

NPSO Limited

Minutes of the meeting of the Board of Directors 08.08.18

Directors	NPSO Support
Melanie Johnson (MJ) Independent Chair	Chet Behl (CB) General Counsel
Paul Horlock (PH) CEO	David Gilbert (DG) Secretariat
Matthew Hunt (MH) COO (By telephone)	Afua Gharban (AG) Secretariat
Rob Stansbury (RST) Senior INED	Tanya Castell (TC) Director, FPSL (Item 162 - 170)
Anna Bradley (AB) INED	Jo Kenrick (JK) Director, Bacs (Item 162 - 170)
Peter Wyman (PW) INED	Jane Bevis (JB) Director, C&CCC (Item 164)
Jean-Yves Rotté-Geoffroy (JY) INED	Steve McArdle (SM) Director, C&CCC (Item 164)
Richard Anderson (RA) INED	<i>[Redacted – commercially sensitive]</i>
Christine Ashton (CA) INED	
Tim Fitzpatrick (TF) INED	
Russell Saunders (RSA) NED	

162. Opening items

MJ opened the meeting and noted that a quorum was present in accordance with the Company's Articles of Association. TF declared his role as a mentor to Lynq. It was agreed to update the register of Directors' Interests in respect of the above. **ACTION: DG** It was noted that AB was appointed as Chair designate of the Solicitors Regulation Authority. The Register of Directors' Interests had been updated accordingly. The remaining Directors present confirmed that the Register of Directors' Interests circulated at the meeting was accurate in respect of their respective situational interests. RSA's interest with regard to the discussion on offers from banks *[Redacted – commercially sensitive]* for the revolving credit facility, was noted (discussed later in the meeting under CEO report item). Apart from RSA's interest above, RSA and each of the remaining 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 6th June Board meeting and the 11th July Board meeting were approved. The Board referred to the actions table, noting actions that were in hand and those that were completed. AB confirmed that she and JY were canvassing the views of Council members regarding a combined event and would revert to the October Board with a proposed plan. RST noted the reminder from TC that, with respect to the annual accounts, there was a requirement for Internal Audit to have made observations to the Audit Committee, concerning the effectiveness of overall governance. TF agreed to request a meeting with external audit and to arrange for the meeting to take place on a quarterly basis going forward. **ACTION: TF** CB agreed to arrange a meeting with RST, for discussion of matters in relation to the Guarantors. **ACTION: CB**

163. Legal Dashboard

The Board referred to the Legal Dashboard, which set out ongoing legal matters. CB said the report for the September meeting will look at progress with novation and the structure for subsidiary group companies and will set out proposals. In response to RST's query, PH said resourcing is being looked at. CB said Secondees from Panel law firms have been providing support. MJ noted that there were a number of areas where the legal team required additional support from the Board and agreed to consider how that could be provided. PH noted the reference to ANVS under the PayM section of the dashboard and said that he will make further enquiries as to the test being referred to as it is not clear how this offering is progressing at this time. There is expected to be another, competitive product, coming to market also referencing Account Number Verification and this is expected to be a support to the Confirmation of Payee development. **ACTION: PH**

TC stated that FP are making changes to their rules regarding access to non-bank PSPs and advised it is necessary to determine how this matter will be addressed, given that prior to the transfer of the scheme to NPSO, the matter would have been dealt with by the FPSL Board. CB agreed a solution needs to be looked at, as it is planned for the Boards to be dissolved in October. MJ said a sub-group should be set up and a call arranged, to agree how to progress. **ACTION: CB/ MJ**

(JB and SM joined)

164. C&CCC Lessons learnt review

The report on 'Lessons learnt from the development programme of the Image Clearing System (ICS) for Cheques' was taken as read. JB said five years ago the PSR had just come into being and C&CCC was keen to engage with the PSR and to involve stakeholders in the process. C&CCC had not seen this much change for over a decade and now faced a momentous change in the image clearing programme. C&CCC committed to the PSR to provide learnings from their transformation journey to NPSO, which will be useful in relation to NPSO's work on the development of the NPA.

[Redacted – commercially sensitive] interviewed a range of C&CCC's stakeholders for the Lessons learnt review. One consideration was that the Banking institutions are now customers for C&CCC. JB and SM could provide insight in relation to culture and offered their assistance to NPSO on any queries. JB said the PSR is keen to understand that C&CCC is treating smaller and challenger banks fairly. PH and RSA agreed that the role the PSF has played in the past couple of years, in the way it has developed the market strategy, is an important consideration. PH advised; it should be ensured there is alignment with the banking institutions. The Board agreed there should be engagement with senior individuals across the participants.

