

Pay. UK Limited

Minutes of a meeting of the Board of Directors held on 11 May 2022

Members	Attendees
Mark Hoban (MGH), Pay.UK Chair	Michael Ellis (ME), Chief Finance Officer
Anna Bradley (AB), Senior Independent NED	Carolyn Gibson (CG), Head of Corporate Governance
Diane Côté (DC), Independent NED	Dave McPhee (DM), Director of Regulatory Engagement & Policy
Matthew Hunt (MH), CSO and Deputy CEO	David Morris (DMO), Chief Technology Officer
John Mountain (JM), NED	Shane Warman (SW), NPA Programme Director
Marc Pettican (MP), NED	James Whittle (JW), Director of Standards
David Pitt (DP), CEO	Louise Rebeck (LR), Company Secretary & Special Projects
Jean-Yves Rotté-Geoffroy (JY), Independent NED	David Gilbert (DG), Company Secretary
Lesley Titcomb (LT), Independent NED	
Lars Trunin (LTR), NED	
Peter Wyman (PW), Independent NED	

**Board members and attendees met using a hybrid meeting model with some attending in person and others joining remotely by video conference*

22/25 Opening Business

- 22.25.1 Quorum – The Chair noted that a quorum was present in accordance with the Company’s Articles of Association.
- 22.25.2 Conflicts of Interest – All directors present confirmed that they had no other 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 the Company’s Articles of Association to disclose.
- 22.25.3 Minutes and Action Log – Subject to a minor amendment to clarify the text, the minutes of the 30 March 2022 Board meeting were **approved**.
- 22.25.4 Progress with the current open action items was noted.

22/26 Committee Reports

- 22.26.1 The reports from the various Board Committees had been circulated with the meeting papers.
- 22.26.2 AB referred to the Remuneration Report and highlighted the section regarding INED remuneration where there was an option to make supplemental payments to Committee Chairs if felt appropriate.
- 22.26.3 LTR commented on the discussion at the last EUAC meeting and queried whether the Board would be given the opportunity to discuss the Open Banking relationship. MGH confirmed that this should be considered at the next Board meeting.

- 22.26.4 PW advised that the Audit Committee had met earlier that week and had received updates on the status of the Financial Statements. He noted that it had not been possible to recommend the statements to the Board as a number of bank confirmation letters were still outstanding and it was not possible for the external auditors to sign off the accounts without them.
- 22.26.5 DC reported that the Risk Committee had challenged the pace of delivery to bring risks within tolerance and had also requested that Vocalink provide the business with more bespoke reporting.

22/27 CEO's Report

- 22.27.1 DP introduced his report and commented on the work being done in preparation for the customer engagement forum later in the month. In terms of people, work on capability and capacity issues continued. A new Chief Technology Officer had now joined the business and was already making an impact. The search for a new Chief Risk Officer had been successfully concluded and DP advised that, given the importance of the role, an interim CRO would be engaged to support the function until the new post holder was available.
- 22.27.2 DP drew the Board's attention to the announcement the previous day by HM Treasury regarding fraud reimbursement. HMT would be looking to empower the PSR so that it could make changes to existing Regulations to make APP scam reimbursement compulsory. DP noted that a meeting had already been set up with HMT and PSR to discuss the implications and next steps.
- 22.27.3 DP informed the Board that non-object to the NPA RFP had been received from both FMID and the PSR. Responses from the vendors were expected and would then need to be carefully analysed and considered. Meetings with the vendors had been arranged.
- 22.27.4 Commenting on current cyber security arrangements, DP advised that weekly updates on activity linked to the situation in Ukraine were being received and carefully monitored.
- 22.27.5 DP advised that a letter had been received from FMID regarding Pay.UK's approach to Cloud. The Bank had asked that an effective cloud risk policy be implemented. The Board discussed the contents of the letter and **accepted** Priority P22-01. DP noted the timescales that had been set out for an initial response and for subsequent submissions and implementation. It was agreed that the letter be acknowledged within the stated timescales and that the matter be brought for further discussion at the September Board meeting. **ACTION: DP**
Noting that the matter was already receiving management attention, DC queried why the matter could not be discussed at the July Board and DP explained why the additional time was required. MP reminded the Board of the depth of industry expertise on cloud that could be engaged to assist Pay.UK as required.
- 22.27.6 DP reported that Pay.UK had been awarded the Best Innovation Award at the recent Card and Payments Awards and congratulated all involved. The recognition of the product was a significant milestone for the business.
- 22.27.7 The Strategic KPI dashboard was reviewed and considered. DC commented on the revised commentary, which was welcomed but noted that further detail regarding those risks that were deemed to be out of appetite was still required to assist with understanding and interpreting the dashboard. DP confirmed that work was being done to address the risks referred to and accepted that this was not evident in the report. This would be rectified in future iterations. **ACTION: DP**

