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## MINUTES

**TO** Board  
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**DATE** 23 March 2017

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### MINUTES OF THE BOARD MEETING HELD ON 14 MARCH 2017

<b>PRESENT</b>	David Rigney	<b>(Chair)</b>
	Rachel Langworth	Bacs <b>(Secretariat)</b>
	Martin Henry	AIB
	Michael Chambers	Bacs
	Andy Hollingdale	Bacs
	Anne Pieckielon	Bacs
	Fergus Ryan	Bacs
	Dave Stockwell	Bacs
	Andrew Grice	Bank of England
	James Meyrick	Barclays
	John Walsh	Citibank
	Dougie Belmore	Clydesdale
	Sue Yarham	HSBC
	Ailsa Beaton	Independent Director
	Anne Trolland	Lloyds Banking Group
	Mark Nalder	Nationwide
	Liam Curran	Northern Bank
	Liz Cooper	Santander
	Damian Pettit	The Royal Bank of Scotland
	Otto Benz	Virgin Money
<b>APOLOGIES</b>	Jo Kenrick	Independent Director

ID	ITEM	ACTION
<b>03/17.01</b>	<b>MINUTES OF THE PREVIOUS MEETING</b> <p>The Chair welcomed Directors to the meeting, noting apologies from Jo Kenrick. Liam Curran, the newly appointed Board Director for Northern Bank, was welcomed to his first meeting.</p> <p>Referring to the Conflicts of Interest Register, the Chair requested that <b>Directors</b> review and advise that the information is correct; additionally Directors were asked to declare if they are in receipt of Board papers for other Payment Scheme boards and industry Trade Associations. It was noted that D Belmore, and his alternate J Pettigrew had provided some changes in</p>	

ID	ITEM	ACTION
	<p>advance of the meeting, and that J Kenrick had advised of an additional directorship; an updated matrix will be circulated post meeting.</p> <p>The minutes of the meeting held 13 December 2016 and the proposed redactions were <i>agreed</i>.</p>	<p><b>R Langworth</b></p>
<b>03/17.02</b>	<p><b>ACTION LOG</b></p> <p>Referring to the Action Log, M Chambers advised that all actions were proposed closed, with the exception of 12/16.08 and 12/16.10. 12/16.08 relates to the post incident review of the 8 November 2016 Current Account Switch Service (CASS) incident being reviewed by Board; it was noted that instead of tabling at Board the CASS Executive Committee (CASS EC) had discussed the PIR at its meeting held on the 21 February from an account transfer perspective and that Bacs Executive Committee (Bacs EC) would be discussing the PIR from a transactional perspective at its next meeting. The action will therefore remain open until this has taken place. Action 12/16.10 relates to briefings on Structural Reform to be arranged for the Independent Non-Executive Directors (INEDs) and the non-impacted member banks; it was agreed that the 19 April provisional Board meeting be used to provide this briefing.</p>	
<b>03/17.03</b>	<p><b>TERMS OF REFERENCE</b></p> <p>The Board reviewed the proposed Terms of Reference (ToR). The document reflects minor drafting changes made since the draft version was considered by Board at the December 2016 meeting and captures the output of the PwC review and the Bank of England (BoE) Code of Practice consultation. The ToR seeks to capture the purpose and objectives of Board at present and to codify its current standing ahead of the potential consolidation of the Payment System Operators (PSOs). Subject to the following amendments, the ToR was <i>agreed</i>:</p> <ul style="list-style-type: none"> <li>• Reflect that the Nominations and Remunerations Committees are separate committees</li> <li>• Include wording to allow for more than eight meetings per annum if needed</li> </ul>	

