

NPSO Limited

Minutes of the meeting of the Board of Directors 06.06.18

| Directors | NPSO Support |
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| Melanie Johnson (MJ) Independent Chair | Chet Behl (CB) General Counsel |
| Paul Horlock (PH) CEO | Vanessa Graham (VG) Legal Adviser |
| Matthew Hunt (MH) COO | Afua Gharban (AG) Secretariat |
| Rob Stansbury (RST) Senior INED | Jenny Crawford (JC) Chief People Officer (121) |
| Anna Bradley (AB) INED | James Whittle (JW) Director, International Standards & Services (120) |
| Peter Wyman (PW) INED | Tanya Castell (TC) Director, FPSL (124-133) |
| Jean-Yves Rotté-Geoffroy (JY) INED | Jo Kenrick (JK) Director, Bacs (by telephone) (124-126) |
| Richard Anderson (RA) INED | David Bailey (DB) Bank of England (126) |
| Tim Fitzpatrick (TF) INED | Philippa Cohen (PC) Bank of England (126) |
| Russell Saunders (RSA) NED | Shirley Chan (SC) Bank of England (126) |
| Becky Clements (BC) NED | |
| | |
| Apologies | |
| Christine Ashton (CA) INED | |

119. Opening items

MJ opened the meeting and noted that a quorum was present in accordance with the Company's Articles of Association. AB declared her appointment as Chair of the Zurich Independent Governance Committee. PW declared his appointment as Vice-Chairman of the Independent Review for Breast Screening issues. It was likely that MH would be appointed to the PSR Panel in July. It was noted that RA and CA are appointed as Interim Guarantor Members of NPSO Limited. The Board approved these situational conflicts. The remaining Directors present confirmed that the Register of Directors' Interests circulated at the meeting was accurate in respect of their respective situational interests.

RA and RST declared an interest in the resolutions to amend NPSO's articles of association and to propose a written resolution to adopt the articles. Each of the other Directors 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 register of gifts and hospitality was presented and noted by the Board.

The draft minutes of the 2nd May Board meeting and the 27th April and 16th May Extraordinary Board calls were approved. The Board referred to the actions table, noting actions that were in hand and those that were completed. Regarding the action from the 16th May Board call on the response to the BoE on lessons learnt, PH agreed to convert the paper presented at the meeting into a formal letter and to circulate this to the Board for approval. **ACTION: PH/ AG**

(JW joined)

120. Standards Framework - NPSO approach to standards and rules

JW presented the paper on next steps regarding the Standards Framework (SF). JW said it is proposed to progress with SF version 1.0. It is a priority to support the deliverables of the NPA. It is proposed that approval of the SF should represent the formal start-up of the Standards Authority (SA). There has been engagement with stakeholders including the PSR, BoE and the EUC to ensure that they understand the key principles regarding the SF and stakeholders are keenly in support of the SF.

(JY arrived)

In response to TF's query, JW said that the PSR and BoE are aware that the SF needs to grow and evolve. In response to BC's query about where licensing and accreditations sit within SF, JW advised that there is a placeholder for licensing and accreditation in Standards and this is an area that needs to be worked on. It was agreed that NPSO needed a plan for handling BAU (such as short term rule changes) while mapping out how it would engage with participants and its approach to the wider market.

With reference to the slide on 'Authority versus influence', AB's view was that there is a thought leadership role that goes beyond the overlays and consideration should be given to the difference between guidance and rules. JW said that this is an evolving area and that the goal was to create a view of the end-to-end journey. TF said it was important that this maps to accountability, otherwise there was a risk that NPSO would be held accountable for things over which it had no control. RSA said that there was some ambiguity about the role of SA, how the SF would interlock with existing standards and what was being asked of the Board in terms of decision-making. RST suggested that a time dimension should be added to the 'Authority versus influence' slide to map out the position now and in the future, adopting a layering approach where NPSO is the authority on standards now and a phasing in of standards which need to be put in place in future. PH said that the NPA programme alone cannot drive Standards and that NPSO needed to look at the various channels in more detail. It was agreed that consideration would be given to having a strategy day in September. **ACTION: PH/ JW**

Further to JY's query about whether the involvement of the Participant Council was required, PH said that there has been really good input from vendor group meetings and that sprint work (the agile process for development within the NPA programme) was being done to firm up questions to be taken back to participants. AB referred to the section of the 'Accountability and governance' slide, which provided that the SA will establish an ISSC committee of external expert participant stakeholders to advise on technical standards and the ISSC will be the engagement point with the EUAC and PAC. AB said that the Advisory Councils should not be seen as working tools for NPSO and should not get involved in the minutiae of payments but act as strategists. JY agreed with AB's view was that it is not appropriate to rely on the Councils for this input and it is necessary to look at how to access a wider group in order to get the necessary input. JW said it was necessary to work to refine the scope of the ISSC and that the evidence base should involve end-users to validate processes and procedures. JW agreed to work with AB to look at this issue. **ACTION: JW/ AB**

