NPSO Limited
Minutes of the meeting of the Board of Directors, 10th January 2018

Directors	**NPSO Support**
Melanie Johnson (MJ) Independent Chair	Vanessa Graham (VG) UK Payments Administration Limited, Company Secretary
Paul Horlock (PH) CEO	Chet Behl (CB) Legal Counsel
Rob Stansbury (RST) Senior INED	Beth Williams (BW) Secretariat
Anna Bradley (AB) INED	Afua Gharban (AG) Secretariat
Peter Wyman (PW) INED	Peter Sparkes (PS) NPSO Adviser
Russell Saunders (RSA) NED	
Becky Clements (BC) NED	**External Guests**
	Hannah Nixon (HC), Managing Director, PSR
	Sam Cope (SC), Senior Associate, PSR

1. Opening items

- RST declared his appointment, subject to regulatory approval, as Chair of AmTrust Europe Limited. The other Board members approved this situational conflict. The remaining directors present confirmed that the Register of Directors' Interests was accurate in respect of their respective situational interests.
- Each director present confirmed that they had no direct or indirect interest in any way in the proposed transactions to be considered at the meeting which they were required by section 177 of the Companies Act 2006 and NPSO's articles of association to disclose.
- The Chair confirmed that the meeting was quorate.
- The draft minutes from the 13th December Board meeting were approved subject to the addition of a note that the interim guarantor member had adopted the Articles following the meeting.
- The draft minutes from the 20th December extraordinary Board call were approved.
- In relation to the actions, it was requested that action 6 from the 11th October meeting, to prepare accounts up to 31st December, should be marked as 'in progress' rather than 'on hold'. It was noted that action 3 from the 20th December call, to send a letter to the Chairs and Independent Directors of the PSOs, was in hand and the letter would be sent later that day.
- It was noted that meetings with the FPSL and BPSL guarantors would take place over the course of the next week and that David Bailey of the Bank of England (BoE) would attend. NPSO has been liaising with the PSOs and with guarantors and to date discussions have been positive.

2. Introduction to Hannah Nixon, Managing Director of the PSR

(HN and SC entered)

- HN expressed the PSR's support for the NPSO and commitment to work to help ensure the NPSO's success. She provided an overview of why the PSR supported the creation of NPSO,

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including its potential to drive benefits for service users. She explained that the PSR believed the creation of the NPSO could help reduce complexity and, critically, enable the delivery of the Payment Strategy Forum's vision - including the New Payments Architecture (NPA).

- The PSR's expectations for NPSO were outlined as being, in the short term, to complete the consolidation and be fully operational as smoothly as possible and without undue delay. It should also set up its governance arrangements in a manner consistent with the Delivery Group report's recommendations. In the medium term, the PSR expects NPSO to fill a critical role at the heart of retail payments. This should include: setting a strategy for the company that delivers for all service users; managing rules and standards in a transparent way and which embraces new business models and industry innovation; and procuring and managing infrastructure in a way that ensures resilience and delivers good value for money, while promoting competition and innovation.
- The PSR is keen to see this achieved through a high level of industry collaboration and engagement. HN explained that she wants the NPSO to learn lessons from the past and also build on the success of the Payments Strategy Forum. That was a testament to what the industry can achieve and the PSR wants to see the NPSO maintain that momentum and level of stakeholder engagement and support.
- The PSR would engage early with the NPSO on issues with the aim of resolving challenges through effective engagement wherever possible. Maintaining a constructive and open working relationship will be important to this and HN noted that she was pleased with the relationship so far, especially with the engagement she had with the Chair and CEO. However, it was noted that the PSR has strong regulatory powers which it could use if necessary.
- In the spirit of openness and transparency, the PSR is intending to write a public letter to NPSO to set the tone for the working relationship and to clarify its initial priorities for the NPSO. It was agreed that NPSO would publish its response to the letter on its website alongside the PSR's letter.
- The Chair described some of the challenges NPSO will face, including developing the advisory councils in such a way that they can make meaningful contributions, putting the customer in control.
- The NPSO explained that it appreciated the Coordination Group meetings, where the BoE and the PSR and NPSO come together as a forum to discuss progress and any conflicting priorities. HN provided assurance that this group could continue to meet for as long as helpful.
- There was a discussion about NPSO's scope in light of the changing payments landscape. HN noted that the PSR sees NPSO's ability to reduce industry fragmentation as one of its advantages. In that context it was noted by the NPSO that a memorandum of understanding is being put in place with Open Banking and efforts will be made to ensure that their standards and APIs work dovetails with that of NPSO.
- The PSR's draft letter set out some priorities for the NPSO, including that the NPSO should 'embed its strategic objectives into its governance processes'. This was discussed and clarification of the PSR's rationale for this was sought. SC explained that the PSR supports the

