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## MINUTES

**TO** Board  
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**DATE** 10 October 2017

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### MINUTES OF THE BOARD MEETING HELD ON 26 SEPTEMBER 2017

<b>PRESENT</b>	David Rigney	Bacs ( <b>Chair</b> )
	Rachel Langworth	Bacs ( <b>Secretariat</b> )
	Mike Chambers	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> )
	David Bailey	Bank of England ( <i>AI 09/17.18 only</i> )
	Shirley Chan	Bank of England ( <i>AI 09/17.18 only</i> )
	Philippa Cohen	Bank of England ( <i>AI 09/17.18 only</i> )
	Justin Jacobs	Bank of England ( <i>AI 09/17.18 only</i> )
	Yannick Cox	Bank of England ( <i>AI 09/17.18 only</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
	Ian Smith	TSB
	Katherine Lennon	RBSG
	Alan Duff	Virgin Money
	Ailsa Beaton	INED
	Jo Kenrick	INED
<b>APOLOGIES</b>	Resat Bilgin	Turkish Bank
	Dave Stockwell	Bacs

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ID	ITEM	ACTION
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**09/17.01 MINUTES OF THE PREVIOUS MEETINGS**

The Chairman of the Board, D Rigney, introduced the meeting, noting apologies from R Bilgin and D Stockwell. The following Directors were

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	<p>welcomed to the meeting: I Smith, appointed by TSB; A Duff, replacing O Benz as the Director appointed by Virgin Money; K Lennon, appointed by RSBG.</p> <p>Board <b>noted</b> the Declarations of Interest Register; it was requested that <b>Directors</b> advise R Langworth of any changes.</p> <p>The minutes and proposed redactions of the meeting held 13 June were signed off without comment. The minutes and proposed redactions of the conference call held 3 August were signed off without comment.</p>	
<b>09/17.02</b>	<b>ACTION LOG</b>	
	<p>Referring to the Action Log, M Chambers advised that 25 items were proposed as closed, noting item 05/17.01(a) regarding the New Payment System Operator (NPSO) Board resolution; the revised Board resolution was circulated on 3 August and has been passed.</p> <p>The following items within the Action Log were noted as open:</p> <ul style="list-style-type: none"> <li>• 04/17.02(a) ‘delegated and/or reserved matters’ between Board and the Current Account Switch Service (CASS) Executive Committee (EC), Bacs EC and Cash ISA (CISA) EC: this activity is underway via the CASS EC and will be cascade to the other managed services. It was noted that this item will be considered within the context of NPSO</li> <li>• 06/17.05(b) UK Payments Administration Limited (UKPA) Hub Office Space Licence Agreement: executable copies of the Licence agreement are being prepared. It was confirmed that the contracts will run until the end of 2019 and will include a break clause.</li> </ul> <p>It was noted that the output from the Structural Reform was circulated to Board on 14 September, closing action 06/17.13(c). This and all items proposed closed were agreed by Board.</p> <p>J Kenrick noted that while content for action 06/17.10 to be closed (relating to end user measures within the scorecard), it will remain on her radar and she will look to bring consumer feedback / input to Board where appropriate and possible.</p>	

