

## MINUTES

TO Board  
FROM Rachel Langworth, Committee Manager  
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DATE 29 March 2018

### MINUTES OF THE BOARD MEETING HELD ON 13 MARCH 2018

PRESENT	David Rigney	Chairman
	Rachel Langworth	Bacs ( <i>Secretariat</i> )
	Michael Chambers	Bacs CEO
	Martin Henry	AIB ( <i>via conference call</i> )
	Andrew Grice	Bank of England
	James Meyrick	Barclays
	Melanie Martin	Citi
	Dougie Belmore	Clydesdale
	Vicki Hassan	Danske ( <i>via conference call</i> )
	Sue Yarham	HSBC
	Anne Trolland	Lloyds Banking Group
	Mark Nalder	Nationwide
	Liz Cooper	Santander
	Ian Smith	TSB
	Kathy Lennon	RBSG ( <i>via conference call</i> )
	Alan Duff	Virgin Money ( <i>via conference call</i> )
	Ailsa Beaton	Independent Non-Executive Director
	Andy Hollingdale	Bacs ( <i>Attendee</i> )
	Anne Pieckielon	Bacs ( <i>Attendee</i> )
	Dave Stockwell	Bacs ( <i>Attendee</i> )
	Fergus Ryan	Bacs ( <i>Attendee</i> )
	Julie Nash	Bacs ( <i>Attendee AI 08 only</i> )
	Mandy Bansal	Bacs ( <i>Attendee AI 09 only</i> )
APOLOGIES	Resat Bilgin	Turkish Bank
	Julian Sawyer	Starling Bank
	Jo Kenrick	Independent Non-executive Director

ID	ITEM	ACTION
03/18.01	<b>MINUTES OF LAST MEETING</b>	<b>Chair</b>
	The Chair welcomed Directors to the meeting, noting apologies from R Bilgin, Jo Kenrick and J Sawyer.	
	Board <b>noted</b> the Declarations of Interest Register.	
	Board <b>agreed</b> the minutes of the meeting held 12 December 2017, and the 7	

ID	ITEM	ACTION
	February 2018.	
<b>03/18.02</b>	<b>ACTION LOG</b>	
	Board <b>noted</b> the items marked as closed, and <b>agreed</b> the closure of all actions marked as 'Propose to close'. An update was provided on the following open item:	
	<u>09/17.08 Delivery date for 'buffer' rule change CR</u>	<b>C/F</b>
	Bacs confirmed it is content that the Vocalink deliverable meets the requirements for the rule change to be implemented; Settlement Working Group (SWG) meets on 23 March to validate view. The action will remain open pending the SWG discussion.	
<b>03/18.03</b>	<b>DIRECTOR CHANGES</b>	
	Board <b>noted</b> the appointment of J Sawyer as appointed by Starling Bank, G Donald's resignation as A Trolland's alternate, and the appointment of S Bailey as his replacement.	
	The Chair noted that in light of the New Payment Systems Operator (NPSO), it has been agreed that M Chambers' last day of service will be 30 September 2018. The Independent Non-Executive Directors (INEDs) are each contracted at least until the end of 2018; however as progress with NPSO continues it is expected that A Beaton's last day will be 31 October. J Kenrick's role as Chair of the Current Account Switch Service (CASS) Executive Committee (EC) will likely run beyond the end of 2018.	
	D Rigney, Chairman of Bacs, expected last day is 31 October.	
	It was noted that NPSO will need to appoint a Director to oversee the process of the liquidation of Bacs, which is typically a 12 month process.	
	The future of this Board was discussed under agenda item 03/18.08.	
<b>03/18.04</b>	<b>VOTING RIGHTS 2018</b>	
	D Stockwell referred Board to the paper detailing the voting rights for 2018. It was confirmed the total number of votes is 1000 at Member level and 1003 for Directors, as per the Articles of Association.	
	All <b>agreed</b> the allocated voting rights for 2018.	