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strategic objectives that were developed through extensive dialogue during the development of the Delivery Group Report. These strategic objectives were developed as a basis for decision making by the NPSO board and, for that reason, the PSR wants to see them embedded in the NPSO's governance and used accordingly. In addition, the PSR wants to ensure that the strategic objectives cannot be easily changed without serious consideration and appropriate consultation with the PSR and other regulators.

- It was noted that NPSO is building a wider risk framework which will encompass change, and that it would be important to be clear about expectations with vendors. In this respect, dialogue with the PSR will be critical.

(HN and SC left)

- It was noted that a response to the draft PSR letter is already being drafted and will be brought to the next Board meeting for approval before being issued.
- ACTION: PH to provide an overview of the Standards team's work to the Board in March; in particular on reference data, in order to give the Board visibility of what the function currently does and help the Board determine what direction NPSO wants it to go in. It was noted that it would be helpful, in particular for the independent Directors, to have an overview of how standards work and NPSO's role in them.
- ACTION: PH to provide a briefing on Open Banking at the Board Planning Day in February.
- ACTION: PH to discuss with HN and Paul Smith how to meet the PSR's expectation around embedding NPSO's strategic priorities in a manner which is workable for NPSO.

3. Appointments

- The Board agreed to recommend *[Redacted – commercially sensitive]* to the BoE for non-objection *[Redacted – commercially sensitive]*. (ACTION: MJ to confirm.)

4. Board compositions

- The Board raised a risk about the potential for PSO Board members to resign in coming months, which would pose a risk to the PSOs and NPSO in terms of loss of corporate memory following transition. It was noted that the Chair was writing to the Chairs and Independent Directors of each PSO to encourage them, and the bank-appointed directors, to remain in post to oversee the change programme during transition, transfer and transformation in a safe and resilient manner. The importance of maintaining a high level of engagement with operational committees was also noted and this was to be fed into each respective letter.
- It was noted that some participant organisations had positions on all PSO Boards and it was agreed to try and keep those board members as a minimum.

5. Transition, Transfer and Transformation

- Definitions of the three stages were presented to the Board and it was noted that efforts are being made to disseminate these definitions so that all parties converse in consistent language.

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Bacs, UKPA and C&CCC have aligned their documentation to refer to this. FPS has referred to the "Three T's" in their material.

6. Update on Bacs and Faster Payments

- It was noted that Faster Payments transaction documentation has been distributed to members and that two organisations have already confirmed that they will resign from Faster Payments and accede to NPSO. It was noted that *[Redacted – commercially sensitive]* has asked if it could accede to NPSO across its group, and that NPSO's response was that each entity within the group could accede *[Redacted – commercially sensitive]* to NPSO individually, on the understanding that the group as a whole has one vote in aggregate.
- Progress is being made in relation to Bacs' transaction documentation but it has not yet been circulated to participants.

7. Indirect subsidies

- It was noted that Faster Payments has two subsidiary organisations and that these will become indirect subsidiaries of NPSO following transition. There was a discussion about the level of control and oversight the NPSO Board will have over these indirect subsidiaries.
- The Board expressed a general preference for a flat structure going forward, but noted that there may be good reason to keep the subsidiaries as separate companies, such as ring fencing risks and incubating new technologies.
- It was agreed that the current structure would be transferred to NPSO and reviewed at a later date.

