

## MINUTES

TO Board  
FROM Rachel Langworth, Board Secretariat  
DIRECT 020 3217 8393  
EMAIL [rachel.langworth@bacs.co.uk](mailto:rachel.langworth@bacs.co.uk)  
DATE 5 October 2016

### MINUTES OF THE BOARD MEETING HELD ON 27 SEPTEMBER 2016

PRESENT	David Rigney	Bacs ( <b>Chair</b> )
	Rachel Langworth	Bacs ( <b>Secretariat</b> )
	Martin Henry	AIB
	Andy Hollingdale	Bacs
	Dave Stockwell	Bacs
	Mike Chambers	Bacs
	Louise Thurman	Bacs
	Ailsa Beaton	Bacs ( <i>Independent Non-Executive Director</i> )
	Andrew Grice	Bank of England
	James Meyrick	Barclays
	John Walsh	Citi
	Dougie Belmore	Clydesdale
	Sue Yarham	HSBC
	Anne Trolland	Lloyds Banking Group
	Mark Nalder	Nationwide
	Andy McComb	Northern Bank
	Will Amos	PwC ( <i>observer</i> )
	David Malley	RBSG
	Liz Cooper	Santander
	Otto Benz	Virgin Money
APOLOGIES	Anne Pieckielon	Bacs
	Damien Pettit	RBSG

ID	ITEM	ACTION
09/16.01	<b>MINUTES OF LAST MEETING</b> <p><b>D Rigney</b> welcomed Directors to the meeting, and introduced Will Amos of PwC who was to observe the meeting as part of the ongoing governance review. The Conflicts of Interest Register was <b>noted</b>, Dave Sanders and <b>R Langworth</b> Shirley Long will be removed from the list and Directors were asked to ensure the entries relating to Payments UK Management Limited (Payments UK) are correct. The minutes (including proposed redactions) of the meetings held 21 June, 5 July and 10 August were signed off without</p>	

---

ID	ITEM	ACTION
	comment. It was noted that the actions arising from the 10 August conference call regarding the H2 2016 budget were completed post meeting.	
<b>09/16.02</b>	<b>ACTION LOG</b>	
	Action 06/16.10(b) regarding the Terms of References (ToRs) for the revised committees was to be carried forward and discussed further under agenda item 09/16.09. All other actions were noted as closed.	
<b>09/16.03</b>	<b>DIRECTOR CHANGES AND COMMITTEE CHAIR</b>	
	<p><b>M Chambers</b> confirmed that there were no Director changes since the last meeting. Board agreed the reappointment of A Beaton as the Chair of both the Audit and Risk committees; the committees' comment regarding the Nominations Committee being the more suitable body to discuss and propose such appointments was noted.</p>	
<b>09/16.04</b>	<b>CEO REPORT</b>	
	<p><b>M Chambers</b> provided an update regarding the CEO Report, noting the following key points:</p> <ul style="list-style-type: none"> <li>• Transaction volumes have been very strong to date in 2016; the Direct Debit (DD) volumes have increased 5% in the service year</li> <li>• There have been two technical releases since the last meeting; the Kestrel 19 (K19) release, and the implementation of the SSL upgrade. Board <b>noted</b> the Go decision for the upgrade, as agreed offline ahead of the 19 September Go Live date. Board noted its thanks to M Bansal and the team for their efforts on the SSL Upgrade project</li> <li>• Bacs is working with three Payment Solution Providers (PSPs) on their membership projects; all projects are progressing well. There are a further five projects underway with PSPs regarding structural reform; Bacs is working with a further four PSPs who are interested in membership</li> <li>• The Payment Systems Regulator (PSR) has formally designated the Current Account Switch Service (CASS) as an 'alternative switching</li> </ul>	

