
MINUTES

TO Board
FROM Rachel Langworth, Board Secretariat
DIRECT 020 3217 8393
EMAIL rachel.langworth@bacs.co.uk
DATE 21 December 2016

MINUTES OF THE BOARD MEETING HELD ON 13 DECEMBER 2016

PRESENT	David Rigney	Bacs (Chair)
	Rachel Langworth	Bacs (Secretariat)
	Martin Henry	AIB
	Ailsa Beaton	Bacs (<i>Independent Non-Executive Director</i>)
	Jo Kenrick	Bacs (<i>Independent Non-Executive Director</i>)
	Mike Chambers	Bacs
	Dave Stockwell	Bacs
	Andy Hollingdale	Bacs
	Anne Pieckielon	Bacs
	Mike Morrissey	Bacs
	Louise Thurman	Bacs
	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
	Andy McComb	Northern Bank
	Damien Pettit	RBSG
	Liz Cooper	Santander
	Alan Duff	Virgin Money
APOLOGIES	Otto Benz	Virgin Money
	Fergus Ryan	Bacs

ID	ITEM	ACTION
----	------	--------

12/16.01 MINUTES OF THE PREVIOUS MEETING

D Rigney welcomed Directors to the meeting, and introduced Jo Kenrick as the new Independent Non-Executive Director (INED). The Conflicts of Interest Register was **noted**. The minutes of the meetings held 27 September and 19 October were **agreed** subject to the correction of a grammatical error.

ID	ITEM	ACTION
12/16.02	ACTION LOG	
	<p>Referring to action 09/16.04(b) regarding a 2017 ‘involvement plan’, M Chambers advised that having engaged with the Payment Systems Operator Delivery Group (PSO DG) the requirement has evolved and Bacs will be agreeing an ‘Engagement Plan’ to feed into the PSO DG work. It was agreed that this action should be closed.</p> <p>Action 09/16.06, relating to Service User Compliance (SUC) is to remain open; Bacs is to circulate a proposal for Board’s consideration post meeting which are to be dealt with offline.</p> <p>All other items on the action log were <i>noted</i> as complete.</p>	
12/16.03	DIRECTOR CHANGES	
	<p>The Board <i>noted</i> the appointment of Jo Kenrick as an INED and Chair of the Current Account Switch Service Management Committee (CASS MC). Board <i>noted</i> the resignation of A McComb as Chair of the CASS MC, and thanked him for his contribution.</p>	
12/16.04	CEO REPORT	
	<p>Referring to the CEO Report, M Chambers provided the following update:</p> <ul style="list-style-type: none"> • Since the last Board meeting, Bacs has again broken existing processing records, including 109.3million transactions processed in a single day (an increase of 5%) and 6.222billion transactions processed in the 2015/16 Service Year • Direct Debit (DD) volumes continue to grow, while Direct Credit (DC) remains flat. It was noted that while the percentage volume growth may be lower than that of some other PSOs, by volume Bacs’ growth is greater. There has been an increase in the uptake of DD in a number of sectors including the mobile telephone billing industry, financial services and lottery and gaming; Risk Committee will be considering the growth in lottery and gaming sectors use of DDs at its next meeting • [DELETED- COMMERCIALLY SENSITIVE] Bacs continues to work with a small number of Payment Service Providers (PSPs) regarding direct participation in Bacs; all projects are progressing well and remain on 	

