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## MINUTES

TO Board  
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DATE 27 June 2017

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### MINUTES OF THE BOARD MEETING HELD ON 13 JUNE 2017

PRESENT	David Rigney	Bacs ( <i>Chair</i> )
	Rachel Langworth	Bacs ( <i>Secretariat</i> )
	Mike Chambers	Bacs ( <i>Attendee</i> )
	Dave Stockwell	Bacs ( <i>Attendee</i> )
	Anne Pieckielon	Bacs ( <i>Attendee</i> )
	Andy Hollingdale	Bacs ( <i>Attendee</i> )
	Fergus Ryan	Bacs ( <i>Attendee</i> )
	Martin Henry	AIB
	Andrew Grice	Bank of England ( <i>Observer</i> )
	James Meyrick	Barclays
	John Walsh	Citi
	Dougie Belmore	Clydesdale
	Sue Yarham	HSBC
	Anne Trolland	Lloyds Banking Group
	Mark Nalder	Nationwide
	Liam Curran	Northern Bank
	Liz Cooper	Santander ( <i>conference call</i> )
	Ian Smith	TSB ( <i>Observer</i> )
	David Pettit	RBSG
	Otto Benz	Virgin Money
	Ailsa Beaton	INED
	Jo Kenrick	INED

### APOLOGIES

ID	ITEM	ACTION
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**06/17.01 BOE ANNUAL RISK ASSESSMENT BRIEFING**

Bacs advised that the Bank of England (BoE) Annual Risk Assessment briefing has been rescheduled to the September Board meeting. It was noted that M Chambers, D Rigney, and members of the Bacs Executive team will be meeting with the BoE on the 26 June to discuss the Annual Risk Assessment and 2017/18 priorities, following which an update will be provided to Board.

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06/17.02	<b>MINUTES OF THE PREVIOUS MEETINGS</b>	
	<p>I Smith of TSB was welcomed to the meeting; I Smith was attending as an observer on this occasion, and will formally join as a Director once TSB has successfully completed the ‘go-live’ process and a formal appointment letter has been submitted.</p> <p>Board <b>noted</b> the Conflicts of Interest matrix, which is to be re-named the ‘Declarations of Interest Register’. A Trolland, D Belmore, S Yarham and A Beaton advised of changes in their responsibilities; R Langworth is to update the matrix accordingly. <b>[DELETED – COMMERCIALY SENSITIVE]</b></p> <p>The minutes of the meetings, including the proposed redactions, held 14 March, 19 April and 17 May were agreed.</p>	<b>R Langworth</b> <b>R Langworth</b>
06/17.03	<b>ACTION LOG</b>	
	<p>All actions were noted as closed with the exception of the following which are to be carried forward:</p>	
	<u>03/17.11(a) Feedback from TSB regarding the on-boarding process</u>	<b>C/F</b>
	Action to be complete post the TSB go-live.	
	<u>03/17.13(a) Bacs to test moving away from a flat-line forecast for CASS</u>	<b>C/F</b>
	To be discussed at the 13 July meeting of the Current Account Switch Service (CASS) Executive Committee (EC).	
	<u>04/17.02(a) Roles delegated by Board to CASS, CISA and Bacs</u>	<b>C/F</b>
	The activity is yet to commence.	
	<u>05/17.01(a) Member resolution regarding NPSO to be tabled</u>	<b>C/F</b>
	The Resolution wording is in the process of being drafted; discussed further under agenda item 06/17.11.	
	<u>05/17.02 CRC to review the World Economic Forum (WEF) cyber principles</u>	<b>C/F</b>
	Included on the 14 June Cyber Resilience Committee (CRC) agenda.	
	A Grice requested an update on closed action 03/17.13(b), D Stockwell to provide an update to A Grice.	
06/17.04	<b>DIRECTOR CHANGES</b>	
	There were no Director changes to note.	
	O Benz advised that he will be leaving Virgin Money, and therefore resigning	