MJ referred to the ISCC's role as a Co-ordination Committee for the development of technical standards and to the decision whether to establish a sub-Board group on Standards required by the end of the year. MJ said that Standards was a critical part of the NPSO's DNA and the process for Board engagement with the ISCC would become clearer in the next few months.

(JC joined and JW left)

121. Target Operating Model - 2.0

PH referred to the paper providing an update on the people plan and approach for NPSO Transformation. JC said the consultation process started recently. At the staff meeting, JC and the UKPA Head of HR gave a presentation on the process for the TUPE transfer of staff into NPSO on 1st November 2018. The Board was referred to the proposed TUPE timeline set out in the paper. PH said that a gap had been identified between current and future competencies which NPSO will work with Baringa to address. The ExCo team are to meet for a half day in June to agree how TOM 2.0 will be structured from July onwards. There is immediate work underway focusing on procurement and internal audit in particular. The Board will be kept fully informed. *[Redacted – commercially sensitive]* A clear timetable leading up to 1 November is to be set out in consultation with JC.

(JC and VG left)

122. Consolidation matters

UKPA

On the SPA regarding the consolidation of UKPA into NPSO Group, CB said that two shareholders, wished to exit early. Exit payments will be paid by the exiting shareholders in respect of their rolled-up liabilities to the Scheme based on the buy-out liabilities pursuant to payment plan that was attached to their 2015 commitment letters. CB explained that at the end of each year, UKPA invoices the shareholders for amounts due under their respective commitment letters for the following calendar year. UKPA then makes payments into the pension scheme in February & August of the following calendar year in accordance with advice received each year from the scheme's administrators.

CB and PH held discussions with a number of institutions in order to progress signing approvals and bank governance. In response to MH's query, CB confirmed that UKPA working capital is not ring-fenced and can be utilised for specific purposes and that SPA, namely any free cash in UKPA will be used to reduce the pension deficit at the point of Buy-Out, or to facilitate a buy-out (professional advisory costs etc.) or applied on the insolvency of a bank.

C&CCC

CB said the consolidation of C&CCC into NPSO Group is due to complete at the end of June. It is planned to reinstate the escrow arrangement for C&CCC. The Consolidation documentation has been sent to shareholders. The Offer letter is due to be sent to the C&CCC Board shortly. *[Redacted – commercially sensitive]* CB said that the C&CCC

financial model includes contingency in order to continue upkeep of the ICS system. After due and careful consideration:

IT WAS RESOLVED THAT authority is hereby delegated to PH, CEO to finalise and enter into transaction documentation on behalf of NPSO.

123. Finance Committee report

PW advised it is expected that NPSO has sufficient working capital available as at 31 July 2018, to meet the regulatory reserves requirement of *[Redacted – commercially sensitive]* and immediate funding requirements. It is planned to have a bank (revolving credit) facility in place by the end of June and PW advised that a facility of *[Redacted – commercially sensitive]* should be sufficient. NPSO is following up with Participants in order to obtain advance funding they have committed to.

It was proposed for a revolving credit facility of up to *[Redacted – commercially sensitive]* from *[Redacted – commercially sensitive]* to be set up. (**The *[Redacted – commercially sensitive]* facility proposal**)

After due and careful consideration:

IT WAS RESOLVED THAT the *[Redacted – commercially sensitive]* facility proposal is hereby approved.

RSA stated that the process in respect of the arrangements for the facility was well managed.

The Board noted the minutes of the 23 May 2018 Finance Committee meeting.

(TC and JK joined)

124. CEO's Report

PH said the first version of the Balanced Scorecard was included with the report. The Scorecard includes sections for the following four areas: Service, Cost/ Finance, Risk and People. The second page of the Scorecard provides the volumetrics for key services that NPSO offers.

MH provided an update on TSB issues, which were affecting Current Account switching (CASS - A Bacs managed service). MH brought the Board's attention to the open letter from Andrew Bailey, BoE to Treasury on the TSB issue, which alleges that Paul Pester, CEO of TSB presented an 'optimistic view' of TSB's functionality. MH said NPSO encouraged TSB to share the entire set of CASS issues with the FCA. A Treasury Select Committee hearing on the TSB issue is taking place today. RSA declared that he had been running the transaction for the TSB switching from the Lloyds infrastructure and therefore did not participate in this aspect of the discussion.