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	<ul style="list-style-type: none"> <li>• Papers are to be circulated two weeks in advance of meetings</li> <li>• Note that Board minutes are made publically available based on redactions stated in the Redactions Policy</li> <li>• Correction of a typo regarding ‘experienced’.</li> </ul> <p>M Chambers advised that the Board reporting ToR had been reviewed by each committee and were tabled with a recommendation that they were ratified by Board. Discussion was held regarding whether there would be a potential for a conflict of interest where Directors attend the Bacs EC. It was agreed that while there is some merit in keeping the two separate, Directors should not be excluded from attending and that the Committee should be reminded of its duties and potential conflicts of interest at the beginning of each meeting.</p> <p>S Yarham noted that the ToR for the Risk Committee was fit for purpose, however may need amending should the Board agree the Enforcement of Compliance proposal (agenda item 03/17.06). Board <b>agreed</b> the ToR.</p>	
<b>03/17.04</b>	<p><b>PSO CONSOLIDATION</b></p> <p>Following the Board briefing held on the 28 February, the Chairman provided an update on the latest discussions of the PSO Delivery Group (PSO DG), noting that it was due to hold its eleventh meeting on 14 March. There have been three key themes for debate: how central the Payment System Providers (PSPs) will be to the consolidated New PSO (NPSO), whether and how a consultation process regarding consolidation should take place, and how quickly the PSO DG should look to recruit a Chairman and CEO for the NPSO. <b>[DELETED – COMMERCIALY SENSITIVE]</b></p> <p>Referring to the potential for a consultation period following the publication of the PSO DG report on 31 March 2017, J Meyrick queried the benefit of having the consultation following a review of the report by the BoE and Payment Systems Regulator (PSR). The Chairman agreed to raise this with the PSO DG, and confirmed that he will provide a further update at the April Board meeting.</p>	
<b>03/17.05</b>	<p><b>DD PROPOSITION REVIEW</b></p>	

ID	ITEM	ACTION
	<p>Referring to paper 03/17.05 regarding the Direct Debit (DD) proposition review, A Pieckielon provided an update on the latest position of the review and activity undertaken. Following a review of the findings at the Board Strategy Day in 2016, the DD Proposition Working Group (DD PWG) was established to review the research and consultation findings and to provide member views on behalf of Board and to test the findings. The research was presented to Board on the 24<sup>th</sup> January and four key areas of opportunity to take forward the DD product were identified: delivery of solutions for financial inclusion, a focus on Small and Medium Enterprises (SMEs) and their access to payment services, maximising the value of the products Bacs already has in place, and the development of new processes that benefit the entire ecosystem. A number of propositions were identified and refined, and grouped into three work packages (as detailed in Annex 2 of the supporting papers): those activities that have already been approved and initiated in 2017, further exploitation of the current product, and product enhancements. A further work package was identified regarding future development through procurement as having longer term potential benefit.</p> <p>A Pieckielon advised that significant engagement with a broad range of stakeholders and the relevant regulators continues in order to manage realistic expectations of progress; Bacs has joined the Emerging Payments Association (EPA) to enable engagement with a number of innovative organisations. Bacs has also engaged with the Affiliates, and a number have expressed interest in taking part in ‘closed trials’ which would include a range of options including a restricted or refined guarantee.</p> <p>Discussion was held regarding how the potential benefits align with the associated costs; A Pieckielon advised that a significant amount of work had been undertaken to test the model outputs both as costs and benefits and requested support from Board to validate the outputs. D Petit offered to organise a volunteer to test the model. S Yarham queried if the necessary funding is in place to support this work; M Chambers advised that Bacs has the budget in place to take forward the work already in train, and will</p>	<p><b>D Pettit</b></p>

ID	ITEM	ACTION
	<p>progress the initiatives as far as possible until June 2017, at which point it will be brought to Board for review. The Chairman noted that he and M Chambers met with H Nixon of the PSR who recognised the restraints on progression given the wider activities in the industry. A Pieckielon added that the PSR has requested a post-board briefing to discuss further and highlighted the risk that the expectations of the PSR to address concerns in relation to the Guarantee would not be met. A Beaton commented that the Risk Committee should have sight of this and consider the associated risks given the regulatory involvement; F Ryan is to ensure an associated risk is captured with the risk taxonomy.</p> <p>It was agreed that when the Board returns to this subject at its June meeting, it should have sight of a business case for change covering what will be the ask of PSPs, bearing in mind that due to budgetary constraints the submission would be at a less granular level. The Board <b>agreed</b> the actions as outlined in the paper and requested that the Direct Debit Proposition Working Group (DDPWG) should work with Bacs to publish the consultation findings.</p>	<p><b>F Ryan</b></p>
<p><b>03/17.06</b></p>	<p><b>ENFORCEMENT OF PARTICIPANT COMPLIANCE</b></p>	
	<p>F Ryan presented the paper on the ‘Enforcement of Participant Compliance’. The issue has been considered by the Risk Committee and on an individual basis with a number of Directors. The paper details an eleven stage path; the intention is for the process to follow a principle based approach on a case-by-case basis, with clear measures or triggers for escalation. Bacs proposed not to include financial sanctions, but to reserve the right to recover costs from an individual participant as appropriate. Discussion was held regarding the potential impact on Service Users (SUs) should a participant be expelled from Bacs; M Chambers advised that should an issue of non-compliance reach that stage, the response would have to be proportionate to the risk presented to Bacs and the end user, noting that Bacs does not have a direct contract with any SUs. O Benz suggested seeking sight of the cards scheme practices in this area and how it monitors compliance. S Yarham noted that Risk Committee had explored other payment types such as cards. It was confirmed that,</p>	