ID	ITEM	ACTION
	<p>as Board Director in due course.</p> <p>D Petit advised that he will be leaving RBSG, and therefore will also be resigning as Board Director in due course.</p> <p>M Chambers advised that it is expected that Clear Bank and TSB will appoint a Director in the coming months whilst Turkish Bank are considering whether to appoint a Director or not.</p>	
<b>06/17.05</b>	<p><b>CEO REPORT</b></p> <p>Referring to the Chief Executive Officer's (CEOs) Report, M Chambers provided an update, noting the following key points:</p> <ul style="list-style-type: none"> <li>• Bacs has seen a significant increase in workload during H1 of 2017; M Chambers noted his thanks to the Executive Team for their hard work, commitment and professionalism during this period</li> <li>• Bacs has experienced two near record processing days since the last Board meeting, exceeding 100 million transactions on two occasions. Three further submission records were also broken in March</li> <li>• The year to date volumes remain strong with a 4.2% increase in Direct Debits (DDs) when compared with the previous year with overall Bacs volumes increasing by 2.2%</li> <li>• Over the last month Bacs has on-boarded three new members: Clear Bank, Turkish Bank UK and TSB. Discussions with prospective new members and aggregators continue, as does the work with the BoE regarding access for non-bank Payment Service Providers (PSPs)</li> <li>• CASS has on-boarded Starling Bank, and is about to on-board Monzo. Duncan Lawrie and BoE have both exited the partial switch service due to exiting the current account market</li> <li>• Cash ISA (CISA) has on-boarded FCE Bank and Leeds Building Society, with a further three organisations expected to go live in the coming months</li> <li>• Bacs has received three awards in 2017, notably the 'Best Workplaces (small)' from Great Places to Work</li> <li>• <b>[DELETED – COMMERCIAL SENSITIVE]</b> Bacs continues to participate</li> </ul>	

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	<p>in the New Payment Architecture (NPA) workstreams, and has contributed in the other areas of the Payment Strategy Forum (PSF) work</p> <ul style="list-style-type: none"> <li>• The Payment Systems Regulator (PSR) report on its Infrastructure Market Review is expected to be published within the next two weeks</li> <li>• The Bacs Director Induction Manual has been updated and will be circulated to Board for review post meeting. <i>[Post meeting note – circulated 14 June]</i></li> <li>• A full staff briefing has been provided in light of the recent terror attacks in Manchester and London, and an out of hours Everbridge staff cascade was undertaken with a 95% response rate.</li> <li>• Following the Board note of the 12 May regarding ‘Destruction of Archived Bacs Transactions’ VocaLink have been provided with the necessary authorisations.</li> </ul> <p><b>[DELETED – COMMERCIALY SENSITIVE]</b> A Trolland queried whether any key learnings have been identified from the on-boarding of new Members; A Hollingdale advised that a key learning has been with regard to the settlement testing process undertaken in conjunction with the BoE and refreshing the on-boarding knowledge of those involved both within Bacs and outsource providers.</p> <p>It was questioned whether, given the increased workload and upcoming activities, there are any areas of activities Bacs has been unable to be involved in; M Chambers responded that Bacs is managing the significant workload and competing priorities to the best of its ability given the constraints of the current environment and budgetary provision.</p>	<p><b>R Langworth</b></p> <p><b>A Hollingdale</b></p>
<b>06/17.06</b>	<p><b>DIRECTORS REPORT AND FINANCIAL STATEMENTS FOR 2016</b></p> <p>Referring to the Directors’ Report and Financial Statements for 2016, A Beaton advised that the report and statements had been reviewed by Audit Committee <b>[DELETED – COMMERCIALY SENSITIVE]</b> A spelling error within the report was identified; R Langworth is to arrange for this to be amended before signing. Directors asked that the risk statements in the draft Report</p>	

