chairman, D Rigney, introduced the meeting noting the apologies received and welcomed V Hassan who has replaced L Curran as the Director appointed by Northern Bank. Board **noted** the Declarations of

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ID	ITEM	ACTION
	<p>Interest Register; any further changes should be advised to R Langworth.</p> <p>Board reviewed the Redaction Policy and proposed changes. J Kenrick queried whether section 2.2 should better reflect a zero tolerance. It was also requested that section 3.3.1e, relating to commercial confidentiality and sensitivity, includes reference to performance and whistleblowing. The change was <b>agreed</b>; Bacs is to update the policy and re-circulate.</p> <p>The minutes and proposed redactions for the meeting held 26 September 2017 were <b>agreed</b>.</p>	<p><b>R Langworth</b></p>
<p><b>12/17.02</b></p>	<p><b>ACTION LOG</b></p> <p>The 13 actions marked as proposed closed were <b>agreed</b>. Referring to the four open actions M Chambers provided the following update:</p> <p><u>04/17.02(a) Roles and responsibilities of CASS, Cash ISA and Bacs</u></p> <p>This action is being addressed under the Current Account Switch Service (CASS) governance agenda item (12/17.10); it will be progressed in the context of the New Payment System Operator (NPSO). Closed.</p> <p><u>06/17.05(b) Hub Office Space Licence Agreement</u></p> <p><b>[DELETED- COMMERCIALY SENSITIVE]</b> Closed.</p> <p><u>09/17.07(a) GDPR) Risk Committee ‘Deep Dive’</u></p> <p>This action will be addressed at the Risk Review Group meeting scheduled for the 13 December. To be closed on 13 December.</p> <p><u>09/17.08 Debit Cap ‘Buffer’ rule change</u></p> <p>Bacs is of the opinion that the Vocalink deliverable meets the requirements to allow the Rule change to be implemented and will seek Settlement Working Group’s confirmation at its next meeting.</p> <p><u>A Trolland raised a question regarding 09/17.06 (Trend in the FFA UK data)</u> UK Finance advised that the increase in reported fraud figures are primarily due to one organisation’s reporting which appears to differ from that of the other organisations. A Trolland queried whether UK Finance has plans to extend the MI being collected across the entirety of participants; it was agreed that Bacs would discuss this with UK Finance.</p>	

ID	ITEM	ACTION
<b>12/17.03</b>	<p><b>DIRECTOR CHANGES</b></p> <p>Board <b>noted</b> the resignation of L Curran as Director appointed by Northern Bank and subsequently the resignation of his alternate S Pike. Board <b>noted</b> the appointment of V Hassan as the replacement Director appointed by Northern Bank.</p> <p>Board <b>noted</b> the appointment of A Pieckielon, Bacs Director of Product and Strategy, as the interim Chair of the Electronic Payments Affiliates Interest Group (EPAIG).</p>	
<b>12/17.04</b>	<p><b>CEO REPORT</b></p> <p>M Chambers referred Board to the CEO report, noting the following key points:</p> <ul style="list-style-type: none"> <li>• As at the end of the Service Year (end of November 2017) Bacs processed 6.4 billion transactions; a 2.2% growth. The volume growth derives primarily from Direct Debit (DD). Bacs has processed more than 126 billion transactions since its launch</li> <li>• The Cash Isa Transfer Service has successfully on-boarded Shawbrook Bank</li> <li>• <b>[DELETED- COMMERCIALY SENSITIVE]</b> M Chambers noted the Member contact list that was circulated on the 24 November and asked Directors to advise R Langworth of any changes as soon as possible; the list is to be re-circulated</li> <li>• M Chambers advised that the 2017 staff survey results had just been received and provided a high level update on the results, noting that in comparison with the previous year's results Bacs has seen a 10-15% decrease across each of the five categories that make up the survey and where Bacs had previously achieved a a 100% positive result in answer to the question 'taking all things into account this is a great place to work', this year it achieved an 83% positive result. While a decrease was expected due to the proposed consolidation fo Bacs into the NPSO, Bacs will look to address the issues were it can either via Bacs or seek to influence factors through the NPSO. M Chambers</li> </ul>	