JK gave an update on the TSB matter from a CASS perspective. JK raised the issue of the wrong error code which meant other providers were erroneously informed that TSB customers had died. JK said it was challenging for the CASS team to deal with an issue that continued for such a long period of time. The Board endorsed that compensation for customers would be as per longstanding industry principles.

(VG re-joined)

With reference to the Balanced Scorecard, TC advised that an important issue to look at is key staff risk. JK said that Bacs had included a summary of progress against BoE priorities and PH said that NPSO could include this with the RAG status. AB suggested that large programmes of work outside of business as usual e.g. TUPE, were not included and PH agreed that a change quadrant could be added. RST advised it was necessary to ensure that the Balanced Scorecard covered issues relevant to FMID and the PSR. It was agreed for Board members to send feedback on the Balanced Scorecard to PH following the meeting and for PH to present an updated version of the Balanced Scorecard at the next Board meeting. **ACTION: PH**

On finance, JK commented that deferred income should not be conflated with reserves. She also commented that focusing on strategic risks meant that the risk report would not change much from month to month and that reporting needed to be more dynamic.

PH said that in terms of people, a Request for Proposals for cultural transformation had been issued. The process is likely to take 12 months and include the setting of expectations on the Board in terms of involvement in the process.

The Board noted the CEO's report and the report on the Bank of England Initial Supervisory Strategy and Priorities. It is planned to recruit an individual for a senior regulatory position as soon as possible to assist with regulatory matters.

125. FPS and Bacs

On knowledge transfer/ operational handover, MH said there has been good progress since FPS and Bacs became wholly owned subsidiaries of NPSO on 1st May and there was a good working relationship with the General Managers. *[Redacted – commercially sensitive]* MH said overall the last month has been positive from an operational perspective and he would provide feedback following the next round of Risk Committee meetings.

(DB, PC and SC joined)

126. Bank of England Annual Review

[Redacted – commercially sensitive]

(Peter Wyman left)

127. Board agenda planning

The Board referred to the schedule. The plan showed 'Annual Budget' for the November agenda, which PH advised was too late in the year. MJ suggested that an agenda item for

the Annual Budget could be included for June and October agendas and PH and VG agreed to look at this. **ACTION: PH/ VG**

It was necessary to timetable meetings of Guarantors and the Councils in the annual cycle, taking into account the timing of the annual general meeting and the production of the annual report and accounts. It was agreed to update the Board agenda planning schedule to reflect the above and to present the updated paper to the next meeting. **ACTION: VG**

128. Business Continuity Planning

MH said it is planned for a paper on Business Continuity Planning (BCP) to be presented to the July Risk Committee meeting. *[Redacted – commercially sensitive]*

129. Use of Delegated Authority

With reference to the paper that was circulated ahead of the meeting, VG said NPSO has been acting in accordance with its delegated authorities and that expenditure was within agreed tolerances

130. Terms of Reference

Nomination/ Remuneration Committee

It was proposed for the Nomination and Remuneration Committee to split into two separate committees: the Nomination Committee and the Remuneration Committee and for separate Committee meetings to be held going forwards ('the Committee split proposal'). The Board noted the separate ToR for each Committee that was circulated ahead of the meeting. After due and careful consideration:

IT WAS RESOLVED THAT the Committee split proposal, the Nomination Committee ToR and the Remuneration Committee ToR, are hereby approved.

Managed Services Committee

MH presented the Managed Services Committee ToR. MH said the inaugural meeting of the Managed Services Committee was held recently. A list of Managed Services is included in the ToR. MJ raised a point on the risk associated with business as usual (BAU). Further to RST's request, MH agreed to have a discussion with GC on what should be included in relation to BAU risk oversight. **ACTION: MH/ GC**

TC queried how a service which was not yet a managed service but which would become one would be dealt with and TF asked how new risks would be identified. MH agreed to work with PW to update the Managed Services Committee ToR and to circulate the updated version. **ACTION: MH/ PW**

(MH left)

131. Membership of Boards, Councils and Committees

The matrix setting out the membership for the Committees and Councils of NPSO Board was noted.

132. Audit Committee Report

The Board noted the minutes of the 16 May Audit Committee meeting.

RST said it is planned for the audit programme for the remainder of the year to be under the control of the NPSO Audit Committee. In terms of FPSL and Bacs, NPSO is not looking at starting any new audits.