ID	ITEM	ACTION
	<p>and Financial Statements were enhanced to include a general statement regarding Bacs' overall risk appetite approach. <i>[Post meeting note: text circulated to Board 14 June].</i></p> <p>Referring to the Letter of Representation, M Chambers advised that the Deloitte Financial Partner had requested that the wording in point 6 be revised to read <b>[DELETED – COMMERCIALY SENSITIVE]</b> Discussion was held regarding the role of Deloitte and how long it has served as the Bacs external audit supplier; M Chambers advised Deloitte has served since 2003, however there was a change of business partner in 2016. <b>[DELETED – COMMERCIALY SENSITIVE]</b> Noting the fees payable to Deloitte as detailed in the financial statements, J Kenrick queried whether they are within the threshold of the percentage allowed to be paid to auditors; M Chambers is to check and confirm.</p> <p>Board <b>approved</b> the 2016 Directors Report and Financial Statements and the Letter of Representation subject to the amendments noted above. Board <b>appointed</b> M Chambers to sign the statements and letter of representation on its behalf.</p>	<p><b>R Langworth</b></p> <p><b>M Chambers</b></p> <p><b>M Chambers</b></p>
<b>06/17.07</b>	<b>FINANCIAL PERFORMANCE</b>	
	<p>Board <b>noted</b> the financial performance to date for 2017. <b>[DELETED – COMMERCIALY SENSITIVE]</b> A Beaton commented on the savings made with regard to staff costs, noting the increased workload and pressure given the current environment. M Chambers advised that the savings in permanent staff costs is driven by a combination of a greater utilisation of fixed term staff due to transition to a NPSO and having not recruited for two open positions. It was confirmed that the split between permanent, fixed term and contractor roles is detailed at high level within the Scorecard; however Bacs is to provide additional information in the scorecard reporting to clarify the position. F Ryan confirmed that risks associated with staff attrition and costs are reflected in the Enterprise Risk Management Framework (ERMF). It was noted that the numbering within the summary tables are not aligned with the accompanying notes; Bacs is to arrange for</p>	<p><b>M Chambers</b></p> <p><b>R Langworth</b></p>

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	this to be amended in the next report.	
<b>06/17.08</b>	<b>2017/18 TRANSACTION CHARGE</b>	
	<p>D Stockwell presented the paper detailing the proposed options for the 2017/18 Transaction Charge. <b>[DELETED – COMMERCIALY SENSITIVE]</b> D Stockwell recommended the charge be set at which represents a small reduction on the current Service Year transaction charge; Board <i>agreed</i> that the 2017/18 Service Year transaction charge.</p>	
<b>06/17.09</b>	<b>2018 INDICATIVE COMPANY BUDGET</b>	
	<p>M Chambers introduced the topic of the indicative budget forecast for 2018, noting the challenges in building the budget given the number of unknowns associated with NPSO and regulatory Priorities. Development of an indicative budget was being progressed in the context of the following three aspects:</p>	
	<ul style="list-style-type: none"> <li>• PSO running costs, which are likely to comprise of a small increase to 2017</li> <li>• Costs associated with the transition to the NPSO. The tasks, costs and timelines for the transition are yet to be defined; Bacs is working on the assumption that any ceding party costs it will incur will be covered by the NPSO funding request being addressed by the PSO DG and, therefore, should not be included in the Bacs indicative 2018 budget profile</li> <li>• Costs incurred by mandated, risk appetite or developmental change activity: the composition of these costs cannot be fully determined until Bacs has received the 2017/18 Priorities form the BoE. It was agreed <b>M Chambers</b> that the Priorities will be circulated to Board as soon as possible.</li> </ul>	
	<p>Discussion was held regarding Board’s level of appetite to fund change activity in 2018; it was agreed that Board should consider the appropriateness of the change items before considering the costs. Bacs planned to categorise the change items against the following categories; mandatory, risk appetite mitigation and discretionary development and would present this to Board for consideration. S Yarham commented that</p>	

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	<p>Board should remain cognisant of the end user needs when considering change activity.</p> <p>It was <b>agreed</b> that contingency should be built into the budget, noting the benefits of doing so versus pursuing a Member call for funding part way through the year, and so as to ensure the company avoids the risk of insolvency where ad hoc items that require funding arise. It was <b>agreed</b> that Bacs should consider an appropriate contingency amount and circulate a proposal to Board. Board <b>validated</b> the approach discussed and <b>noted</b> <b>M Chambers</b> that Bacs would provide a draft budget by mid-July.</p>	
<b>06/17.10</b>	<p><b>PERFORMANCE SCORECARD</b></p> <p>Referring to the Performance Scorecard, M Chambers noted the following exception comments:</p> <p><b>[DELETED – COMMERCIALY SENSITIVE]</b> D Petit queried whether more can be done to measure customer/ end user satisfaction; M Chambers advised that while easier to do in the CASS space, for Direct Debit (DD) and Direct Credit (DC) it is less so where Bacs does not have a direct contractual relationship with the end user and therefore cannot always retrieve the necessary information to satisfy a tangible measure. A Pieckielon confirmed <b>A Pieckielon</b> that the Scheme Team monitors customer complaints and can look at whether a measure can be drawn from that area.</p> <p>Board <b>noted</b> the scorecard ratings and exception comments.</p>	
<b>06/17.11</b>	<p><b>NEW PAYMENT SYSTEM OPERATOR</b></p> <p>The Chairman provided a verbal update regarding the latest activities with regard to the NPSO, noting that the PSO DG continues to meet on a fortnightly basis. The Member Resolution is being drafted and will be issued to Board for review and approval, following which it will be issued to Members for agreement. It was confirmed that the Member Resolution can be tabled offline and will require a 75% consensus to be passed. The Chair advised that the PSO DG expects the signed resolution to be returned by the end of August 2017.</p> <p><b>[DELETED – COMMERCIALY SENSITIVE]</b> The interviews for the NPSO</p>	