ID	ITEM	ACTION
	<p>track</p> <ul style="list-style-type: none"> • There has been significant use of the Bulk Payment Redirection Service (BPRS) in recent months which positively contribute to the Payment System Regulator’s (PSR) innovation, access and competition objectives. • As discussed at the September Board meeting, a Post Implementation Review (PIR) was undertaken in relation to the H2 2016 funding call; the key themes identified are all progressing well but M Chambers noted that progress had not been made as quickly as planned regarding ‘stakeholder management and signposting’ and ‘corporate knowledge’ activities and that this was an area where greater focus is required • Bacs continues to engage with the Competition Market Authority (CMA) regarding the MasterCard acquisition of VocaLink • Referring to the ‘Great Place to Work’ staff survey results, Board was advised that 100% of respondents gave a positive response to the question ‘taking everything into account I would say this is a great place to work’ and the overall satisfaction score ‘Trust Index’ was 92%. M Chambers noted that it had been much harder to achieve these results in 2016 due to the current uncertainties and he expected 2017 to present a number of challenges. As part of preparing for the expected changes the Bacs Executive will be undertaking some externally facilitated activity on leading people through change. • [DELETED- COMMERCIALY SENSITIVE]. <p>M Nalder queried whether Bacs had any feedback regarding the BoE Simex exercise that took place on 17 November. M Chambers advised that Bacs found the exercise to be useful, and had overlaid it with its internal incident management training; however, the exercise was somewhat constrained and Bacs would have benefited from a wider scope that incorporated participant payment re-routing and HMT direction orders. It was confirmed that Bacs has provided this feedback to BoE.</p> <p>A Trolland queried whether Bacs is comfortable that it has the necessary resource and subject matter expertise to successfully on-board the PSPs it is</p>	

ID	ITEM	ACTION
	<p>working with. A Hollingdale confirmed that it is comfortable it has these provisions in place; all PSPs it is working with expect to join in 2017. There is a known risk regarding testing constraints within the BoE; should the scheduled testing 'slip', the next available slots will not be until end of 2017.</p> <p>J Meyrick queried whether Bacs has any initial observations regarding the PSR's MR15/2.4 Market Review into the Ownership and Competitiveness of Infrastructure Provision; Remedies Consultation' which was published on 7 December. M Chambers responded that Bacs is broadly comfortable that its approach to ISO Mapping and benchmarking align with the PSR remedies. Bacs response is being drafted and the consultation closes on the 1 February 2017.</p> <p>The Chair summarised that Bacs has achieved and implemented a lot in 2016; it was agreed that Bacs would produce a one page summary detailing these achievements.</p>	M Chambers
12/16.05	<p>2016 FINANCIAL PERFORMANCE</p> <p>[DELETED- COMMERCIALY SENSITIVE] It was confirmed that the Audit Committee reviewed the October 2016 Financial Performance report and no issues were raised.</p>	
12/16.06	<p>PERFORMANCE SCORECARD</p> <p>Board reviewed the performance scorecard, containing October's data with forecasts for November provided where available and appropriate. M Chambers provided an update regarding the following items which were rated as red:</p> <ul style="list-style-type: none"> • [DELETED- COMMERCIALY SENSITIVE] • 12.1 Delivery of BoE Priorities: Bacs expects this measure to be rated red in November due to the Structural Reform Priority (P16-05) being rated as red. <p>Board noted those items marked as amber including AUDDIS (3.2), Service User Compliance (7.4), Project Portfolio (18.1) which had seen two of the amber projects rated as green in November and Workforce Balance (20.1) where the end December measure was expected to be just 0.6% above the</p>	

ID	ITEM	ACTION
	<p>green threshold, due to resource profile implications of PSO Consolidation activity. It was also noted that both Internal Audit recommendations (16.1) and Strategy programme (19.1) had moved from amber to green rating during November.</p> <p>[DELETED- COMMERCIALY SENSITIVE] Discussion was held regarding the revised CASS advertising campaign and the value for money in light of the lower levels of improvement in relation to confidence. Bacs confirmed that HMT and the CMA have confirmed their willingness to work with the CASS community to consider more appropriate measures; this will be discussed further at the CASS Strategy Day on 9 February 2017.</p>	
12/16.07	BANK OF ENGLAND 2016/17 PRIORITIES	
	<p>A Hollingdale provided a brief summary of the BoE Priorities Tracker noting that the majority of the Priorities were covered under other agenda items. Discussion was held regarding P16-03 ‘Risk Emanating from Participants’, and the requirement to produce a schedule of participant change by December 2016. Bacs confirmed that a process has been implemented for participants to advise Bacs of any major changes, and a schedule will be maintained by the Operations team; this will be cross referenced with other PSOs. It was suggested that Bacs should look to publish the schedule, as per the practices of other PSOs. Bacs advised that while it does not publish the schedule at present, given that this is a new process it will look to speak to the participants involved where it believes there could be an impact as a result of any change.</p> <p>Referring to P16-05 ‘Preparedness for Structural Reform’, Board was advised that the priority has been marked as red based on the timelines given to provide Bacs with the required impacted volume and value data to undertake the analysis. It was confirmed that while the priority is marked as red, the individual member projects are tracking as green as Bacs completion of the analysis does not bear any effect on their progress to amend their scheme / system membership.</p>	