22/28 Finance Report

- 22.28.1 ME referred to the presentation on the Finance Recovery Plan that had been included in the meeting papers and to the full Plan that had been made available in the Reading Room for those that wished to refer to it. He noted that the Plan had been considered in detail at the Audit and Risk Committee meetings and that the work also supported the disclosures made in support of the Annual Financial Statements.
- 22.28.2 The proposed increase in the minimum risk capital requirement was reviewed and discussed. The increase reflected a number of elements, including some changes in the calculation methodology and also the development of the NPA programme. However, ME stressed that the figure did not address the risk element associated with externally contracting for the NPA. DC confirmed that the Risk Committee had reviewed and challenged the Recovery Plan as appropriate, was satisfied with the responses received and recommended approval of the Plan to the Board.
- 22.28.3 PW confirmed that the Audit Committee was also happy to support the quantum proposed by the Plan but sought clarity as to the nomenclature to be used when describing monies held so as to avoid any misunderstanding by those outside of Pay.UK who read the Plan. He suggested that references to 'capital buffers' could be misconstrued and proposed that the term 'retained earnings' was more appropriate. PW provided further rationale as to his proposal which, after further discussion, was accepted.
- 22.28.4 ME noted that it was for the management to provide forecasts and manage the business whilst giving the Board visibility and early notice of any significant concerns.
- 22.28.5 LTR referred to the recovery tools available to the business should additional funding be required and queried whether there was a limit to any calls that could be made. ME advised that he was not aware of any formal cap but stressed that any such request would have to be reasonable and proportionate. It was noted that the Recovery Plan was a theoretical exercise that was undertaken to demonstrate that sufficient funding – or sources of funding – were available to the business to keep essential services running. In reality there were a number of interventions that could be made before additional calls were required. It was also unlikely that need for a call would not be foreseen and discussions with all interested parties as to potential ways forward held.
- 22.28.6 After careful consideration the Finance Recovery Plan was **approved**.
- 22.28.7 It was agreed that future reviews of the Finance Recovery Plan should be undertaken at a joint meeting of the Audit and Risk Committees, so as to avoid duplication. The Non-Executives, who did not serve on either Committee, should also be invited to attend. **ACTION: CG**
- 22.28.8 The indicative participant billing for 2023 was considered and ME commented on the main themes. The change spend had been shown separately to provide greater transparency to the participants. Recruitment costs were currently below plan as recruitment activity was slower than had been envisaged. Income was below plan but broadly in line with expectations and was being carefully monitored to identify any discernible trends. Overall, ME suggested that the cost savings previously identified were now beginning to be seen in the reporting.
- 22.28.9 In addition to the cost savings, the Board noted the ways in which management was looking to deliver additional value, such as the investment in the Operational Resilience work. The business was also seeing the positive impact of the renegotiated contracts with Vocalink.

- 22.28.10 ME stated that the intention was to present a stable pricing approach to participants for 2023 if possible, subject to inflation. Given that the largest cost related to staff, it was also currently unclear whether prices would need to increase to cover additional staff costs so as to retain talent. MP advised the Board that any price increase would be vociferously challenged by the participants who were themselves under severe cost constraints.
- 22.28.11 MGH queried how future initiatives would be funded under the proposed model and whether there was scope to be able to accumulate reserves for such activity. ME advised that the traditional core services should not be used to fund other activities and reminded the Board that the development of Confirmation of Payee had been funded separately. A key consideration would be how the development risk was to be shared.
- 22.28.12 During the subsequent discussion covering income generation possibilities it was noted that the blend of income from Bacs and Faster Payments had an impact on the profitability of Pay.UK. However, any variation could have an impact on participants and their customers and would need to be managed with care. It was agreed that a deep dive on the current cost structures and revenue streams was required to ensure that the Board had the necessary level of understanding.
- ACTION: DP & ME**
- 22.28.13 ME referred to the revised bank mandate that had been circulated for consideration. It was noted that fewer, but greater value, payment cycles were being run by the Finance team in order to improve efficiency. The Board was therefore being asked to approve revised authorisation and approval limits. The revised bank mandate was **approved** as submitted.