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	<p>noted that notwithstanding the impact that NPSO has had on this year's results the verbatim staff comments were extremely encouraging and that, overall, Bacs' results were still above the industry benchmark for financial services. M Chambers took the opportunity to recognise the commitment, professionalism and dedication of the Bacs team in a difficult, uncertain and destabilising time.</p>	
12/17.05	<p><b>FINANCIAL PERFORMANCE</b></p> <p>M Chambers walked Board through the Financial Performance Report as at October 2017, noting that the November Report is due to be received on 15 December. <b>[DELETED- COMMERCIALY SENSITIVE]</b></p> <p>Bacs is to circulate the November report to Board when available.</p>	
12/17.06	<p><b>NPSO TRANSITION</b></p> <p>The Chair introduced the item, providing a summary of the progress within NPSO since the Board last met, and the concerns of Bacs with regard to the progress of consolidation activities. The Chair has met with BoE on a number of occasions<b>[DELETED- COMMERCIALY SENSITIVE]</b> .</p> <p>M Chambers stated that the Company's primary focus remains centred on fulfilling its systemically important payment system (and Managed Services) obligations however, in addition, is seeking to support the formation of NPSO, complete transition of Bacs into the NPSO and support the wider industry activity regarding New Payment Architecture. It was agreed that M Chambers would articulate a risk based description of Bacs' activities in 2018 based on the current environment.</p> <p><b>[DELETED- COMMERCIALY SENSITIVE]</b> .</p> <p>Referring to the actions outlined on page eight of the NPSO paper, it was <b>agreed</b> that Bacs is to undertake a final review of the consolidation document set included in the meeting papers, and then circulate to Members in a final draft form for review and comment but not signing at this stage. It was clarified that Bacs will seek to provide a four week Member review period. Board acknowledged that although the proposed</p>	

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	<p>approach was prudent it may result in Bacs not achieving the consolidation timeline that NPSO desire. On this basis it was <b>agreed</b> that whilst the timeline is reasonable there are factors including Member agreement and regulatory obligations that may require this timeline to be reviewed. Also Board <b>agreed</b> that whilst Bacs is seeking to incorporate the act of consolidation and other regulatory obligations into a single Member change it may be necessary to make a risk based decision on how to best achieve the desired outcome for the regulatory obligations and consolidation. A number of the identified issues noted in the paper were discussed and it was <b>agreed</b> that Bacs would maintain an Issues Log to track all issues and queries raised. It was noted that Bacs is to arrange a Member meeting to discuss consolidation into the NPSO and the associated document set.</p> <p>The Chair noted his thanks to M Chambers, A Hollingdale and J Nash for their work on NPSO consolidation.</p>	
<p><b>12/17.07</b></p>	<p><b>BANK OF ENGLAND 2017/18 PRIORITIES</b></p> <p>Referring to the Structural Reform priority, A Hollingdale advised that Bacs has completed the Structural Reform on-boarding activities for 2017, with some further activity planned for H1 2018. The bulk of the redirection for the account migrations has also been completed via BPRS. The communications to Service Users (SUs) has now completed and has seen the associated risk brought back within appetite. The industry co-ordination meetings with BoE, the PSOs and the impacted banks have now concluded; it has been agreed that the PSOs and BoE will continue to meet on a monthly basis to discuss the broader 2018 on-boarding activities. A Post Implementation Review (PIR) was undertaken; the responses were in the main positive, with key learnings regarding the challenges Participants faced with regard to confidentiality issues that hindered discussions in the early stages of the project. Board was referred to Appendix 1 of the paper <b>[DELETED- COMMERCIALY SENSITIVE]</b> . Bacs will circulate the documents to Members in December for signing by the end of February 2018.</p>	<p><b>Bacs</b></p>