ID	ITEM	ACTION
03/18.05	CEO REPORT	
	<p>M Chambers walked Board through the CEO Report, noting the following key elements:</p>	
	<ul style="list-style-type: none"> <li>• In 2017 there was a 3.8% growth in Direct Debit (DD) volumes and a record 6.3 billion transactions processed,</li> <li>• Starling Bank has successfully joined Bacs and gone live</li> <li>• Bacs has moved to become a carbon positive company</li> <li>• Growth in 2018 processing year continuing; Bacs is forecasting a growth in in DD volumes in 2018 (year to date 3%) and a small decrease in Direct Credit volumes, but a continued growth in overall volumes (year to date 1.3%).</li> <li>• The ISO 20022 project has been successfully delivered; this supports the work ongoing with regard to the New Payment Architecture (NPA) and addresses a Specific Direction from the Payment Systems Regulator (PSR).</li> </ul>	
	<p><b>[DELETED – COMMERCIALY SENSITIVE]</b></p>	
03/18.06	FINANCIAL PERFORMANCE	
	<p><b>[DELETED – COMMERCIALY SENSITIVE]</b> The Audit Committee has reviewed the draft 2017 Financial Performance report as presented and is satisfied with its content. It was noted that the Report is subject to external audit review and corporate tax treatment. <b>[DELETED – COMMERCIALY SENSITIVE]</b> A Beaton confirmed that the external audit is due to complete by 25 April, following which it will be reviewed by the Audit Committee and then tabled at Board for agreement</p>	
03/18.07	RISK EXECUTIVE SUMMARY (INCLUDING BOE P17-01)	
	<p>F Ryan provided Board with an update as per the Risk Executive Summary provided. It was confirmed that a draft of the Risk Framework Internal Audit (IA) was delivered on the 13 March (one week late). There are no material findings that need to be addressed. <b>[DELETED – COMMERCIALY SENSITIVE]</b>M Chambers advised that the Bacs IA plan will be ‘on-track’ at the point NPSO takes over the responsibilities of Bacs.</p>	

ID	ITEM	ACTION
	<p>Referring to the Key Risk Indicators (KRIs), F Ryan advised that Bacs is now able to identify emerging trends; the next step is to rationalise the KRIs into a smaller, more focused set of KRIs and the business will produce a parallel reporting mechanism for business performance.</p> <p>A new process for control evaluation has been developed and the process for evaluation is embedding well.</p> <p><b>[DELETED – COMMERCIALY SENSITIVE]</b> Board <i>noted</i> the Bacs Risk Executive summary, heatmap and the out of appetite risks.</p>	
<b>03/18.08</b>	<b>NPSO TRANSITION</b>	
	<p>M Chambers provided an update with regard to the transition to NPSO, and ‘Set 2’ (the legal documents to be sent to Members to effect consolidation). A Board briefing was held 9 March and an information note circulated following the session; a further legal view was circulated 12 March. The Bacs NPSO Transfer Sub Group (NPSO TSG) met on 12 March to discuss the documents.</p> <p><b>[DELETED – COMMERCIALY SENSITIVE]</b> Set 2 relates to changes to affect the act of consolidation only. It is expected there will be a further set to effect changes relating to General Data Protection Regulation (GDPR) and anything else that is necessary.</p> <p>Bacs continues to encourage staff to engage with and on the topic of NPSO, and maintains the ‘Considerations Log’. Bacs is preparing its attestation to the BoE. Although it is anticipated that to some extent this may be superseded by NPSO’s own submission to the BoE to effect transfer of systemic responsibilities for the in scope PSOs.</p> <p>There is work to be done to achieve the NPSO Target Operating Model (TOM) V1.0, which NPSO would like to be achieved by 1 May (target date of consolidation). Bacs has mapped the Bacs functions and people against the TOM and is due to validate this with NPSO in the coming days. Once complete, Bacs will also map its governance model against that of the NPSO. Following 1 May, Bacs will require a Board to oversee a small set of activities that have been defined by the NPSO. The three ECs and their structures will</p>	<b>Bacs</b>