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	<p>subject to Board approval, the process would be adopted by the CASS EC and Cash ISA (CISA) EC.</p> <p>The Board <b>agreed</b> the proposed Participant compliance enforcement measures and the Risk Committee ToR will be updated to reflect that the Committee forms part of the escalation process.</p>	<p><b>F Ryan</b></p>
<b>03/17.07</b>	<b>STRUCTURAL REFORM</b>	
	<p>A Hollingdale provided a verbal update regarding the status of the Structural Reform project noting that all five projects to support the impacted member changes are reporting as green. As a result of the changes, Bacs expects to see three new participants join in late 2017/ early 2018. The remaining two impacted banks are not planning to make changes to their scheme membership of Bacs. It was confirmed that Bacs is working with Allen &amp; Overy (A&amp;O) to develop a 'Side Letter' <b>[DELETED – COMMERCIAL SENSITIVE]</b> Bacs expect to forward the Side Letter to all members for information once it is finalised.</p> <p>Bacs undertaking of a full risk assessment of Structural Reform continues to present a challenge, as Bacs is yet to receive the necessary level of information regarding the migration of Sort Codes and Account Numbers from the impacted banks; as such the BoE Priority on Structural Reform is reporting as red. The Financial Market Infrastructure Directorate (FMID) has been advised and will be contacting the banks on an individual basis on the matter. Directors expressed the need for Bacs to inform them if it is their appointing organisation that is yet to provide the information; Bacs agreed to do so.</p> <p>A Hollingdale noted that Bacs has recently been tasked with developing industry communications regarding Structural Reform to advise the banks of the planned changes to support the work and how it will impact them from a scheme and operational perspective. The communications will also seek to advise SUs of timings and the forecasted volumes of redirections. Ahead of this Bacs will be issuing a questionnaire to SUs to understand the impact of the increased volumes and the lead times they may need to manage the</p>	<p><b>A Hollingdale</b></p>

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	<p>increase. M Nalder commented that the issue of Structural Reform feels understated within the industry, and that communications should have been considered at an earlier stage. It was agreed for the Risk team to ensure the associated risks to Bacs based on Structural Reform are articulated in the risk taxonomy.</p> <p>Board <b>noted</b> the update.</p>	F Ryan
<b>03/17.08</b>	<b>BACS INTERNAL CONTROLS ASSESSMENT</b>	
	<p>Referring to the paper detailing the annual Internal Controls assessment, F Ryan advised that the review would be from the 1 March 2017 and the deliverable for each stage would be reviewed by Audit Committee and the complete review is tabled for acceptance by Board later in 2017. The assessment process includes reviews by both Internal Audit (IA) and Deloitte. The Board <b>agreed</b> the approach outlined in the paper.</p>	
<b>03/17.09</b>	<b>2017 VOTING RIGHTS</b>	
	<p>Referring to the paper summarising the allocation of the voting rights for 2017, M Chambers noted that while votes have been allocated to the Co-operative as a member of Bacs, as it has not appointed a Director, in the event of a Board vote the Co-operatives votes would be excluded from the total available votes. It was noted that this arrangement is the same as utilised for the BoE following their decision to appoint an Observer rather than a Director to the Board in 2015. Additionally, J Kenrick has been allocated one vote as an INED; <b>[DELETED – COMMERCIAL SENSITIVE]</b> The individual allocations for each Director were circulated on 13 March. The Board <b>agreed</b> the allocation of voting rights for 2017.</p>	
<b>03/17.10</b>	<b>DIRECTOR CHANGES</b>	
	<p>The Board <b>noted</b> the appointment of Liam Curran as Director appointed by Northern Bank, following the resignation of A McComb. The Chair noted the Board's thanks to A McComb for his service as a Director and his significant contribution to CASS.</p>	
<b>03/17.11</b>	<b>CEO REPORT</b>	