ID	ITEM	ACTION
	<p>Board <b>noted</b> the update on Structural Reform.</p> <p>Referring to the GDPR priority and associated project which is currently rated as Amber, A Hollingdale advised that Bacs is on track to submit its gap analysis and high level plan to BoE by end of December 2017. The analysis and plan will be circulated to Board ahead of submission to BoE.</p> <p><b>[DELETED- COMMERCIALY SENSITIVE]</b> Board <b>noted</b> the update on GDPR.</p>	<b>A Hollingdale</b>
<b>12/17.08</b>	<p><b>PSR SPECIFIC DIRECTION 2 – PROJECT SOMERSET</b></p> <p>A Hollingdale referred to the paper regarding Project Somerset. Under the PSR Specific Direction 2 (SD2) Bacs is required to undertake competitive procurement exercise for infrastructure provision. The request to drawdown the 2018 budget allocation <b>[DELETED-COMMERCIALY SENSITIVE]</b> for the project covers the continuation of the bulk payments requirements gathering work against the Payment Strategy Forum’s (PSF) New Payment Architecture (NPA) blueprint, and to begin negotiations with the current infrastructure supplier to ensure certainty of supply beyond the current contract and ahead of transition to NPA.</p> <p><b>[DELETED- COMMERCIALY SENSITIVE]</b> Bacs clarified that the budget allocation is for a resource profile comprising of new and existing consultants. S Yarham noted the need to consider the end user when progressing this activity; Bacs advised that the project is defining and including such requirements, and has plans for end user engagement in 2018 as part of the activity to be funded through this drawdown.</p> <p>J Meyrick noted a concern that when the budget was agreed by Board it was on the basis that the funds required would be for the entirety of 2018, however the work as described will only take place in H1 2018. Furthermore he noted concern that this sought to cross-subsidise NPSO.</p> <p>M Chambers confirmed that the funds for the NPA requirements gathering activity covers budget for six months work, however that is all that is required of Bacs to meet SD2. Beyond June 2018 no further work with regard to the requirements gathering will be expected of Bacs as the ownership of SD2 and the requirement to procure infrastructure supply</p>	

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	<p>will be the responsibility of the NPSO. Bacs will be required to ensure certainty of supply beyond the current contractual period and ahead of implementation and transition to the NPA which is the driver for the second part of the drawdown request. S Yarham noted that Bacs should treat this as a priority so as to safeguard the Bacs proposition to end users. It was agreed to include an update within the CEO Report.</p> <p>Board <b>approved</b> the drawdown of the agreed 2018 funding <b>[DELETED-COMMERCIALY SENSITIVE]</b> to progress Project Somerset and Bacs infrastructure procurement activities noting that this does not cross-subsidise NPA activities being undertaken by NPSO. It was <b>agreed</b> that the amount will be included in the H1 invoice to be issued to Members in January 2018.</p> <p>Referring to the request from NPSO that Bacs seek additional funding from its Members for other NPA activities in 2018 it was unanimously <b>agreed</b> that Bacs should not seek such funding and that any funding request should come from NPSO and be made directly to the Members.</p>	<p><b>M Chambers</b></p>
<p><b>12/17.09</b></p>	<p><b>CASS MINIMUM DIRECTION</b></p> <p>A Pieckielon referred Board to the paper detailing the recommendation regarding the CASS minimum redirection period. The issue of whether to revert from the current temporary 54 month redirection period to the CMA recommended 36 months has been considered by both the Bacs Executive Committee (EC) and CASS EC. <b>[DELETED- COMMERCIALY SENSITIVE]</b>. Taking on board the discussions held by the Bacs EC, the CASS EC has recommended reverting to the 36 month redirection period, with a 13 month dormancy period, to test the headroom of the redirections database every two years and to progress the additional steps outlined in the paper to mitigate customer impacts. Bacs advised that it has engaged with CHAPS (before it transferred to the BOE), Cheque &amp; Credit Clearing Ccompany and Faster Payments Scheme on the matter, and the BoE are aware of the proposed actions. Board <b>agreed</b> the recommendation.</p>	
<p><b>12/17.10</b></p>	<p><b>CASS GOVERNANCE</b></p>	