ID	ITEM	ACTION
12/16.08	<p>BACS RISK PROFILE</p> <p>M Morrissey provided a brief summary of the Risk Profile paper, noting the ‘top ten’ risks that are rated as major. A number of new items have been included within the ‘emerging risks’, as identified and discussed by ISOCC, including the VocaLink ownership structure changes, the adoption of cloud technology, scheme consolidation, and legislation including the Modern Slavery Act 2015. Two unwanted events were noted; the CASS redirection table incident and the H2 2016 funding call. PIRs for both are underway. Following discussion it was agreed that VocaLink should be invited to attend a CASS MC meeting to provide a first-hand update on the CASS Redirection incident, and that the PIR should be submitted to the March Board for review. The planned future state of the risk function, as set out in the appendix, was noted.</p> <p>L Cooper noted concern regarding a number of instances in recent months where Service Users (SUs) have had issues submitting DD files, and the lack of information available to the members to allow a swift resolution. Bacs reiterated that early provision of information allows a better industry response and therefore a better outcome for the SU and its customers, however the challenges in getting information from SUs were acknowledged. Bacs also advised that it will be taking over the ‘suremail’ process from VocaLink; it was agreed for O&C to review the process to ensure it remains appropriate. The major risks for Bacs and the Managed Services were noted and the actions being taken through current controls and planned treatments on the risk registers were accepted.</p>	<p>M Chambers</p> <p>D Stockwell</p>
12/16.09	<p>BACS STRATEGY</p> <p>M Chambers advised that two items would be discussed under this agenda item: an update and end of year precis of the Strategy Programme, and an update on the revised governance model. It was noted that, in light of the changing environment and the emergence of the PSO DG and 2017 budget review, the Strategy Programme Board has been disbanded with the remaining activities being passed to other committees. The progress on the</p>	

ID	ITEM	ACTION
	<p>Access work stream, as outlined in the paper, was noted. The DD consultation concluded on Friday 9 December with 580 responses received. A DD Working Group (DD WG) has been formed to discuss the proposition; the appointment of James Meyrick as Chair of the Group was agreed, and the progress made to date noted. Board reviewed the proposed outline of the paper that is to be submitted to the March Board meeting; Directors are to provide any feedback by 6 January 2017. It was agreed that a Board briefing will be arranged prior to March Board to share and discuss the DD consultation findings.</p>	Directors
	<p>A Pieckielon provided a brief summary of the paper detailing the proposed revisions to the governance model, including the revised committee structure and proposed Terms of References (ToRs) for all Board reporting committees, and the draft ToR for the Board which is to be subject to a formal review process in time for formal acceptance at the March 2017 Board meeting. It was agreed that the Nominations and Remuneration committees should remain separate and be based upon the existing ToRs. All items listed as actions in the paper, including noting the receipt of the PwC report and agreeing that the report should be provided to the Bank of England, were agreed. Directors were asked to provide feedback regarding the draft mapping of the Pricewater House Coopers (PwC) recommendations against the BoE Code of Practice, and the draft plan for addressing the BoE Priority P16-01 by Friday 6 January 2017.</p>	Directors
	<p>Following agreement of the revised committee structure, Bacs advised that it would be preferable for the Bacs Executive Committee (Bacs EC) to comprise of a mixture of Directors and senior managers. Discussion was held regarding the need for the Settlement Committee to continue to meet in Q1 2017 to complete its work around debit caps. It was agreed that the Committee will become a working group that will report into the Bacs EC; Dougie Belmore will continue to chair until the conclusion of the debit cap work, following which D Stockwell will assume the position of chair should the Group need to continue to meet.</p>	