ID	ITEM	ACTION
<b>09/17.03</b>	<p data-bbox="384 409 919 432"><b>DIRECTOR CHANGES</b></p> <p data-bbox="384 409 919 432">Board <i>noted</i> the following Director changes:</p> <ul data-bbox="384 465 1034 656" style="list-style-type: none"> <li data-bbox="384 465 935 488">• A Duff, replacing O Benz for Virgin Money</li> <li data-bbox="384 521 1010 544">• I Smith for TSB, with K Patterson as his alternate</li> <li data-bbox="384 577 1034 600">• K Lennon for RBSG, with D Malley as her alternate</li> <li data-bbox="384 633 730 656">• R Bilgin for Turkish Bank.</li> </ul>	
<b>09/17.04</b>	<p data-bbox="384 696 544 719"><b>CEO REPORT</b></p> <p data-bbox="384 752 1305 831">M Chambers provided an update according to the CEO report, noting the following key points:</p> <ul data-bbox="384 864 1305 2016" style="list-style-type: none"> <li data-bbox="384 864 1305 1043">• Four processing records have been broken since the last Board meeting, including 111.7 million items being processed in a single day, and 182,000 items processed in a single event by the Bulk Payment Redirection Service (BPRS)</li> <li data-bbox="384 1077 1305 1155">• The year to date volumes remain strong, with a total growth for Direct Debits (DDs) of 3.9% and an overall growth of 2.2%</li> <li data-bbox="384 1189 1305 1536">• Bacs has successfully on-boarded three new Participants (TSB, Turkish Bank and Clear Bank) and each participant has entered live operations without any operational issues being encountered. Bacs remains in dialogue with a small number of institutions regarding direct access and expects an application to join in 2018 shortly. CASS has recently on-boarded Monzo, and Cash ISA has seen a further three new institutions join the service since July 2017</li> <li data-bbox="384 1570 1305 1648">• The CASS TV adverts and mass media campaign targeting 18-24 year olds have gone live</li> <li data-bbox="384 1682 1305 1917">• The SHA-256 Implementation Project has achieved a number of significant milestones including the successful completion of the SSL upgrade. <b>[DELETED- COMMERCIALY SENSITIVE]</b> A Beaton, Chair of the Cyber Resilience Committee (CRC), noted thanks to the Bacs team and M Bansal for their efforts in this project, this was echoed by S Yarham</li> <li data-bbox="384 1951 1305 2016">• There has been an increase in regulatory activity in the recent months; the Payments Strategy Forum (PSF) consultation on the proposed New</li> </ul>	

ID	ITEM	ACTION
	<p>Payment Architecture (NPA) closed on Friday 22 September; Bacs response was circulated to Board for information. Bacs response to the Payment Systems Regulator (PSR) Infrastructure Market Review is underway and will be circulated to Board once finalised. Referring to the PSR fees, M Chambers advised Board that all but one Bacs Participant have paid and the PSR has been advised in line with the process defined by the regulator. Bacs' response to the Bank of England (BoE) consultation on its fees is being drafted and will be circulated to Board for information once finalised. Referring to CASS, M Chambers Advised that C Pond and F Reynolds have been appointed as the Independent Executives, and that CASS has received advanced notice that it has once again been designated as an alternative switching provider (an annual process).</p> <p>J Meyrick requested further detail regarding what Bacs' response to the PSR's Infrastructure Market Review will contain; A Hollingdale advised that it will be in the form of a report detailing how Bacs will approach the requirements gathering and procurement of infrastructure supply, noting that it will seek input and develop this in the context of NPA and NPSO</p> <p><b>[DELETED - COMMERCIALY SENSITIVE]</b></p>	<p><b>M Chambers</b></p> <p><b>M Chambers</b></p>
09/17.05	<p><b>FINANCIAL PERFORMANCE</b></p> <p>M Chambers introduced the Financial Performance paper to Board, noting that the data included was as at end of July 2017, but with no material exceptions to report for August which is under preparation. <b>[DELETED-COMMERCIALY SENSITIVE]</b></p> <p>Board <i>noted</i> the 2017 Financial Performance paper.</p>	
09/17.06	<p><b>PERFORMANCE SCORECARD</b></p> <p>M Chambers presented the Performance Scorecard to Board, noting that the data includes that of August where available, and is otherwise as at the end of July. It was introduced to Board that Bacs plans to move away from the Key Performance indicators (KPIs) detailed in the Scorecard and towards Key Risk Indicators (KRIs). In readiness for this, the following four changes</p>	

ID	ITEM	ACTION
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to the measures were noted:

- 7.6 CASS Satisfaction, replacing CASS confidence as agreed with HMT
- 7.7 CASS Service User Numbers (SUNs) has been removed as the call centre work that supported the measure has now ceased
- 14.1 Level One or Two risks outside of appetite: the ‘critical’ or ‘major’ measures have been transitioned to Level One and Two risks outside of appetite to reflect the new Taxonomy
- 20.1 The workforce breakdown measure has been adjusted to reflect ‘permanent, ‘fixed term’ and ‘contractors’.