ID	ITEM	ACTION
	<p>be retained for the present time, and will report to an NPSO Managed Services Committee.</p> <p>Bacs has not yet received the Offer Letter from the NPSO; the latest understanding is that the NPSO Board will meet on 15 March to finalise the letter, following which Bacs hopes to receive the letter. However, Bacs did receive a letter on 12 March from M Johnson, Chair of NPSO, outlining its expectations with regard to the role of the NPSO Board and delegation to Bacs Board from 1 May, and a number of other items. Bacs is underway with its assessment of the letter and formulating a response to NPSO with regard to points of clarification that are required.</p> <p>The Chair summarised that Bacs needs to reflect on the letter received; however on the basis transformation takes place on 1 May the delegated responsibilities to Bacs Board will be minimal. It will only be responsible for the knowledge handover and transition to the point of 31 October 2018. It is expected the Bacs Audit and Risk Committees will cease to exist from 1 November 2018. While not a final position, the chair expects to have a final Board meeting on 30 April; Bacs is to arrange. <b>[DELETED – COMMERCIAL SENSITIVE]</b> From 1 May, Bacs will be led by a General Manager, with a set of responsibilities articulated by the NPSO. A paper is to be circulated to Board formalising Bacs’ thoughts and expectations with this regard. D Belmore queried how Bacs EC will be treated given it does not oversee a managed service; M Chambers confirmed it will continue and will treat the Direct Debit and Direct Credit schemes as if they were a ‘Managed Service’. <b>[DELETED – COMMERCIAL SENSITIVE]</b> . D Stockwell noted Bacs is in conversation with the NPSO regarding incident management, and the BoE are being briefed on the discussions held. I Smith noted it is vital that it is clear who are the <b>Bacs</b> owners and have accountability for incidents; M Chambers confirmed that from 1 May the NPSO Chief Executive Officer (CEO) and the NPSO Chief Operating Officer (COO) will be responsible.</p> <p>It was queried how incidents would be dealt with post 2 May including what <b>Bacs</b> would happen should a Member bank go into liquidation; Bacs confirmed</p>	

ID	ITEM	ACTION
	<p>that the NPSO Board would convene and be responsible for such an occurrence.</p> <p>Referring to issuing Set 2 documents to Members for execution , M Chambers advised the Bacs NPSO Steering Group had discussed three options:</p> <ol style="list-style-type: none"> <li>1. Agree the document set is acceptable for issuance to Members for execution now and circulate the Offer Letter when received</li> <li>2. In the absence of the Offer Letter, do not agree the issuance of Set 2 to Members at this point. It was noted this presents an issue that to achieve the NPSO deadline, would mean a reduced signing period for Members.</li> <li>3. Recommended option: subject to Board agreement that documents are acceptable, issue Set 2 to Members now in a final draft form such that Members can progress the governance process for signing, with the caveat that they are not to be executed by Members until an acceptable and final Offer Letter is received, reviewed by Bacs and Board, and is issued to Members with the documents in their final form for formal execution. This option does not come with a fixed timeline for the Offer Letter element; while Bacs hopes to receive the letter following the NPSO 15 March Board meeting, we will need to allow sufficient time for Bacs and Board review.</li> </ol> <p>Option 3 will include a provision stating Bacs' right to veto or amend Set 2 documents should the Offer Letter not be acceptable or require changes to the documents. <b>[DELETED – COMMERCIALY SENSITIVE]</b></p> <p>M Nalder queried whether there has been any indication that anyone is not willing to sign Set 1; M Chambers advised it has not received any such information and noted that 1 Member had already returned executed Set 1 documents. M Chambers confirmed that the NPSO would like Set 2 to be signed by Members by 29 March and held to order by the lawyers. Bacs understanding is that Set 2 are expected to become effective from 30 April.</p> <p>S Yarham noted that a number of banks have opted for <b>[DELETED – COMMERCIALY SENSITIVE]</b> (External Law Firm) to represent them with regard to consolidation; a call between External Law Firm and those</p>	

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concerned was held where extreme concern was noted with regard to meeting the 29 March date, particularly given the upcoming Easter holiday period. External Law Firm contacted the NPSO lawyer to discuss, and pending the response, a letter will be sent to Paul Horlock. Bacs noted that it is focussing on achieving entry dates for all signing periods; it cannot guarantee exit (execution) dates given that all banks and building societies have to work through their own governance processes.

There was consensus among Board that it cannot recommend Set 2 to the Members without the Offer Letter, however it would be helpful to allow Members to undertake the necessary due diligence by allowing them to have the documents in a final draft form and not for execution at this stage (pending receipt of the Offer Letter). All **agreed** option three.

It was requested that the Chair write to NPSO to express the urgent need for the Offer Letter, making clear the Board decision in relation to Set 2 without the Offer Letter. *[Post meeting note: letter sent to M Johnson on 13 March]*

It was clarified that Bacs are requesting that Set 1 (and Set 2 when issued for execution are ) to be signed and returned to be 'held to order' by Bacs' lawyers, however the Members represented by External Law Firm requested that External Law Firm hold the documents for the members it represents, which Bacs is content with.