ID	ITEM	ACTION
	<p>Referring to the paper regarding the CASS governance changes, J Kenrick advised that nine nominations have been received for the nine vacancies on the CASS EC, as per the revised structure. The EC now comprises of an Independent Chair, two Independent Non-Executive Members and nine Participants representatives. It was noted that while only nine Participants will sit on the EC, all Participants will be in receipt of the papers and will have the opportunity to feed in their views via J Kenrick and the CASS team.</p> <p>Board <b>agreed</b> the CASS EC governance changes which will become effective from January 2018.</p>	
12/17.11	<p><b>DIRECT DEBIT PROPOSITION</b></p> <p>Referring to the paper providing a Direct Debit (DD) proposition update, A Pieckielon advised that six concepts are being taken forward at a varied pace based on partners priorities. Bacs has engaged with a wide range of stakeholders to gather feedback, and discussed the concepts with the EPAIG and the PSR.</p> <p>Board was advised that the PSR has confirmed it will support the recommendation to introduce an accreditation process for commercial Facilities Management (FM) providers to address its competition concerns. <b>[DELETED- COMMERCIALY SENSITIVE]</b></p> <p>Board <b>agreed</b> the approach outlined in the paper and <b>approved</b> that the budget can be drawn from the Development Fund. A Pieckielon thanked Directors for their help in progressing the development of the DD Proposition, notably J Meyrick and those involved in the DD Proposition Working Group (DDPWG).</p>	
12/17.12	<p><b>BACS SERVICE YEAR 2016/17 RECOVERY END OF YEAR RECONCILIATION</b></p> <p>D Stockwell advised the Board of the Transaction Charge end of year reconciliation process. <b>[DELETED- COMMERCIALY SENSITIVE]</b></p>	
12/17.13	<p><b>2017/18 SERVICE SPECIFIC CHARGES</b></p> <p><b>[DELETED- COMMERCIALY SENSITIVE]</b></p>	

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12/17.14	<p><b>RISK EXECUTIVE SUMMARY (INCLUDING BOE P17-01)</b></p> <p>M Morrissey referred to the Risk Executive Summary, noting that the Key Risk Indicators (KRIs), Key Performance Indicators (KPIs) and Risk Appetite statement have been updated. The next stage is to roll out control evaluation to the business. <b>[DELETED- COMMERCIALLY SENSITIVE]</b> It was noted that structural reform is now back in appetite, and the BoE has stated “no further questions” on Bacs assessment of NPSO transition risk. Board <b>noted</b> the Executive Summary and the key risks, and the KRIs and KPIs. The tolerated risks noted as out of appetite were <b>agreed</b>, and Board reviewed and <b>agreed</b> the revised Risk Appetite Statement.</p>	
12/17.15	<p><b>COMMITTEES UPDATE</b></p> <p>Board <b>noted</b> the minutes of the Board reporting committees and A Beaton requested that Directors consider joining the Audit and Risk committees. Board <b>agreed</b> that the Chair can sign the revised Internal Audit Charter.</p>	
12/17.16	<p><b>AOB</b></p> <p>A Trolland queried whether, following the Audit Committee’s discussions regarding the Bacs Approved Bureaux inspection cycle and the recent operational incident at one bureau, the proposal under development should be revised. D Stockwell advised that Bacs is looking to move to a four-year inspection cycle, with a supplementary annual self attestation process. It was confirmed that a PIR of the incident will be undertaken and any applicable learnings factored into any proposal to change the Bacs Approved Bureaux inspection cycle.</p> <p><b>[DELETED- COMMERCIALLY SENSITIVE]</b></p>	

**Date of next meeting: 13 March 2018**