M Chambers walked Board through the exception measures where reporting as red or amber; **[DELETED- COMMERCIALY SENSITIVE]** It was agreed for Bacs to look at whether there is a trend over time as a result of this additional reporting.

A Beaton noted caution in the perception of moving away from KPIs and to KRIs only. F Ryan explained that the driver behind the transition is largely due to the need to answer the BoE priority to develop KRIs and wanting to avoid duplication. Discussion was held regarding the benefit of having both KPIs and KRIs within a single mechanism with a naming convention that embraced both types of measure; the issue was to be discussed further under the Risk item (09/17.11). **F Ryan**

A Trolland noted that, notwithstanding the need to circulate Board papers two weeks in advance of the meeting, it would be beneficial where possible to circulate such items as the scorecard with up to date data even if this was outside of the agreed SLA. Board **noted** the scorecard and exception comments.

**09/17.07 BANK OF ENGLAND 2017/18 PRIORITIES**

Ahead of the discussion regarding the letter received from BoE regarding the 2017/18 Priorities, A Grice offered to excuse himself from the meeting at any point upon the Directors’ request; it was agreed by all for A Grice to remain present.

M Chambers advised that BoE would be joining the meeting under item

ID	ITEM	ACTION
	<p>09/17.18 to discuss the Bank's Annual Risk Assessment on Bacs and the associated Priorities. Included in the meeting papers was the letter received from BoE on 23 June 2017 regarding the annual assessment and the setting of the Priorities together with Bacs' response as sent 11 September. Noting the Priority regarding General Data Protection Regulation (GDPR), A Beaton queried how Bacs intends to report its work towards compliance in this area to Board; A Hollingdale advised that the Impact Assessment of the regulation was complete, and the gap analysis to identify the required areas of work for Bacs underway in conjunction with Allen &amp; Overy (A&amp;O). Regular updates will be provided to Board and/or the Risk Committee regarding progress. The Chair noted that it would be suitable for it be reported via the Risk Committee, as the Committee will need to consider the issue of GDPR and any associated risks. J Kenrick noted caution regarding Bacs' readiness for the upcoming changes in legislation regarding GDPR and how much work there is to be done to become fully compliant; A Hollingdale confirmed that Bacs' role with regard to GDPR is largely as a data controller, and therefore any changes that will need to be implemented will be largely policy and process changes, as opposed to IT development. A Beaton confirmed that the Risk Committee will meet on 8 November where GDPR will be discussed; output of the discussion will be circulated to Board.</p>	<b>F Ryan</b>
	<p>Referring to the 2017/18 Priorities, S Yarham queried whether the formation of NPSO and associated activities pose any risk; F Ryan confirmed that any associated risks have been identified and captured in the taxonomy, and the BoE has been kept apprised of the work underway. M Chambers confirmed that any additional work as a result of NPSO activities is being absorbed within the current resource profile and as part of the existing Risk Taxonomy. It was agreed for a paper to be submitted to the next Board meeting summarising the NPSO risks and next steps.</p>	<b>F Ryan</b>
	<p>J Meyrick noted the need for formal updates including supporting papers for those items detailed in the BoE 2017/18 Priorities once work</p>	