ID	ITEM	ACTION
	<p>service'</p> <ul style="list-style-type: none"> <li>• Bacs has launched a cross scheme website for Bank Reference Data (BRD) – <a href="http://www.sortcodesinfo.co.uk">www.sortcodesinfo.co.uk</a></li> <li>• Bacs expects to communicate with the Board in October regarding the UK Payments Administration Limited (UKPA) service contract and accommodation licence</li> <li>• <b>M Chambers</b> thanked Board for its engagement with the various regulatory activities and responses.</li> </ul> <p><b>A Trolland</b> noted the PSR requirement for a CASS complaints process, and queried what process was used following the launch of the service. <b>M Chambers</b> confirmed that the Bacs generic process was followed; however the PSR requires a CASS specific process.</p> <p>Referring to the Money Mule concept, <b>A Grice</b> queried whether an institution's data can be used where it has not chosen to take part; <b>M Chambers</b> confirmed that data can only be shared between two parties where both have signed the proof of concept.</p> <p><b>D Rigney</b> led a discussion regarding the meeting held with the Independent Chairs of the Payment Systems Operators (PSOs), the Bank of England (BoE) and PSR on the 16 September. Ahead of the discussion, as the representative for the BoE, <b>A Grice</b> offered to absent himself from the meeting should Board wish; it was agreed for A Grice to remain and be able to participate in the discussions. <b>D Rigney</b> advised that the context of the discussions held at the 16 September meeting was the topic of PSO consolidation included in the PSF's payment strategy consultation and preparatory work ahead of a regulatory decision regarding the future consolidation of PSOs. It was confirmed that a Delivery Group is to be formed by the BoE / PSR, comprising of the Independent Chairs of Bacs, Faster Payments Scheme Limited and Cheque &amp; Credit Clearing Company Limited, as well as three PSF appointed representatives; these representatives will be selected from PSP members of the Payments Strategy Forum and consumer groups. An Independent Chairman will be</p>	

ID	ITEM	ACTION
	<p>appointed by the PSR / BoE; recruitment is underway presently. The BoE and PSR have produced a scoping document and a ToR for the Delivery Group; the delivery of the plan for consolidation is due to be delivered by the end of March 2017. Subject to the acceptance of the plan by the BoE and PSR, the implementation phase will begin, which will include the appointment of the Chairman and Chief Executive Officer (CEO) for the consolidated scheme entity by June 2017. Once the CEO and Chairman are appointed, the Independent Chairman of the Delivery Group will cease involvement. It is the intention of the BoE and PSR for the implementation of the consolidated PSO to be delivered by 1 January 2018; debate is ongoing as to what the 'delivery' will look like i.e. a newly formed Board with the consolidation of the schemes to follow, or a newly formed Board and PSO. It was confirmed that the regulatory driver for the 1 January 2018 date is the upcoming procurement of infrastructure supply arrangements due in 2020. <b>D Rigney</b> confirmed that while the timeframe is aggressive, it is his belief that the consolidation of PSOs is the correct path to take and will overall benefit the industry.</p> <p>Discussion was held regarding the additional work that will be needed to support the consolidation activity, and the likely impact on Bacs. <b>D Rigney</b> advised that as a member of the Delivery Group he has made clear that a third party resource should be employed to undertake the bulk of the work, however it was acknowledged that there will remain additional work for the Bacs staff to undertake and which will likely consume a significant amount of resource over the next twelve months. <b>J Meyrick</b> queried how the Bacs staff has received the news. <b>D Rigney</b> confirmed that the announcement has provided clarity on the subject of structure and governance, and that the Bacs management team continues to impress upon the company staff that the pending change will likely create a wealth of opportunity. <b>M Chambers</b> advised that Bacs undertook extensive communication to its staff which was aligned with that of the other schemes so as to ensure that the messages received by PSO staff were consistent. However, it was noted</p>	