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	<p>Chairman have commenced; the interview panel includes independent representatives for the stakeholder community.</p> <p>J Stenhouse has been appointed as the Programme Manager for the PSO Implementation activities, and will report into the PSO Implementation Steering Group (PSO ISG). The PSO ISG is formed of the CEOs of the three PSOs (Bacs, C&amp;CCC and FPS) and meets on a fortnightly basis. It was noted that Bacs is providing the HR, space and secretariat support for the ISG activities.</p> <p>Board <b>noted</b> the PSO consolidation update.</p>	
<b>06/17.12</b>	<p><b>DIRECT DEBIT PROPOSITION REVIEW</b></p> <p>Referring to the paper detailing the progress of the DD Proposition Review, A Pieckielon advised that the research and public consultation findings have been shared with HMT, the PSR and the Financial Conduct Authority (FCA). The material was welcomed by the regulators, and once shared was formally published. Bacs facilitated a tri-partite meeting with the regulators where the approach Bacs has taken to develop the DD product was well received and it was acknowledged that the activities have the potential to address the concerns regarding the unlimited DD Guarantee by product innovation.</p> <p>It was noted that Bacs' approach aims to prove that the end user needs are at the forefront of the development; and while there is resounding evidence to support that Bacs should not change the unlimited Guarantee, the Restricted Guarantee initiative has the potential to address such concerns. A Pieckielon walked Board through the benefits the Restricted Guarantee proposition can offer. It was noted that Bacs has been able to agree that the funding needed to test the concepts can be provided via the Infrastructure Supply Contract Development Fund, as opposed to requesting additional budget from Board.</p> <p>A Trolland queried if the work being undertaken takes into account the development of the Request to Pay initiative being driven by FPS; Bacs advised that we are feeding into the relevant PSF workstream. Discussion</p>	

ID	ITEM	ACTION
	<p>was held regarding customer reception of such a product, noting the need to fully test and analyse the concepts before committing to the development of the product. J Kenrick commented that it would be prudent to proactively seek to understand the limitations of the existing product and how it can be further developed to meet end user needs before being potentially mandated by a regulator to make a change. It was queried whether the product will be developed within the context of the NPA. M Chambers advised that NPA is in the very early stages of design and Bacs cannot afford not to progress with the development of its products in anticipation of NPA although all decisions should be cognisant of the envisaged NPA. Discussion was held regarding the indicative timelines detailed in the DD Proposition Review paper, noting caution not to stipulate dates for the launch of a new product at this stage. J Meyrick, Chair of the DD Proposition Working Group (DD PWG) reiterated the invitation to Directors to join the Group.</p> <p>Board <b>agreed</b> to the approach being taken, funding via the Infrastructure Supply Contract Development Fund and the direction of travel being progressed.</p>	
<b>06/17.13</b>	<b>STRUCTURAL REFORM</b>	
	<p>A Hollingdale presented Board with the paper detailing the latest progress of the Structural Reform project. Bacs has completed a review of the impacts of Structural Reform on Bacs and confirmed the role and responsibilities of Bacs; the content of the paper is as Bacs intends to present to the BoE. A Hollingdale confirmed that the impacted banks were asked if the Non Disclosure Agreements (NDAs) could be relaxed such that Board can discuss the project and associated risks and issues by Member name; however the banks are not yet able to exit or relax the NDAs. Detail regarding the impacted banks activity has been provided in an anonymised format in the paper.</p>	
	<b>[DELETED – COMMERCIALY SENSITIVE]</b>	
	Following the risk assessment of the impact of Structural Reform on Bacs,	