A Grice noted that the Offer Letter will have to include information with regard to the funding and how Bacs financial assets and in particular Regulatory Reserves will be dealt with. **[CANDID DEBATE – COMMERCIALY SENSITIVE]**

It was agreed to organise a call of the Board to discuss the Offer Letter once received. *[Post meeting note: organised for 21 March at 11:00].*

**03/18.09 GDPR**

A Hollingdale provided an update regarding the overview of the Bacs' approach to the GDPR compliance. Bacs noted that GDPR compliance is also one of the BoE Priorities and Bacs continues to update BoE regarding its progress and plans to achieve full compliance **[DELETED – COMMERCIALY**

ID	ITEM	ACTION
	<p><b>SENSITIVE]</b> Board was advised of the planned changes for the core services within Bacs, noting the proposed changes pertain to the agreements between Bacs and Members, and Bacs and Vocalink only. The changes to the agreements between Members and Vocalink will be communicated separately. Bacs has undertaken a factual and legal analysis of its data processing activities in accordance case law, guidance from the Information Commissioner’s Office (ICO) and the grouping of the European data protection regulators. The changes will be made to the PSPA, Bacs and Vocalink Framework, Marketing and System Operators Agreements. Pending agreement, Bacs will look to mirror the changes in the agreements between Members and Vocalink.</p>	
	<p><b>[DELETED – COMMERCIALY SENSITIVE]</b> J Meyrick suggested that the full analysis and explanation as provided to Board should also be given to Members such that they fully understand the rationale for the changes. Bacs confirmed that the proposed changes are to be issued to Members in conjunction with the analysis and an explanatory noted for signing by 30 April. It was suggested that there will be comment by Members and potential changes; the engagement with Members and expectation of comment needs to be considered. A Hollingdale acknowledged this.</p>	
	<p>It was agreed to send the Bacs documents and the Member documents to Board, Bacs Executive Committee and Member representatives for review, followed by a call / meeting and take a decision at that stage. Noting the upcoming Easter period, Directors advised there will need to be a minimum two week review period.</p>	<b>Bacs</b>
	<p>It was agreed that when engaging with the Members, Bacs will be looking for comments based on fundamental / material changes only. The documents should be sent to the Member representatives, Bacs Executive Committee and copied to Board.</p>	
	<p>It was <b>agreed</b> for M Chambers to sign the Bacs Agreements, subject to any Member comments being addressed, and the receipt of the executed copies from all Members.</p>	

ID	ITEM	ACTION
<b>03/18.10</b>	<p data-bbox="368 405 1305 600"><b>STRUCTURAL REFORM</b></p> <p data-bbox="368 405 1305 600">A Hollingdale advised that the update regarding the Redwood Project is as per the discussions under AI 03/18.03. Project Cedar and Maple continue; Bacs remains on track to achieve the second phase for each, whereby the ring-fenced bank achieves Membership of Bacs.</p> <p data-bbox="368 622 1305 705">It was confirmed that industry discussions including BoE will continue to run on a half-yearly basis, with the next meeting scheduled for 15 March.</p> <p data-bbox="368 728 651 763">The update was <i>noted</i>.</p>	
<b>03/18.11</b>	<p data-bbox="368 792 970 822"><b>PROJECT SOMERSET – PSR SPECIFIC DIRECTION 2</b></p> <p data-bbox="368 844 1305 1733">A Hollingdale provided an update on the activities of Project Somerset, noting that its current focus is on the definition of requirements for how Bacs products and services will operate over NPA. Bacs is working to align its activity with the NPSO NPA programme, FPS Project Devon and the BoE RTGS Renewal programme. Bacs intends to join the sessions FPS holds with Members to engage on the subject. M Nalder noted concern that Project Devon is further forward, and so it will be difficult to achieve alignment. A Hollingdale advised that Bacs and FPS are confident this is achievable. D Belmore queried whether Bacs is clear with regard to the competitive space Bacs and FPS operate in with regard to procurement. A Hollingdale advised it has met with the PSR and clarified that it will not be able to discuss the commercial aspects of the relationship with the Infrastructure Supply, but does plan to discuss how the contract with individual Payment System Operators (PSOs) and suppliers will move across to NPSO. The steer received from the PSR was that it expects the PSOs to apply for an extension and if the extension period is not sufficient then they have the option to apply for an exemption, noting that at this point it is likely to be a NPSO responsibility.</p> <p data-bbox="368 1756 1305 1998">It was confirmed that Bacs intends to seek a shorter extension period from Specific Direction 2 (SD2), and will apply for an exemption should that period not be sufficient. The PSR’s informal direction was that it would be difficult to agree an extension beyond three years. Bacs is to share its submission to the PSR with Board.</p>	<b>Bacs</b>