The Board referred to the Audit Committee ToR. It was agreed to update the list of Committee members to include RA and TF and to remove MJ from the list. **ACTION: VG**

After due and careful consideration:

IT WAS RESOLVED THAT the Audit Committee ToR is hereby approved.

(MH re-joined)

In relation to the ToR and the membership of the Audit Committee, TC advised that where possible a majority of the members should be INEDs. VG agreed to review and confirm that this is the case. **ACTION: VG**

TC stated that the financial services code for internal auditors provides that internal audit should report to the audit committee at least annually on; the effectiveness of the governance, and risk and control framework of the organisation, adherence with the risk appetite framework and themes from internal audit work. TC advised in relation to the FPS audit committee annual work plan, that the report should be requested from internal audit at the end of the year by the NPSO Audit Committee, such that it can be presented to the NPSO Audit Committee (and the Board) at the same time as the audited annual accounts, to assist the Committee and the Board in reviewing and signing off the accounts. RST agreed to pick up with TC [*Redacted – commercially sensitive*] on this. **ACTION: RST**

TC commented that the FPS audit committee does not need to meet but a report must be prepared to enable the FPS Board to fulfil its fiduciary duties. It was agreed that TC would report to the June meeting of the FPS Board on this.

133. Risk Committee Report

The Board noted the summary report and the minutes of the 16 May Risk Committee meeting.

The Board referred to the Risk Committee ToR. It was agreed to update the list of Committee members to include TF. **ACTION: AG Completed- 13.06.18**

After due and careful consideration:

IT WAS RESOLVED THAT the Risk Committee ToR is hereby approved.

(TC left)

134. NPA Programme Board report

The Board noted the NPA Programme progress report and the minutes of the 9 May NPA Programme Board meeting.

PH said design was starting around the clearing and settlement layer. *[Redacted – commercially sensitive]* the new NPA Programme Manager, was starting in July and will be reporting to MH. Further to MJ's query regarding the Head of Procurement position, PH said interviews were taking place and there were some good candidates.

135. End-User Council Report

The Board noted the summary report and the minutes of the 16 May End-User Council meeting.

On Confirmation of Payee (CoP), MH said that the manner in which this regulatory initiative interacted with another regulatory initiative, the liability model, is the root cause of some of the complexity around CoP. *[Redacted – commercially sensitive]*

The Board agreed that a way forward was required but that it was not NPSO's responsibility to come up with the solution, it could only create the standard on which the industry would build.

136. Confirmation of Payee

The Board noted the paper on Confirmation of Payee that was circulated ahead of the meeting. CB said there is support for the evidence pack submission to the ICO. NPSO is proceeding on a 'Yes, No or Partial match' basis although this does require further development in light of the EUAC council view about what was acceptable. Scenario testing is being carried out.

137. Participant Council Report

JY said candidates were selected and mock councils were held. There were five recurring themes:

- The need for a business case and understanding of the funding model,
- How to engage differently in view of different relationships,
- Capability - the need for help and advice,
- How to demonstrate seriousness in relation to the RfP,
- Clarity on NPA specifics.

[Redacted – commercially sensitive]

MJ said that she would inform FMID and the PSR of the 13 successful candidates as a courtesy before the announcement.

138. Guarantors

CB said it is planned to onboard Guarantors from July onwards and referred to the proposed timetable in the papers circulated prior to the meeting. VG advised Guarantor approval would be required if the company was to change its registered name from NPSO to another name at Companies House.

Amendment to Articles

VG explained that it was proposed to amend the articles of association to enable the Board to grant a vote to a non-ringfenced bank in its discretion. This was necessary to address the concerns raised by some participants that following structural separation into investment (non-ringfenced) and retail (ringfenced) entities, the non-ringfenced entity would not have a vote despite being a Guarantor of NPSO in its own right. The amendment will also ensure consistency with NPSO's Guarantor policy.

The Board noted the draft written resolution for the adoption of the articles, to be sent to the interim guarantors for consideration.

RA and RST recused themselves from voting on the resolutions.

After due and careful consideration:

IT WAS RESOLVED THAT the amended Articles and the written resolution are hereby approved.

Guarantor application matrix

The Board noted the table showing details of Guarantor applications received to date from banks and other institutions. Further to MJ's request, it was agreed to review the list of what Guarantors can and cannot do to make sure it is complete and set this out in a document.

ACTION: CB/ VG/ RST

139. Naming and Branding

[Redacted – commercially sensitive]

140. Any other business

The Board noted the 2018 calendar of Board and Committee meetings and the calendar of upcoming consultation responses and green papers.

There being no further business the Chair closed the meeting.