ID	ITEM	ACTION
	<p>two risks <b>[DELETED – COMMERCIALLY SENSITIVE]</b> It was confirmed that the Risk Sub Group will be reviewing the risks and considering the impact on SU Compliance (SUC), following which it will report back to the Risk Committee. A Hollingdale advised that Bacs issued a SU communication and questionnaire in April 2017, with a further communication planned on the 21/22 June. Board noted that where Members had advised Bacs of an alternate contact for Structural Reform communication, Bacs would engage with those representatives to agree the final version of the planned communication. <b>[DELETED – COMMERCIALLY SENSITIVE]</b> It was agreed for Bacs to circulate the output of the SU survey to Board.</p> <p>Board <b>noted</b> the assessment of Structural Reform.</p>	<p><b>A Hollingdale</b></p> <p><b>A Hollingdale</b></p> <p><b>A Hollingdale</b></p>
<b>06/17.14</b>	<p><b>BACS RISKS – EXECUTIVE SUMMARY &amp; RISKS OUTSIDE APPETITE</b></p> <p>The Chair introduced the ERMF, noting the positive progress of the work and that it has been well received by BoE. Referring to the paper detailing the Executive Summary of the Risks, F Ryan advised that Bacs has moved to quarterly reviews of the risks, and is currently developing a Key Risk Indicator (KRI) dashboard that will incorporate existing metrics, for example in the performance scorecard and additional measures, with a view to providing the business with a ‘dashboard’ that provides key indicators of risk as well as snapshot of business performance. The ERMF has been adopted well within Bacs and is being used across the business. F Ryan confirmed that a review of all controls has been completed with the majority of controls evaluated as effective and as a consequence, the risk environment is considered stable; as agreed, Internal Audit will undertake a review of 40% of the control assessments, and Deloitte will complete an equivalent sample which in effect means 80% of the assessments will be evaluated.</p> <p><b>[DELETED – COMMERCIALLY SENSITIVE]</b></p> <p>Board <b>noted</b> the Bacs Risk Executive Summary including a tolerated risk relating to Sort Codes. It was confirmed that any risk that sits outside of appetite will be brought to Board for review every six months.</p>	<p><b>F Ryan</b></p>

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ID	ITEM	ACTION
<b>06/17.15</b>	<p><b>RISK APPETITE STATEMENT</b></p> <p>F Ryan presented the Board with the revised Risk Appetite Statements; the statements have been revised such that they align with the ERMF. J Kenrick noted that the statements are appropriate; however it would be beneficial to include a paragraph at the forefront of each statement clearly stipulating Bacs approach i.e. whether Bacs has no appetite, low appetite etc. J Meyrick queried whether the ‘people risk’ should reflect that Bacs is a small company; this will be considered in the next cycle of the risk reviews.</p> <p>Board <b>approved</b> the revised Risk appetite Statements.</p>	
<b>06/17.16</b>	<p><b>COMMITTEE UPDATES</b></p> <p>Board <b>noted</b> the Committee Updates. A Beaton, Chair of the Audit Committee, noted an issue regarding the provision of Internal Audit (IA) services from UKPA under an outsource arrangement. <b>[DELETED – COMMERCIALY SENSITIVE]</b> It was agreed for the Chair to raise the concerns with the PSO DG.</p> <p>The Board <b>ratified</b> the revised Risk Committee Terms of Reference (ToR) which reflects the enforcement of participant compliance role agreed at March Board.</p>	
<b>06/17.17</b>	<p><b>AOB</b></p> <p>The Chair confirmed that the provisional additional meeting dates scheduled in July and August will not be held. Also, the 27 September Board strategy day will not be held due to the formation of the NPSO, however it was noted that Board will likely need to meet in the interim months from September to December to discuss the NPSO transition plan. It was agreed that the next meeting, to be held 26 September, will start at 10:00.</p>	

**Date of next meeting: 26 September 2017 at 10:00**