DM & JW joined the meeting

22/29 Strategic Priorities

- 22.29.1 MH introduced a discussion on the proposed strategic priorities for the business, noting that the Executive had reviewed and considered a range of priorities and were bringing them to the Board to seek their views and input. He noted that eight external themes, informed by risk management and horizon-scanning work, had been developed in conjunction with extensive industry engagement and feedback. The proposal was also looking to understand where the business wanted to be in three to five years' time. In conjunction with external advisers, work had also begun to understand the how other income flows could be developed so as to build an investment fund for future projects.
- 22.29.2 DM outlined the current management thinking and confirmed the main core payment system operator role that the business undertook. However, within that role three key categories had been identified: facilitate, enable and develop. DM explained that a primary function was to act as a facilitator and platform leader by using Pay.UK's convening powers to bring the relevant organisations together to reach an agreed result. Further along the spectrum, Pay.UK was able to act as an enabler by setting appropriate rules and standards for others to follow. If necessary, Pay.UK could also act in a development role where there was a compelling reason to do so – such as CASS.
- 22.29.3 AB confirmed that the concept was helpful. It was also useful to understand how the progression through the various stages was managed. She suggested that an understanding as to why a particular course of action was being contemplated would also help to clarify the process and ensure that defined expected outcomes were reached. MGH further suggested that it would be helpful to understand what characterised the stopping point for a particular project and DP clarified the thought process that took each of the identified stages in turn before moving to the

next. He also stressed that it was not for Pay.UK to try and undertake everything itself and to ensure that that was clearly understood by all concerned.

- 22.29.4 DM advised that the eight external themes had been synthesised into five specific discussion points. The Executive had then considered the existing governed position on each. The first two topics covered account-to-account in retail and consumer protections and DM demonstrated how the business was able to lead on consumer protections and was advocating mass adoption to protect the schemes. The risk was whether to deliver using existing systems or to wait for the NPA. PW suggested that it would be helpful to have economic data to support the paper when discussing with participants and regulators. The Board noted that the size of the market meant that a small change could deliver a significant impact.
- 22.29.5 MGH noted that there were differing levels of understanding of the various strategic themes amongst Board colleagues and proposed that time be spent at the September Strategy Day to go through these in detail. This was agreed. **ACTION: DP**
- 22.29.6 JW took the Board through the third strategic position that related to Open Banking. JW reminded the Board that Open Banking operated in a regulated ecosystem and that the recent creation of a new oversight body provided an opportunity for Pay.UK to extend its sphere of influence and seek a mandate from the PSR. MH noted that Account to Account payments were delivered over the Pay.UK infrastructure and it would therefore be important to have the necessary powers to be able to apply rules and standards to payments that hit our rails from overlays, including in the area of consumer protection.
- 22.29.7
- 22.29.8 DP confirmed that further work needed to be done to understand the current strategy of both Open Banking and the PSR. He noted that participants were funding both Open Banking and Pay.UK and it was important for the two organisations to be aligned for the benefit of customers. Further work was required to understand customers' views and to ensure that the business was aligned.
- 22.29.9 MGH stressed the importance of Account to Account payments being given suitable consumer protections from the outset, so as not to have to retrospectively apply these at a later stage.
- 22.29.10 Referring to the proposal that further engagement with the PSR was required to develop credible reimbursement solutions, DM advised that HMT had published a consultation paper the previous day that potentially provided a number of reimbursement models. It was expected that a legislative framework would be in place by the end of 2024. A meeting had been arranged with the Treasury the following week and an update would be provided at the July Board meeting.
- 22.29.11 The last theme related to the need to prioritise the development of a data and overlays strategy. MGH queried whether there was a workplan for the development of such a strategy and DP confirmed that this would be brought to the September Board meeting.
- 22.29.12 Welcoming the discussion, MGH noted that there was extensive feedback for the management to reflect upon and AB suggested that as views were refined it would be helpful to understand the stages that were contemplated to reach the stated outcome of each of the five topics.