(JB and SM left)

Further to JY's suggestion, it was agreed to produce a matrix for presentation to the Board and committees as follows:

- To set out learnings from the C&CCC review and action NPSO is taking to apply these learnings.
- To cover NPSO's engagement with senior individuals. **ACTION: PH/ MH**

165. The FRC Revised UK Corporate Governance Code 2018

The Board noted the paper on the revised code that was circulated ahead of the meeting. Further to RST's suggestion, it is planned to combine review of the code with the Board effectiveness reviews. Individual interviews are due to be conducted in August and September. Following that, the effectiveness of the operation of the Board and committees will be looked at, for presentation to the December Board meeting. RST agreed to follow up with CB to put together a group of individuals to work on the Board effectiveness reviews. TF offered to be involved, in consideration of the Audit aspect to the code and the effectiveness reviews. **ACTION: RST/ CB**

166. Confirmation of Payee (CoP)

[Redacted – commercially sensitive] It was agreed to; set out the different options in relation to CoP, consider parties that need to be informed/ to act and then have a Board discussion on how to progress. **ACTION: PH/ CB**

167. Contingent Reimbursement Model (CRM)

PH said a paper on CRM was presented to the 24th July ExCo meeting. The CRM steering group is seeking the adoption of a code for market participants. It was recommended to ExCo that as key operational owners of the payments processes involved in the customer activity, NPSO should take on the role of governing the code once it comes into force, subject to some caveats to ensure clarity over matters such as funding and dispute resolution. NPSO will need to feedback to the CRM steering Group on this. RST, MJ and PH noted as previously agreed, that rules, standards and codes should be within NPSO's remit.

AB stated that where NPSO takes on responsibilities from other organisations, arrangements should be consistent with NPSO's approach. AB suggested principles should be developed for NPSO to apply, to manage work taken on from other organisations. PH and MJ agreed with AB's suggestion. The principles would need to go through the EUC and the Participant Council. **ACTION: PH/ MJ**

168. CEO's Report

PH said there is progress with the procurement process for a vendor for the section 195 work and a decision is due to be made shortly. PH said offers from banks for the revolving credit facility are being looked at and *[Redacted – commercially sensitive]* may have a competitive offer. *[Redacted – commercially sensitive]* On the 8th July FPS incident, PH said there will be engagement with *[Redacted – commercially sensitive]* for a Post Incident Review. The update further to recent discussions with banking institutions on the ramp up of image clearing for cheques was that three institutions have experienced issues with connectivity and software roll-out etc. when rolling out their branch processes. It was agreed that institutions with live systems will share learnings with those institutions that are preparing for their systems to go live. Referring to the wider operations picture, a new regular discussion forum is planned, for participants to attend for regular discussion on NPSO business.

[Redacted – commercially sensitive]

PH said there is an emerging risk around Open Banking and regulatory technical standards (RTS) coming into force next year, which may affect the adoption of API standards. PH noted the importance of NPSO promoting the API standards. On the Target Operating Model, *[Redacted – commercially sensitive]* MH is engaging with the GMs of the four consolidated companies, on the mapping of operational roles from the existing organisations into NPSO.

The Board noted the ExCo Dashboard that was circulated ahead of the meeting. *[Redacted – commercially sensitive]*

169. Risk Committee report

RA said the FPS incident was discussed by the Risk committee. Progress is being made on defining NPSO Key risks and engagement with senior managers and directors is taking place as part of the process. Assignment of risk responsibilities is being looked at. *[Redacted – commercially sensitive]* The CRO is producing a Compliance Risk dashboard to cover areas such as; Modern Slavery and GDPR. The Board noted the minutes of the 25 July Risk committee meeting. The Board referred to the revised Security committee ToR. After due and careful consideration:

IT WAS RESOLVED THAT the Security Sub-committee ToR is hereby approved.

170. Audit Committee report

The Board noted the Audit committee report and the minutes of the 25 July Audit committee meeting. TF said a candidate has been selected for the Head of Internal Audit role.

(TC and JK left)

171. Finance Committee report

The Board noted the Finance committee report and the minutes of the 22 July Finance committee meeting. The need for a consolidated financial position was reiterated, to allow the committee to have a better overview of the financial position on a net basis.