ID	ITEM	ACTION
	<p>commences; M Chambers is to consider the most appropriate form of reporting to Board including the current practice of utilising standing agenda items. J Kenrick echoed these comments, noting the importance of capturing the discussion between Board Directors and the Executive in the minutes of the meetings.</p> <p>L Cooper noted the Priority regarding preparedness for Structural Reform and the redirection table, and queried how Bacs is managing the overlap of governance between the CASS EC and Bacs EC. M Chambers advised that Board has the oversight and responsibility for both and will be managed accordingly; A Hollingdale added that the bulk of the migration via the Bulk Payment Redirection Service (BPRS) is complete, and discussions are being held with BoE regarding the capacity and drop off rate of the table. The Board <b>noted</b> the Banks' letter together with Bacs' response.</p>	<p><b>M Chambers</b></p>
<b>09/17.08</b>	<p><b>DEBIT CAP MANAGEMENT</b></p> <p>Referring to the accompanying paper regarding the 2016/17 Priority 'P16-04' relating to Debit Cap management, M Chambers confirmed that the Bacs EC had agreed all recommendations put forward by the Settlement Working Group (WG). D Belmore, Chair of the Settlement WG, noted that to conclude the work a Change Request (CR) is being progressed to provide management information to support the 'buffer' rule change; D Stockwell is to speak to Vocalink to confirm a delivery date. <b>[DELETED-COMMERCIALLY SENSITIVE]</b> A new forecasting tool has been implemented under a Kestrel release that helps towards mitigating the risk. A Trolland queried where the liabilities lie should Bacs accept the risk of an end of day breach and it materialise; M Chambers advised that in the event of an end of day breach a course of action will be agreed in conjunction with the Bank of England and Board. D Belmore confirmed that the Settlement WG will not conclude meeting until it is comfortable the process around Debit Cap management is embedded and working well.</p> <p>Board <b>noted</b> the status updates as included in the paper, and <b>agreed</b> the proposed rule change and <b>agreed</b> that no further action be taken in respect</p>	<p><b>D Stockwell</b></p>

ID	ITEM	ACTION
	of DD extraction, and as such the risk will be tolerated.	
<b>09/17.09</b>	<p data-bbox="384 421 555 450"><b>2018 BUDGET</b></p> <p data-bbox="384 472 1305 987">M Chambers provided an update regarding the setting of the 2018 budget, noting the accompanying paper detailing the core Bacs PSO costs, and those costs relating to PSO regulatory and strategic change. The core Bacs PSO costs have been budgeted according to a mix of cost savings, challenging supplier costs, a small uplift, the impact of costs transferred from the 2017 strategic change budget, and committee demands, particularly the amendments to the audit work plan agreed by Audit Committee. When considering regulatory and strategic change in the context of New Payment System Operator and New Payment Architecture, Bacs settled on four items for which 2018 budget provision is being sought:</p> <p data-bbox="384 1010 1305 1144"><b>[DELETED- COMMERCIALLY SENSITIVE]</b> Board noted the budgetary considerations outlined in the accompanying paper for which budget is not being sought, including:</p> <p data-bbox="384 1167 858 1196"><b>[DELETED- COMMERCIALLY SENSITIVE]</b></p> <p data-bbox="384 1218 1305 1308">It was noted that it is possible a number of these items may be funded via the NPSO or be levied direct to Participants depending on timing.</p> <p data-bbox="384 1330 1305 2000">M Nalder noted that the division of cost as per PSO running costs and regulatory / strategic change was a clear and appropriate way to present the budget. K Lennon queried whether it will be possible to see a further breakdown of how the amount allocated to the infrastructure procurement funding provision. M Chambers advised that at present the funding provision is based upon the current understanding of the activities Bacs will need to pursue in 2018 to meet the procurement requirement and associated regulatory direction. Given the dependency on both the transfer to the NPSO and the development of a NPA it was noted that, at this stage, Bacs is looking to secure 2018 budget. J Meyrick queried whether Bacs has accounted for the potential to apply for an extension / exemption in respect of the PSR infrastructure Specific Direction; <b>[DELETED- COMMERCIALLY SENSITIVE]</b></p>	