ID	ITEM	ACTION
	<p>[DELETED – COMMERCIALY SENSITIVE] . A Hollingdale responded that there will be competitive procurement opportunities before 2023, specifically in relation to the clearing and settlement layer within the NPA and also across the layered architecture envisaged by the NPA. It was also noted that the PSR does not want to put the robust infrastructure that is in place today in jeopardy while the industry moves towards NPA. Bacs is to share the output of the Vocalink Benchmarking report with Board.</p> <p>It was confirmed Bacs is working with Global Sourcing Association (GSA) with regard to procurement. GSA offer valuable insights, training, guidance and consulting. The Chair noted that this activity will be owned by NPSO in the near future; NPSO has recruited a procurement specialist NED.</p> <p>A Beaton queried whether the request for the extension will be submitted before 1 May; it would seem to take the opportunity for decision away from the NPSO. Bacs advised the extension does have to be requested before end of May; however the NPSO is fully aware and supports Bacs intention. Furthermore, the NPSO facilitated the meeting with PSR where it was discussed. It was agreed Bacs should seek a statement of support from NPSO if making the request before end of May.</p>	
<b>03/18.12</b>	<b>ENFORCEMENT OF COMPLIANCE</b>	
	<p>F Ryan referred to the paper detailing the Enforcement of Compliance process, as agreed by Board in 2017. The paper seeks agreement that Bacs can update the Payment System Rules to reflect the process. J Meyrick noted the need to be clear that nothing prevents Bacs speaking to its regulators if it has concerns. F Ryan noted the documentation does state that Bacs reserves the right to circumnavigate the chronological order of the steps should it see fit. It was noted the changes to the Payment System Rules will not be included in Member documentation until the circulation of Set 3.</p> <p>It was agreed to change the reference to the Financial Markets and Infrastructure Division (FMID) to BoE.</p>	<b>Bacs</b>
	The proposed changes and their inclusion in Set 3 were <i>agreed</i> .	
<b>03/18.13</b>	<b>USE OF BACS DATA</b>	

ID	ITEM	ACTION
	<p>F Ryan provided Board with an update regarding the proposed changes to the Policy for the use of Bacs data. It was confirmed that Risk Committee discussed the changes and recommend them to Board.</p> <p>J Meyrick queried what would happen in the event of a dispute; Bacs advised that the Participant is the owner of the data and therefore if consensus could not be reached, Bacs would note our rationale for concern and the member would proceed at their own risk information. The Supplier Policy for Data Analytics and the associated governance arrangements were <b>agreed</b>.</p>	
<b>03/18.14</b>	<p><b>COMMITTEES TERMS OF REFERENCE</b></p> <p>Referring to the updated Terms of Reference (ToRs), M Chambers advised all ToRs have been reviewed and, in light of transition to the NPSO, only exceptional updates have been included, with the exception of the CASS EC ToR.</p> <p>Referring to CASS EC ToR, M Chambers advised the document has been subject to additional changes to reflect the revised function and structure of the Committee in its present form.</p> <p>The CASS EC ToR was <b>agreed</b>, and all other ToRs <b>ratified</b>.</p>	
<b>03/18.15</b>	<p><b>COMMITTEES UPDATE</b></p> <p>Comments were invited by exception only.</p> <p>A Beaton noted concern with regard to ensuring quorum for the Audit and Risk Committees.</p> <p>A Pieckielon provided an update with regard to the CASS EC in J Kendrick's absence. It was noted that the recommendations from the CASS Strategy Day were ratified by the CASS EC at the inaugural meeting. <b>[DELETED – COMMERCIALLY SENSITIVE]</b></p> <p>M Chambers noted that if CASS EC remains an overlay service in NPA, Cash ISA will by default be also. It will lead to some 'on-questions' with regard to Direct Debit as a result of this work.</p>	
<b>03/18.16</b>	<p><b>AOB</b></p> <p>K Lennon requested clarification regarding the dates for the next Board. D Rigney advised a meeting for 30 April will be arranged, but asked directors</p>	<b>Bacs</b>

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ID	ITEM	ACTION
	<p>keep 5 June in the diary. <i>[Post meeting note: details of all upcoming meetings circulated 14 March].</i></p> <p>S Yarham queried whether signing authorities for BRD forms is on the list of items for NPSO to deal with; Bacs confirmed it is. Bacs is to share the list of <b>Bacs</b> items with Directors.</p>	

**Date of next meeting:** 21 March conference call  
30 April at 13:00