ID	ITEM	ACTION
	<p>To ensure that the best committee composition was achieved it was <i>agreed</i> that Bacs would circulate a diagram detailing the revised committee structure including all sub-committees and groups and providing clear demarcation between ‘participatory’ and ‘board’ committees. Each committee will review its TOR during Q1 ahead of the annual TOR review which is undertaken at the March Board meeting.</p>	M Chambers
12/16.10	STRUCTURAL REFORM	
	<p>A Hollingdale provided an update regarding the progress of BoE Priority P16-05 ‘Preparedness for Structural Reform. Industry co-ordination of the work continues, including the ISOCC Ring-Fencing Working Group which considers the PSO co-ordination of on boarding activities. Following the information received from the banks involved and negotiation with the BoE, the deadline for the priority was moved from 31 October to 31 December 2016; however, while the relevant banks have acknowledged the need to provide the required data, this is yet to be made available to Bacs from all impacted banks. The BoE has been made aware of the status of the project and red rating, and that it is being discussed by Board. The BoE has requested a further update by mid-December.</p>	
	<p>Discussion was held regarding the constraint of the Non Disclosure Agreements (NDAs) which prevent the Board from discussing the status of the individual projects in any detail; individual discussions can be held offline with the relevant Directors. It was acknowledged that Bacs and the relevant members need to look to move away from the NDAs in early 2017.</p>	
	<p>A McComb queried whether there was a potential impact on the cap management process as a result of Structural Reform; A Hollingdale advised that while no impact is expected, a side letter is being produced and the operational procedures updated to reflect how the cap management process will be managed. It was agreed for a briefing of how Structural Reform impacts Bacs and its members’ to be provided to the non-Structural Reform Directors and INEDs.</p>	A Hollingdale
12/16.11	RISK FRAMEWORK REVIEW	

ID	ITEM	ACTION
	<p>Referring to the paper summarising the Risk Framework Review, as undertaken by Deloitte, M Morrissey confirmed that the report had been reviewed and agreed by Risk Committee. The report was well received by the BoE and addresses priority P16-02. The report makes a number of recommendations which Bacs has prioritised into three phases for implementation, taking into consideration the categorisation criteria set by the BoE. All recommendations will be tracked as per the Cyber Resilience Recommendation (CRR) process, whereby ‘proposals for closure’ with supporting evidence will be submitted to the Risk Committee for agreement. Board agreed Risk Committee’s acceptance of the report.</p>	
12/16.12	<p>S.195 EXPERT BUSINESS CONTINUITY REVIEW</p> <p>Board reviewed the paper summarising the Deloitte Section 195 Expert Business Continuity Planning Review, which had been reviewed and agreed by Risk Committee. As per the Risk Framework Review, the recommendations of the report have been prioritised into three phases for implementation, taking into consideration the categorisation criteria set by the BoE. The BoE has confirmed that completion of the review meets the requirements of Section 195 and priority P16-02 in full. Board agreed Risk Committee’s acceptance of the report.</p>	
12/16.13	<p>BACS-UKPA AGREEMENTS</p> <p>M Chambers introduced the item regarding the Bacs-UKPA agreements, noting that the detail of the proposed agreements may differ from that of other PSOs. All confirmed that they were content to continue with the discussion of the agreements and no conflicts of interest were noted. [DELETED- COMMERCIALY SENSITIVE] A Hollingdale walked Board through the paper summarising the proposed Framework Services Agreement (FSA) and Hub Office Space Licence (HOSL). [DELETED-COMMERCIALY SENSITIVE]. Following significant discussion and consideration of the various options it was agreed for Bacs to sign the FSA, however should look to continue negotiations regarding [DELETED-COMMERCIALY SENSITIVE]</p>	