ID	ITEM	ACTION
	<p>that the news will likely affect morale, attrition rates and recruitment options.</p> <p>Further discussion was held regarding the BoE priority P16-01 'Governance', and how the potential consolidation will affect the progression of the Governance Review. <b>D Rigney</b> advised that the Governance Review that is underway and being led by PwC will continue to delivery of the report; the work has been undertaken from the perspective of a single retail payment scheme and as such any key learning can still be utilised and fed into the Delivery Group work. It was confirmed that PwC will join Bacs at a meeting with the PSR and BoE to discuss the findings of the review. Discussion was held regarding the planned Strategy work regarding the Board composition and revised committee structure; it was confirmed that it is intended that the revised committee structure (phase 1) is still to be implemented, and that further discussion regarding Board governance, role and purpose (phase 2) is to be discussed at the November off site and the December Board meeting. <b>S Yarham</b> suggested that, given the work to be undertaken in 2017, a quarterly meeting schedule for Board is not sufficient; it was agreed to schedule provisional dates and circulate them to Board. Referring to the Risk Director vacancy, <b>M Nalder</b> queried whether there is any scope to draw on the existing roles within the other payment schemes as opposed to looking to recruit on a permanent or fixed term basis; <b>D Rigney</b> responded that the relevant people from the schemes already meet and share information where appropriate, however given the level of activity it is unlikely that anything over and above this will be possible. <b>D Malley</b> queried whether Bacs will be producing an outline of how it expects to address the additional work likely to take place in 2017 and how it will incorporate the input of Board; it was agreed for Bacs to look to produce an 'involvement plan' including budgetary implications.</p> <p><b>A Grice</b> noted Bacs' intention to continue with the PwC Governance Review and to deliver its report to the December Board meeting and noted that the BoE will soon issue a consultation on payment system governance.</p>	<p><b>R Langworth</b></p> <p><b>M Chambers</b></p>

ID	ITEM	ACTION
	<p><b>A Beaton</b> queried how UKPA features within the consolidation plan; <b>M Chambers</b> advised that at present it is not included within the scope; <b>[Deleted – commercially sensitive]</b>. <b>D Rigney</b> confirmed that the issue will be raised within the discussions held by the Delivery Group.</p>	
<b>09/16.11</b>	<b>2017 BUDGET</b>	
	<p><b>D Rigney</b> advised that, in light of the need for the discussion held under the previous item, a paper had not yet been produced regarding the 2017 budget. <b>[Deleted – commercially sensitive]</b>.</p>	
	<p><b>A Beaton</b> noted concern regarding the potential for the consolidation activities to consume Bacs' focus in 2017, and that the continued development in certain areas should remain so as to avoid a situation where Bacs could be considered 'not fit for purpose'.</p>	<b>M Chambers</b> <b>R Langworth</b>
	<p>It was agreed for Bacs to produce a 2017 budget paper based upon running Bacs as a systemically important payment system, change activity where bandwidth exists and a series of budgeted options for other activity. The paper will be issued to Board during the first half of October and a Board meeting scheduled thereafter to discuss and agree.</p>	
<b>09/16.05</b>	<b>FINANCIAL PERFORMANCE</b>	
	<p><b>M Chambers</b> presented the Financial Performance report including data as at August 2016. <b>[Deleted – commercially sensitive]</b>.</p>	
<b>09/16.06</b>	<b>PERFORMANCE SCORECARD</b>	
	<p>Referring to the Performance Scorecard as at end of August 2016, <b>M Chambers</b> noted the following key points:</p>	
	<ul style="list-style-type: none"> <li>• The CASS confidence and awareness figures remain static; however the inception of the refreshed advertising campaign should see improvements</li> <li>• The Service User Compliance (SUC) measure continues to improve slowly</li> <li>• The CASS completion measure moved to amber due to a participant issue that has since been resolved</li> </ul>	