(DH joined)

172. Strategic Questions in relation to NPA

PH thanked the Board for feedback received following the last Board meeting. PH said the paper sets out principles for NPSO's role as 'guardian of the ecosystem'. This is work in progress and relates to work underway on the TOM and specifically in the Standards and Strategy directorate. PH referred to the slide that noted questions the Board were asked in July, against a summary of the Board's feedback. RST said in feedback from FMID, they discussed 'critical payment instruments' e.g. Bacs Direct Credits and perhaps this should be captured. DH said FMID are referring to a critical payment services in the way we had described them in our development work and in fact there is a solid alignment between the

FMID desire and our thinking about protection and assurance for these critical services. DH agreed with MJ's suggestion that definitions are required for what NPSO means by a 'service' and an 'instrument'. PH said this will be included for the next iteration for the strategy material. **ACTION: DH/ PH**

Further to AB's suggestion, it was agreed to clarify the question/ response for the penultimate question on the summary list and that the definition of 'critical service' should be included. **ACTION: PH/ DH**

DH said there are a number of principles around robustness and resilience. DH said NPSO needs to drive the market and ensure there is capacity for change. The market dynamic around the digital area is growing. DH said Guardianship underpins everything in the structure and further to RST's suggestion it was agreed to show Guardianship as 'all encompassing' on the slide. **ACTION: DH** Further to AB's suggestion, DH agreed to update the paper to show the strategic objectives allocated across the different areas. **ACTION: DH**

The Board **AGREED** the following capabilities NPSO must have, that were set out in the paper: **Guardianship, Innovation and Service.**

Referring to the slide on developing a culture of innovation, DH said a challenge is that the digital market is moving differently to the product market and a different set of capabilities is required. Platform markets are fairly dominant and the switch from product to service proposition and platform dynamics is quite important. DH agreed with AB that NPSO has a future need for a hybrid role as deliverer of critical infrastructure and promoter of the ecosystem. AB said this is a significant challenge for the NPSO. PH said feedback can be used to build the mechanism for carrying out these functions going forward.

[Redacted – commercially sensitive] On Guardianship principles, DH stated that Guardianship includes ensuring the end to end resilience of transactions and services. DH presented the diagram for the 'Five Zone model', that set out NPSO's role across the ecosystem in the following zones (all with different requirements with regard to Guardianship): Customer, Third Parties, Service Propositions, Core Overlays, Optional overlay services and NPA Core. An important consideration is the effect on Participants and End-Users.

(PW left)

The paper set out the following three pillars of capability to support NPSO's Security strategy: Withstand, Monitor and Recover. In response to RST's comment, DH advised that the monitoring is real-time and is not passive. Further to CA's suggestion, it was agreed to change the name of the Monitor pillar to 'Awareness'. **ACTION: DH** DH advised a significant change is that NPSO will be requesting to monitor participants a lot more than is done at present.

NPSO's unit of scalability will be a business service. Products may be serviced by a number of business services. To achieve our resilience requirements we must ensure all business

services are designed to recover from failure. Recovery times will be defined by the Impact Tolerance of the Business Service. NPSO will be expected to ensure the integrity of data across the ecosystem and will have measures in place to manage systemic risk. DH said there is significant Technology risk for NPSO and this will be mitigated through a heterogeneous (Multiple Technologies) technology stack. DH agreed to re-populate the slide on the Five Zone model with regard to principles. **ACTION: DH**

(DH left)

173. Remuneration Committee report

The Remuneration committee recommended approval of the following NPSO Staff Benefits policies by the Board: Training Allowance, Sabbatical and Secondment. In addition the proposed Board Remuneration policy was presented for consideration by the Board. After due consideration:

IT WAS RESOLVED THAT the NPSO Staff Benefits Policies: Training Allowance, Sabbatical and Secondment are hereby approved.

IT WAS FURTHER RESOLVED THAT the Board Remuneration policy is hereby approved.

It was noted that following the delegation of authority for the approval of the Screening and Security Clearance policy from the Board to the Remuneration committee, the committee approved the Screening and Security Clearance policy on 20th July.

174. Nomination Committee report

[Redacted – commercially sensitive]

175. Target Operating Model - 2.0

PH said there is a move from a Scheme focus to a customer focus. Specific updates were provided in relation to the three directorates: Operations, Standards and Strategy and Regulatory Engagement and Policy. Proposed high level structures were presented and details of expected capabilities were included. *[Redacted – commercially sensitive]* MH said the majority of the GM's are supportive of the structure and detailed engagement continues, to ensure all inputs are taken into account. RSA was supportive of the structure and TF agreed with RSA that stakeholder mapping should be looked at. MH is working out the transition process in relation to the operations function.

176. AOB

There being no further business the Chair closed the meeting.