8. Vocalink manuals

- The Board was presented with manuals setting out the contractual arrangements between each PSO and Vocalink. It was noted that all have different approaches and different historical relationships with Vocalink.
- ACTION: CB to add the PSR instructions next to the termination dates section.
- The Board wanted to know what potential liabilities (historic looking) are contained in these arrangements which should be brought to NPSO's attention, or any elements that are incomplete. It was suggested that this matter could be put to the Risk and Audit Committee as a paper on legal risks arising, and then subsequently be referred to the Board.
- ACTION: CB and PH to hold a workshop with the CEOs of Faster Payments and Bacs to develop NPSO's understanding of these arrangements further and to report back to the Board.
- *[Redacted – commercially sensitive]*

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9. Design & Delivery and Standards

- It was noted that NPSO has entered into a tripartite arrangement with UKPA and Payments UK pursuant to which it has assumed responsibility for the Design & Delivery and Standards teams with effect from 1 January 2018 so the delivery of these services to the industry will continue. The teams consist of 13 employees and one consultant. The thirteen employees remain employed by UKPA.

10. NPSO Policies

- The schedule for adopting NPSO policies was presented.
- There was a discussion about anti-money laundering (AML). The Board felt that although UKPA and the PSOs have not considered it necessary to have specific anti-money laundering policies, NPSO should have one which sets out its limited AML exposure and the reliance it places on participants. VG agreed to present a paper for the draft AML policy to the Board in February. (ACTION: VG/ A Patel)
- After discussion, the Board was content with the financial limits set out in the Anti-bribery and Corruption Policy and approved the policy.
- It was noted that the Chair and CEO had declined an invitation from Vocalink (Mastercard) to the Brit Awards on the basis that acceptance would be inappropriate during the procurement process.
- The Conflicts of Interest Policy was approved.
- There was a discussion about the scope of the Whistleblowing and Performance Management policies. It was noted that this is an opportunity to modernise these policies and the Board requested a further draft which takes into account best practice from outside of the industry, and also covers sexual harassment and intimidation, and which identifies a whistleblowing champion. VG agreed to present updated drafts of the policies for the February Board meeting. (ACTION: VG). Directors were encouraged to provide comments to VG separately regarding these policies.
- The Board identified RST as a member of the Board to be kept out of discussions relating to performance management or whistleblowing so he can look afresh at any case that is put to appeal.
- ACTION: A Patel/ VG to ensure all policies are dated and version controlled.

11. Designation, recognition and Bank of England

(PS entered)

- The difference between the terms 'system', 'scheme' and 'PSO' was explained.
- PS gave an overview of the three key pieces of legislation and the two types of designation.
- There was a discussion about the need to submit a change of operator notification, which it is intended will be in the form of a joint letter from each of the PSO Boards and NPSO.

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- It was noted that the critical path to achieving non-objection was discussed with the BoE on the 8th December and that the Bank was comfortable with the general approach and had requested more detail. The general approach has also been agreed with Faster Payments and Bacs.
- The Bank has indicated that it will work with NPSO to achieve non-objection through an iterative process. A further meeting is scheduled with the Bank later this month to identify what documentary evidence the Bank expects so that this can be factored into NPSO's plan.
- There was a discussion about progress against the Bank's non-objection criteria. The directors were asked to confirm that they were comfortable with the criteria they had been assigned and no objections were raised.
- It was noted that a new BoE Code of Practice will come into effect in June 2018 which focusses on governance. The Chair confirmed that NPSO's governance has been established with a view to being compliant with this new code.

12. Target operating model (TOM)

- There was a discussion about the draft TOM version one, which looks at what currently exists in the PSOs to maintain stability in the short term. It was noted that the intention is for NPSO to be additive to the PSOs, providing an additional level or oversight and control, rather than replacing any existing elements. The TOM will reflect this and detail will be added in the coming weeks.
- It was suggested that stakeholder, participant and end-user engagement should sit in its own area within the TOM, labelled 'engagement', rather than in 'comms and marketing', in order to signpost two way engagement.
- TOM version two is being developed, which looks at future state NPSO and it was suggested that this could include additional areas including engagement, company strategy, regulation and compliance.
- It was noted that the priorities are finance and getting guarantors to accede to NPSO and that therefore guarantors need to be included in the engagement category.
- It was agreed that the Bank was prepared to be flexible about giving NPSO an extension of time to achieve the plan and it was agreed that NPSO should approach the Bank about any specific issues it might need such flexibility on.