ID	ITEM	ACTION
12/16.14	SERVICE YEAR 2015/2016 RECOVERY – END OF YEAR RECONCILIATION [DELETED- COMMERCIALY SENSITIVE]	
12/16.15	SCENARIO BASED EXERCISING PROPOSAL M Morrissey provided an update regarding the scenario based exercising plan, as part of the BoE priority P16-02. Bacs has undertaken a gap analysis of the Risk Register and current programme of scenario tests, and has identified a number of potential new tests focusing on participant risk, which have been reviewed by both O&C and Risk committees. The proposed scenario tests have been scheduled across a three year span, 2017 to 2019. Directors noted that four tests per year is a realistic number, [DELETED-COMMERCIALY SENSITIVE] It was agreed that Bacs should discuss the schedule with the ISOCC Risk Review Group to identify whether any elements of the plan can be tested on a cross-scheme basis and deliver F Ryan efficiencies. The proposed scenario based exercising plan was agreed .	
12/16.16	DEBIT CAPS Referring to the paper summarising the Settlement Committee’s (to be re-named Settlement Working Group) work around Priority P16-04 ‘Cap Management’ D Stockwell briefly summarised the proposed activities and timelines to address each aspect of the BoE Priority. D Stockwell advised that the Settlement Committee has agreed a risk appetite for debit cap management. The Settlement Committee has been working to undertake analysis of options to extract an individual DD, which should be complete by end Q1 2017. Following this, the Settlement Committee will consider the operational, legal and customer impact of DD extraction and make a proposal to Board by May 2017. If agreed, and required changes to the Settlement Agreement will be implemented by end Q3 2017. Board agreed the proposed activities and associated timescales outlined in the paper.	
12/16.17	PSO CONSOLIDATION The Chair provided a verbal update regarding the progress of the PSO DG, noting that the Group has mobilised and comprises of six people, including the chairs of each relevant scheme, and representatives of small and large	

ID	ITEM	ACTION
	<p>PSPs and consumers. Representatives of the PSR and BoE attend as observers. It was confirmed that Ernst and Young have been appointed to undertake the gathering and analysis of the existing information with the aim of defining the purpose and scope of the consolidated PSO; a recommendation is to be made by the DG to the PSF and PSR by end of March 2017. [DELETED- COMMERCIALY SENSITIVE]. D Rigney noted that although 2017 budgetary provision for PSO consolidation had not been made he would expect that Bacs' contribution to E&Y's Phase 1 costs [DELETED- COMMERCIALY SENSITIVE] be funded by any underspend in 2016 budget, or if this could not be accommodated, then funded from the agreed 2017 budget profile. It is expected that the consolidated PSO will have a wider remit than that of the current schemes, and will also be a 'delivery body' that drives the strategy within the payments industry. The expectation is that the Board of the consolidated PSO is to be in place by 1 January 2018 and for recruitment of chair and CEO positions to occur during Q2/3 2017. The Chair expects to provide a paper to the March Board outlining a high level definition of the structure of the new body and its purpose and scope for discussion, input and agreement. It was noted that information regarding the PSO DG is available on the PSF website: https://www.psr.org.uk/psr-focus/payment-system-operators-delivery-group.</p>	
12/16.18	BACS COMMITTEE UPDATES	
	The committee proformas were noted without comment.	
12/16.19	MANAGED SERVICES UPDATES	
	<p>The managed services proformas were noted without comment.</p> <p>A Pieckielon referred to the paper 'CMA Current Account Switch Service Remedies' which outlined the five CMA CASS remedies, Board noted the paper and agreed that M Chambers can sign the undertakings on behalf of Bacs once the consultation process is complete and the final version received from the CMA.</p>	
12/16.20	AOB	

ID	ITEM	ACTION
	No other items of business were raised.	

Date of next meeting: 24 January 2017 at 10:30 (provisional)

14 March 2017 at 10:30