ID	ITEM	ACTION
	<ul style="list-style-type: none"> <li>• The delivery of the BoE priorities has been marked as amber. Bacs has advised the BoE that its preparedness for structural reform Impact Assessment could not be achieved by end of October 2016 due to availability of data from impacted banks and requested the date be moved to end of December 2016; Bacs is yet to receive confirmation from the BoE</li> <li>• The Internal Audit (IA) controls measure was noted as amber; it was confirmed that as of end of August there was one IA item overdue that has since been addressed; Bacs is awaiting IA sign off</li> <li>• The Strategic Plan was also noted as amber, predominantly due to the ongoing debate around governance and as Bacs is still awaiting the outcomes of the Payment Strategy Forum (PSF) findings from its assessment of access</li> <li>• The Cash ISA (CISA) volumes were reported as red; the volumes are tracked according to 80% of participant forecasts. It was confirmed, however, that the CISA income and expenditure is reporting as green.</li> </ul> <p>Discussion was held regarding the SUC measures and whether they remain appropriate. It was noted that the three, six and nine month measures were agreed at the point that thirteen month redirection was in place; as indefinite redirection has now been implemented it was suggested that the measures should be revised. It was agreed that SUC should remain an area of focus. <b>A McComb</b> confirmed that there is an outstanding action on the CASS Management Committee (CASS MC) and the Operations and Compliance Committee (O&amp;C) to review this. As chair of O&amp;C, <b>D Stockwell</b> is to ensure that the committee focuses on the issue at its meetings and make a recommendation.</p>	

**09/16.07 BANK OF ENGLAND 2016/17 PRIORITIES**

**A Hollingdale** presented the BoE Priorities Tracker to Board, noting that Project Manager Sam Amos will be responsible for the activities going forward. Four of the five priorities are reporting as green. **A Hollingdale** advised that the priority relating to preparedness for structural reform is

ID	ITEM	ACTION
	<p>reporting as amber while Bacs awaits confirmation from BoE regarding the revised delivery date. Bacs is not yet in receipt of the information required from the relevant member banks, however is confident this will be available by the end of the year.</p> <p><b>A Beaton</b> noted concern regarding P16-02 and P16-03 being reported as green; noting that while comfortable with the relevant reports (BCP and Risk Framework), the concern relates to being able to meet the deadlines given that the premise of Bacs as a systemic risk manager reaches beyond the remit of Bacs responsibilities. <b>A Hollingdale</b> advised that the report reflects the position as at end of August; once the reports have been digested the status could change. It was agreed that <b>A Beaton</b> will discuss the September tracker assessment with Bacs Executive.</p> <p>It was agreed for Bacs to circulate the implementation plan regarding risks emanating from participants to Board.</p>	<p><b>A Beaton</b> <b>A Hollingdale</b></p>
<p><b>09/16.08</b></p>	<p><b>BACS RISK PROFILE</b></p> <p><b>M Chambers</b> presented the Bacs Risk Profile, noting that Risk Director M Bon has left the business; it was confirmed that all exit activities were complete. It was confirmed that the Risk Profile Report has evolved since the previous iteration; any further changes to the report are pending the outcome of the Deloitte's risk framework and BCP reviews. The Risk Committee has reviewed and agreed the revised Risk Appetite Statement, and the introduction of the risk tolerance metrics. There was a single noticeable event since the last Board meeting relating to a BT outage across all services. <b>L Cooper</b> noted the absence of an 'unwanted events record' for the managed services; it was agreed to include this in the next version of the report.</p> <p>Board noted the major risks for Bacs and the Managed Services, accepted the actions being taken through current controls and planned treatments on the risk registers, and agreed the updated risk appetite statements and the new tolerance metrics.</p>	<p><b>M Morrissey</b></p>
<p><b>09/16.09</b></p>	<p><b>BACS STRATEGY</b></p>	