ID	ITEM	ACTION
	<p>It was acknowledged that the budget is being set according to a number of unknown factors at this stage. Discussion was held regarding whether the funds should be called for in three tranches, providing the opportunity to assess the drawdown of the infrastructure procurement element and to adjust, if necessary, any portion of the call in respect of the transition to the NPSO. However, it was <b>agreed</b> the direct participant ('Member') portion of the 2018 funding requirement should be sought in two tranches as per the normal process, with Board agreement ahead of the drawdown of the infrastructure procurement element. K Lennon noted that while content to agree with consensus, she would prefer that the direct participant ('Member') portion of the 2018 funding requirement were levied via three tranches in 2018. J Kenrick requested that a review of the items of work that have not been included within the agreed budget profile in light of prioritisation and the transition to the New Payment System Operator be undertaken. It was agreed that this review would be undertaken by Bacs Executive Committee and the outcomes reported back to Board. Having considered and discussed the accompanying paper Board <b>agreed</b> the 2018 Core Bacs PSO budget, <b>agreed</b> the 2018 Regulatory and strategic change activity budget (noting the drawdown approach in respect of the infrastructure procurement element), <b>noted</b> the approach taken in relation to other budgetary conditions, <b>noted</b> the 2018 income profile and associated risks and <b>noted</b> the approach to 2018 Regulatory Reserves. M Chambers will advise the direct participants ('Members') of the agreed 2018 budget profile and the associated 'Member' contribution.</p>	
09/17.10	<p><b>2017/18 SERVICE SPECIFIC CHARGES</b></p> <p>M Chambers provided an update regarding the setting of the 2017/18 Service Specific Charges. <b>[DELETED- COMMERCIALLY SENSITIVE]</b></p> <p>Board <b>agreed</b> the approach and <b>noted</b> that the 2017/18 Service Specific Charges will be set (based upon the aggregated position) upon the challenge review being completed.</p> <p><b><i>[Secretariat Note: The running order of the remaining items on the agenda</i></b></p>	

ID	ITEM	ACTION
	<i>was adjusted.]</i>	
09/17.13	<b>NPSO</b>	
	<p>The Chair provided a verbal update regarding the progress of NPSO. He proposed that a Board sub-group be set up to discuss such matters in more depth going forward. The sub-group will consist of the Chair, CEO, one Independent Non-Executive Director (INED) and two or three Directors. A draft Terms of Reference (ToR) for the Group will be circulated to Board, <b>M Chambers</b> following which nominations should be communicated to M Chambers or R <b>Directors</b> Langworth. All <i>agreed</i> the approach.</p> <p><b>[DELETED- COMMERCIALLY SENSITIVE]</b> Directors are to communicate with M Chambers should they have any pressing concerns.</p>	
09/17.18	<b>BANK OF ENGLAND ANNUAL RISK ASSESSMENT</b>	
	<p>D Bailey, Y Cox, P Cohen and S Chan of the BoE Payment Systems Supervision and Policy, FMI Directorate were introduced to the meeting to present a verbal update on the Bacs Annual Risk Assessment conducted by the BoE. <b>[DELETED- COMMERCIALLY SENSITIVE]</b></p> <p>D Bailey, Y Cox, P Cohen and S Chan of the BoE Payment Systems Supervision and Policy, FMI Directorate left the meeting.</p> <p>M Henry left the meeting.</p>	
09/17.11	<b>BACS RISK UPDATE EXECUTIVE SUMMARY</b>	
	<p>F Ryan provided an update against the Risk Executive Summary paper, noting that the third risk review cycle is now underway. Bacs is focused on the development and implementation of KRI's which will be discussed at November Risk Committee, and noting the earlier discussions confirmed that it will look to create a means to extract KPIs and KRIs to report to Board. S Yarham noted at this stage that it is important when developing these metrics to ensure the focus is kept on the end user and for trend analysis to be considered. L Cooper queried whether the measures include Service User Compliance (SUC); F Ryan is to check and confirm.</p>	<b>F Ryan</b>
	<p><b>[DELETED- COMMERCIALLY SENSITIVE]</b> Board <i>noted</i> the Bacs Risk Executive Summary.</p>	