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	<p>M Chambers referred to the CEO report and noted the following key points:</p> <ul style="list-style-type: none"> <li>• Bacs has worked with the other PSOs to publish an introduction to the UK's payment schemes (available on the Bacs website) which was well received by both HM Treasury and the PSR</li> <li>• Direct Debit Volumes continue to grow, with a 4% increase on the same period last year</li> <li>• There are five prospective new members (three as part of Structural Reform). <b>[DELETED – COMMERCIALLY SENSITIVE]</b> Additionally, as part of the on-boarding activities, Bacs has delivered new functionality to allow one new participant to collect payment and DD Instructions (DDI) via the Payments Services Website (PSW). Since then, a Change Request (CR) has been approved by Bacs Executive Committee to develop this functionality for use with other low volume participants.</li> <li>• Cardone Banking has recently gone live with two brands as a participant of CASS</li> <li>• Bacs has submitted its General Direction 2/4 (GD2/4) Compliance response to the PSR and the PSR has just published its annual report, the report is to be circulated with the post meeting papers.</li> <li>• M Chambers proposed that, in light of the current PSO consolidation activity Bacs does not progress the resignation of the alternate Directors as part of the current governance changes being progressed. While it remains the intention to remove the role of an Alternate Director, to progress immediately would require a formal change to the Memorandum &amp; Articles of Association and the development and introduction of a revised out of hours Debit Cap procedure that would likely serve as a distraction at this time. Directors were asked that while the Alternate Directors will remain in place during 2017, they are only asked to perform contingency or in extremis activity in relation to their appointing Directors member institution in 2017. Noting that some Directors had already progressed this aspect of the governance changes (although the changes have not been registered at Companies House)</li> </ul>	<p><b>R Langworth</b></p>

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	<p>within the Members, and subject to FMID being comfortable, Board <b>agreed</b> the proposal. Discussion was held regarding the Board Briefers and PA's distribution list: it was agreed that each Director can nominate a single person remain on the Briefers and PA's list and that they should complete an entry in the Conflicts of Interest Register.</p>	
03/17.12	<p><b>2017 FINANCIAL PERFORMANCE</b></p> <p>Board <b>noted</b> the 2017 financial performance paper and no issues were raised. <b>[DELETED – COMMERCIALLY SENSITIVE]</b> It was confirmed that the Chairman has a record of how much of his time has been dedicated to the PSO DG activities versus that of Bacs although Bacs is not tracking other company staff time spent on PSO DG related activities. Following discussion regarding the CASS communications budget for 2017 it was agreed that CASS Executive Committee should be asked to conclude on whether the full 2017 budgetary amount is required as soon as possible.</p>	
03/17.13	<p><b>PERFORMANCE SCORECARD</b></p> <p>Referring to the Performance Scorecard, M Chambers provided the following update on those items reporting as red:</p> <ul style="list-style-type: none"> <li>• 4.1 Cash ISA Volumes – performance in February has seen improvements. The budget is being managed according to the volumes processed</li> <li>• 5.1 CASS Cumulative Volumes – M Nalder suggested that Bacs consider moving away from a flat-line forecast given that it has now established knowledge of the peaks and trends. Bacs is to consider internally and test</li> <li>• 12.1 BoE Priorities – the Structural Reform project is reporting as red, as discussed under item 7</li> <li>• 17.1 Controls Assessment – two of the recommendations are overdue; these have a dependency on SWIFT. Bacs is now working with the BoE to gain some technical insight such that it can progress this.</li> </ul> <p>A Grice queried if the measure regarding the Controls Assessment (17.1) has moved to amber since the circulation of the papers; D Stockwell is to advise offline.</p> <p>M Chambers provided a brief summary of measures rated as Amber and</p>	<p><b>A Pieckielon</b></p> <p><b>D Stockwell</b></p>