ID	ITEM	ACTION
	<p><b>A Hollingdale</b> provided an update based on the latest version of the Strategy Programme Status Report noting that, as discussed earlier in the meeting, the Strategy Programme is currently reporting as amber, primarily driven by external factors relating to the access and governance work streams. The focus at present is on access and the on-boarding of new participants. Work is ongoing regarding an aggregator proposition; a PSP Bacs is working with at present is considering offering an aggregator solution. The final interview for the Independent Director who is to Chair the CASS Executive Committee is to take place in the week commencing 3 October. <b>O Benz</b> suggested that Bacs continue to consider how ISO Mapping could be used in the future; this was acknowledged.</p> <p><b>D Malley</b> queried whether the revised committee structure is still to be implemented; <b>D Rigney</b> confirmed that it will go ahead as there is still benefit to be sought from streamlining the committee structure to make it more efficient. In response to discussions regarding the progress being made under the DD proposition strand of activity it was noted that the Directors off site meeting on the 8 November will include this area of strategy.</p>	
09/16.10	<p><b>H2 2016 FUNDING CALL</b></p> <p><b>D Rigney</b> introduced the paper regarding the review of the H2 2016 Funding Call, noting that a rigorous review of the process was undertaken. <b>M Chambers</b> thanked Board for enabling the process and conclusion of the debate. <b>D Malley</b> commented that the problems experienced predominately related to the strategy work, and that the key learning is the discipline needed where committing to areas of work and activity. <b>D Rigney</b> acknowledged this, noting that the paper provided outlines the areas of improvement and where lessons learned can be drawn. It was requested that the Chair sense check those areas of activity within the paper that may now be under threat in light of the pending consolidation activity. Board reviewed the series of activities that have been identified and noted that a status update on each of the activities will be included in</p>	<p><b>D Rigney</b></p>

ID	ITEM	ACTION
	the December 2016 CEO Report.	
<b>09/16.12</b>	<b>2016/17 SERVICE SPECIFIC CHARGES</b>	
	<b>D Stockwell</b> provided an update regarding the Service Specific Charge for 2016/17. <b>[Deleted – commercially sensitive]</b> .	
<b>09/16.13</b>	<b>STRUCTURAL REFORM STATUS AND TIMELINE</b>	
	<b>A Hollingdale</b> provided an update summarising the structural reform activity. Bacs has five projects with impacted members underway. It was noted that due to the projects operating under Non Disclosure Agreements (NDAs), the information provided to Board was anonymised. Board was advised that co-ordination work is underway with the PSOs, structural reform banks and the BoE; the BoE meets with all parties individually, as well as on a tripartite basis. It was noted that the availability of test slots with the BoE is limited, and the time frame to complete testing is tight. Bacs advised that it is the intention to implement a side letter agreement with impacted banks; it is hoped that the same process can be replicated across the other schemes.	
	<b>J Meyrick</b> queried why the priority relating to this activity is tracking as amber when the individual projects are all tracking as green; <b>A Hollingdale</b> advised that the tiering analysis that Bacs is to undertake to satisfy the priority does not sit on the critical path for the individual member projects.	
	<b>O Benz</b> queried whether volume flows and redirection will have a technical impact on the projects; it was confirmed that use of the Bulk Payment Redirection Service (BPRS) is being explored, and that there is adequate capacity to cope with the potential volumes. <b>A Beaton</b> queried if Bacs has sight of the potential risks associated with the activity; <b>A Hollingdale</b> advised that in relation to the current phase it does however as the work progresses Bacs will need to further consider the risks involved.	
<b>09/16.14</b>	<b>INTERNAL CONTROLS ASSESSMENT</b>	
	<b>A Beaton</b> presented the summary assessments for the Bacs Internal Controls Review, the Bacs Internal Audit Report and the Deloitte report. It was confirmed that the Risk Committee has reviewed the reports and is	

---

ID	ITEM	ACTION
	comfortable with all. Board endorsed the Risk Committee and Audit Committee recommendations that the findings of the Bacs Internal Controls assessment are acceptable.	
<b>09/16.15</b>	<b>BACS COMMITTEE UPDATES</b>	
	There were no comments by exception.	
<b>09/16.16</b>	<b>MANAGED SERVICES UPDATES</b>	
	<b>A McComb</b> provided an update on the CASS activities since the last meeting of the CASS MC; notably the launch of the CASS advertising campaign, and that a paper is due to be circulated to the CASS MC in the coming weeks regarding BPRS tariff. It was confirmed that a meeting was held between CASS participants and the C&CCC Image Clearing System programme to discuss its concerns.	
<b>09/16.17</b>	<b>AOB</b>	
	<b>A Beaton</b> noted the upcoming Payments UK Cyber Conference; Bacs is to circulate the details.	<b>R Langworth</b>

**Date of next meetings: 8 November (offsite)**

**13 December at 10:30**