(PS left)

13. Participant Council

- There was a discussion about membership of the Participant Council and how to make sure it is inclusive and balanced (including new, old and indirect participants), without becoming unwieldy.
- It was noted that the aspiration for Council members to represent constituencies had been questioned on competition grounds.
- It was suggested that NPSO could engage with a wider group of participants, which could assist selection from amongst themselves a smaller group to be on the Participant Council. NPSO

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would develop selection criteria to ensure fair representation of the wider group of participants while keeping control over attendance at meetings and ensuring continuity and commitment from members. It was noted that the process for selecting participants to the PSR Advisory Panel could provide a template for the selection process.

- It was suggested that additional working groups could be formed to discuss specific issues which would increase the level of engagement beyond the core membership of the Council.
- It was recognised that the process of engaging with participants was likely to change over time and that it was necessary to keep this under review.
- It was agreed to develop this proposal further. ACTION: MJ, PH, BC and RSA to agree approach prior to the participant stakeholder event on 17th January.
- It was noted that this would be a different approach to membership of the End-User Council, and that NPSO ought to be clear about the reasons for this. It was noted that the Participant Council was replacing the existing model under which existing participants were represented on the board of the PSOs and had direct involvement as a result. The Participant Council is an advisory body, but will also be the primary mode of engagement between NPSO and participants. This is in contrast to the End-User Council, which will advise NPSO on how to engage with end-users but that engagement will be done separately from it.
- Board members were encouraged to attend the Participant stakeholder event on the 17th January.

14. CEO's Report

- The CEO reported on the recent Coordination Group meeting with the PSR and BoE, where NPSO had received support for the plan to approach the original funders to increase the call in a once and final request. The number is being finalised but a figure of *[Redacted – commercially sensitive]* was discussed with the PSR and the BoE. There was agreement that the communication around this call would be important, in particular making it clear that it is partly to cover the NPA costs, which were not in the original budget. It was noted that the three year cost profile should also be communicated as part of the call.
- The critical path roadmap was also agreed, and this has now been shared with the PSOs.
- There was a discussion about the launch of Open Banking which is due to take place this weekend.
- It was reported that engagement with participants has been a key priority in recent weeks and dialogue has been positive. Internal communications has also been a priority and has been continuing to grow, with CEO breakfasts and open door sessions. It was suggested that Board breakfasts could be held as well and it was agreed that the practicality of setting up such sessions should be investigated further.
- INED recruitment remains underway, with two positions left to fill. The desirability of finding someone with risk expertise as well as someone who can Chair the Audit Committee was noted.

15. Programme Director's Report

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- *[Redacted – commercially sensitive]*
- NPSO has approached a number of agencies regarding an adviser to work on the finance strategy.
  [Redacted – commercially sensitive]
- Although the programme's status is currently red, there are a small number of items which are close to resolution and which, once resolved, will bring the status to amber.
- It was noted that Confirmation of Payee and other PSR early deliverables are being done through the NPA work.

16. Risk and Audit Committee Report

- It was noted that significant progress has been made on the risk framework and work has commenced on risk appetite. The risk framework will be submitted to the Risk Committee in January and the work on risk appetite will be reported to the February Board. Risk policy will be the next step, with a view to recommending all three to the Board by end March or early April.
- A 2018 internal audit plan has been developed which will work on a themed basis across the PSOs. Discussions are being held on internal audit resourcing.
- A tender document has been drafted for external auditors, with a view to selecting a firm initially for three years to enable the preparation of consolidated accounts for financial years ending 2018, 2019 and 20120, and the production of abbreviated accounts for 2017. It was noted that the eventual choice of auditor would be re-appointed annually and proposed for re-selection after the initial three year period.
- ACTION: AG to amend the Committee Terms of Reference to show the CEO as an attendee, not a member, and to table the revised document at the next Committee meeting for approval.

17. Any other business

- Board members and others were encouraged to put forward suggestions for potential candidates for the End-User Council, where NPSO is not taking a fully headhunted approach. Certain categories of member may be more difficult to recruit than others, for instance SMEs, fintechs, large corporates and young people.
- It was suggested that the Council Chair approaches CASS and London Business Schools as well as F-Data trade association and the Founders Factory. BC also offered to help to find a participant to help with interviews.
- It was noted that Beth Williams was leaving the Secretariat. The Chair thanked her for her hard work and invaluable contribution in setting up the structures underpinning the smooth operation of the Board.

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