ID	ITEM	ACTION
	<p>noted that a new measure for Cash ISA 7 Day Transfers had been introduced to support new regulatory measures and the measure for the Strategy Programme has been subsumed into the Project Portfolio measure.</p> <p>Board <b>noted</b> the scorecard ratings and exception comments.</p>	
<b>03/17.14</b>	<p><b>BANK OF ENGLAND 2016/17 PRIORITIES</b></p> <p>A Hollingdale advised that of the five Priorities set, all were progressing well with the exception of Structural Reform (P16-05), as previously discussed under item 7. Referring to P16-01, relating to governance, it was confirmed that Bacs has received a letter from the BoE to advise that it is satisfied with the proposed set of actions and the plan for implementation; Bacs is to report back to the BoE on progress in April and July 2017. With regard to P16-04, relating to CAP Management, A Hollingdale advised that Bacs has accepted the Accura proposal to provide an improved Debit CAP monitoring and reporting solution and has scheduled a workshop with Vocalink to progress the activity. It was noted that Risk Oversight and Culture (P16-02) would be covered under item 15. Good progress had been made on Risks Emanating From Participants (P16-03); an integral part of his had been agreed under item 6.</p> <p>Board <b>noted</b> the update provided.</p>	
<b>03/17.15</b>	<p><b>BACS RISK PROFILE</b></p> <p>F Ryan presented the paper detailing the Risk Profile, as reviewed at the last meeting of the Risk Committee. There are ten major risks recorded, none of which sit outside of the agreed risk appetite. It was confirmed that the risk associated with the General Data Protection Regulation (GDPR) has been captured within the Risk Register and a project to consider the impacts for Bacs has been initiated. It was agreed to (re)enter the risks associated with a second Scottish Referendum to the Risk Register.</p> <p>Board was advised of the Yorkshire Building Society (YBS) and Norwich and Peterborough (N&amp;P) event, in which YBS announced its plans to exit the current account market in July 2017. The event presents a reputational risk to CASS as YBS is not a participant and therefore all switches out will have to</p>	

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	<p>be undertaken via a manual process; any negative perception of the process could be associated with CASS. M Nalder noted that the risk may have already been realised as Nationwide has already seen a significant number of switches in from YBS and N&amp;P, and therefore the risk may be decreasing. Discussion was held regarding the broader risk of a similar event, however it was noted that at present 98% of the current account market participate in CASS. A Beaton noted that the issue will be monitored by the Risk Committee, and welcomed additional Director attendance should further information or discussion be required.</p> <p>Board <b>noted</b> the major risks for Bacs and the Managed Services and <b>accepted</b> the actions being taken through the current controls and planned treatments on the risk registers.</p> <p>The Chairman left the meeting to attend the PSO DG and it was agreed for M Chambers to Chair the remainder of the meeting.</p> <p>F Ryan provided an update on the progress made and current position of the Risk Management Framework review and BCP review projects. The update was <b>noted</b>.</p>	

**03/17.16 COMMITTEE UPDATES**

The Board reporting committee minutes were **noted**, with the following updates provided by exception:

- M Chambers provided an update regarding the first meeting of the Bacs EC, noting that the activities of the Development Committee and Rules and Governance Committee have been assumed by Bacs EC and the committees formally closed down. A Work Plan for 2017 had been agreed which includes focussing on key issues such as supporting the Direct Debit proposition initiatives, embedding the governance of change activity in the new committee and exploring areas such as PSD2
- A Pieckielon provided an update on the latest activities of the CASS EC on behalf of J Kenrick, noting that a CASS strategy day was held on 8 February, and the output translated into a strategy document that has subsequently been considered by the CASS EC; a draft has been shared

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	<p>with the CMA. A workshop with non-bank representatives to discuss the strategy has been arranged for 3 April, which will include attendees from the Open Banking Programme. Board will be provided with an overview of the strategy at the April meeting</p> <ul style="list-style-type: none"> <li>• M Chambers provided an update regarding the Cash-ISA Transfer Service EC noting that the ToR had been amended to be more inclusive and enable a wider range of Participants to join the EC, that future EC meetings will seek to focus on volumes, forward planning regarding regulatory requirements and whether the service ought to have a role regarding transfer of Stocks and Shares ISA's. The committee has completed its annual review of the Eligibility Criteria and no changes have been proposed</li> <li>• <b>[DELETED – COMMERCIALY SENSITIVE]</b></li> </ul> <p>L Cooper noted the discussion held at Risk Committee regarding SUC having no impact on the customer within the context of a CASS switch, noting that there is an impact where a partial switch is undertaken.</p>	
<b>03/17.17</b>	<p><b>AOB</b></p> <p>M Chambers clarified that the following meetings of Board will be held:</p> <ul style="list-style-type: none"> <li>• 19 April – briefing on the CASS strategy, Structural Reform and PSO DG</li> <li>• 17 May – briefing on PSO DG</li> <li>• 13 June – scheduled Board meeting</li> <li>• 18 July – briefing on cyber.</li> </ul> <p>No other items of AOB were raised.</p> <p style="text-align: center;"><b>Date of next meeting: 19 April 2017 at 10:30 (provisional)</b></p>	