ID	ITEM	ACTION
09/17.12	<p><b>CONTROLS ASSESSMENT</b></p> <p>F Ryan confirmed that the three stage Bacs Control Assessment has been completed with no significant control weaknesses identified. The Audit and Risk Committees have accepted the reports and agreed their recommendation to Board. Board <b>agreed</b> that the findings of the reports are acceptable.</p>	
09/17.14	<p><b>DIRECT DEBIT PRODUCT DEVELOPMENT UPDATE</b></p> <p>Referring to the accompanying paper regarding the Direct Debit (DD) product development update, A Pieckielon advised that both HMT and PSR have asked for continued updates on the progress of work. A Pieckielon also highlighted the amount of interest and support that the team were getting from end users in developing the concepts and trials. Bacs has received the responses from the DD consultation (143 in total), and whilst the responses are still being evaluated early indications are that the ‘controls concept’ was the only item that elicited negative responses. It was also noted that while the limited guarantee proposition was popular, there was concern that it would cause confusion amongst customers. Bacs is aiming to provide a further updates at future Board meetings. M Nalder noted caution that Bacs could undertake a significant amount of work that becomes stifled as a result of the transition to NPSO; A Pieckielon acknowledged this, noting that where Bacs has the positive support from end users and from HMT and PSR it should be seen to be progressing at the pace the industry demands bearing in mind the NPA. Board <b>noted</b> the progress and next steps outlined in the accompanying paper.</p> <p>A Grice left the meeting.</p> <p>Referring to the second paper under this item regarding Facilities Management (FM), A Pieckielon advised that she met with the PSR on the issue; both the PSR and Bacs had legal advisors present at the meeting. As outlined in the paper provided to Board, Bacs and its legal advisors explained why Bacs and Members believe implementation of an Accreditation process provides a better solution due to the potential risk of</p>	

ID	ITEM	ACTION
	<p>unintended consequences of a rule change in isolation to the rules. Bacs believes that its response is a proportionate response to address the issue identified by the PSR. The PSR has asked Bacs to confirm if it has its Board's support on this matter, following which the PSR will take the matter to its own Board meeting in November. A Pieckielon will continue to engage with the PSR team to discuss further. Board confirmed that it will provide support to progress the activity as recommended and <b>agreed</b> the approach.</p>	
<p><b>09/17.15</b></p>	<p><b>STRUCTURAL REFORM</b></p> <p>A Hollingdale provided a verbal update on the progress of Structural Reform <b>[DELETED- COMMERCIALLY SENSITIVE]</b></p> <p>The industry co-ordination work is largely complete with a final meeting scheduled for the 29 September where BoE will mark the success of this year's activity and agree the approach for 2018. A Hollingdale concluded that the 2017 Priority has been superseded and the 2018 Priority is considered more appropriate for the scope and impacts of the work for Bacs. Board <b>noted</b> the update.</p>	
<p><b>09/17.16</b></p>	<p><b>COMMITTEE UPDATES</b></p> <p>A Beaton advised that the Internal Audit out sourced supply issues have now been resolved and that both the Audit Committee and BoE are comfortable with the way forward. The ToR for Audit Committee has been amended to include responsibility for the review and approval of new contracts with existing professional services advisors, including auditors. Board <b>agreed</b> the change.</p> <p>Referring to the CRC paper regarding the SHA-1 activity, Board <b>noted</b> the status of the SHA-1 activities. <b>[DELETED- COMMERCIALLY SENSITIVE]</b>. J Kenrick queried whether an audit of common suppliers with Vocalink should be undertaken; Bacs is to consider this.</p> <p>M Chambers advised that the new Bacs EC has now settled and achieved efficiency whilst maintaining good governance. Cash ISA EC had its first meeting with representation from UK Finance as opposed to BBA.</p> <p>L Cooper left the meeting.</p>	<p><b>M Chambers</b></p>

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ID	ITEM	ACTION
	<p>J Kenrick provided an update on the CASS EC meeting held 5 September, noting that there were positive discussions regarding the future product, brand and governance. These discussions will be fed into the work plan to be delivered against the agreed strategy. As a first step it was noted that a CASS Governance Sub-Group is being formed to review the Governance structure and lessons learned would be shared with the NPSO.</p> <p>The CASS EC agreed its budget for 2018. <b>[DELETED- COMMERCIALY SENSITIVE]</b></p>	
<b>09/17.17</b>	<b>AOB</b>	
	<p>R Langworth is to circulate the 2018 Board meeting dates as soon as possible.</p>	<b>R Langworth</b>

**Date of next meeting: 12 December 2017 at 10:00**