DM & JW left the meeting

22/30 Annual Report & Accounts

- 22.30.1 PW confirmed that the Audit Committee had considered the Financial Statements in detail and was happy to support their preparation on a going concern basis, the Committee also recommended the approval of the Directors Responsibility Statement, the signing of the Letter of Representation and the reappointment of BDO.
- 22.30.2 The Audit Committee and BDO were both supportive of the establishment of a Committee of the Board to approve any minor revisions to the accounts and to approve them on behalf of the full Board.
- 22.30.3 ME advised that bank confirmation letters were still awaited to be able to complete the audit and sign off the financial statements. These were being chased and the matter escalated within the organisations concerned.
- 22.30.4 CG reported that the Board's feedback on the statements had been welcomed and incorporated as appropriate. Final reviews were now underway and then the document would undergo a final proof read and would then be submitted for approval and signing.
- 22.30.5 DP commented on the process that had been followed to produce the financial statements and thanked CG for her hard work and for leading and project managing the production. The Board expressed its thanks to all who had been involved.
- 22.30.6 The Board formally **approved:**
- The preparation of the financial accounts on the going concern basis
 - The Directors Responsibility Statement
 - The signing of the Letter of Representation on behalf of the Board
 - The reappointment of BDO as the Company's Auditor
 - That the Letter of Representation, the Directors Responsibility Statement, the Consolidated Statement of Financial Position and the Company Statement of Financial Position be signed on behalf of the Company by MGH and DP
 - The creation of a Committee of the Board, consisting of MGH, PW, DP and MH to act on behalf of the full Board to approve the final version of the Financial Statements and to approve any minor revisions to the accounts should these be required at the request of the external auditors or to correct any inconsistencies.

22/31 Annual General Meeting

- 22.31.1 CG reminded the Board that following the revisions to the Company's Articles at the previous year's AGM, all directors would be standing for election/re-election. All directors confirmed that they were eligible to stand and, where relevant, that their status as an Independent Non-Executive remained unchanged.
- 22.31.2 It was **agreed** that the AGM would be held at the Company's registered office but would also be available to Guarantors to attend virtually.
- 22.31.3 The Board confirmed that the Annual General Meeting should be held on 13 July 2022 on the understanding that the financial statements could be approved and signed in sufficient time for them to be circulated in accordance with prescribed timescales. CG was **authorised** to issue the Notice of Meeting to the Company's Guarantors.

22/32 Policies for Approval

- 22.32.1 The Whistleblowing Policy was considered and CG advised that amendments proposed by the Audit Committee earlier in the week had been included in the version in the Board meeting pack. The Board **approved** the Whistleblowing Policy.
- 22.32.2 Noting that the Data Asset Management Policy had been submitted for approval, DC noted that according to the documentation presented, much of the supporting principles and guidance appeared to be contained in other documents that were still in development. Therefore, whilst it was possible to approve the Policy in principle, it could not be introduced or enforced until the underlying framework was in place. DP conceded that in isolation the Policy did not articulate the controls well enough but confirmed that the suite of supporting documents to underpin it had been developed. He confirmed that he would clarify the position and revert for approval at a later meeting. **ACTION: DP**
- 22.32.3 CG advised that the Competition Law Policy had been developed to ensure awareness throughout the organisation given its implications. LT suggested that the Policy could benefit from Pay.UK-specific examples and it was confirmed that such detail would be provided as part of the company-wide training that was being developed. The Competition Law policy was **approved**.

SW & DMO joined the meeting

22/33 NPA Update

- 22.33.1 SW informed that Board that both vendors had submitted suites of documents that afternoon in response to the RFP. These would now be carefully reviewed and a technical evaluation undertaken. SW advised that both FMID and the PSR had now issued their non object letters and that these could be found in the Reading Room.
- 22.33.2 MH commented on external engagement, noting that correspondence had been received on the matter from UK Finance (UKF) and that this was consistent with the comments made at the previous Board meeting by Steve Allen and Simon Eacott. MH noted that the message from the industry was clear: move forward with the customer commitment work and not to wait for every detail to be perfect before engaging. AB suggested that the challenge from UKF was broader than the financing issue and provided an opportunity for Pay.UK to be clear as to the range of activities that it was undertaking to support the industry.
- 22.33.3 MH advised that the team continued to engage more regularly than previously with the Government Banking Service and was looking to provide leadership on topics such as Bacs and Open Banking.
- 22.33.4 LTR provided feedback from the recent SPG meeting, noting that the main issues related to the provision of NPA implementation timelines and potential costs. ME confirmed that the next SPG meeting would be provided with the core hypothesis and pricing principles for funding the NPA. He noted that the cost of funding was linked to use of the platform and that a commitment to revenues would assist with the development of the funding model. It was important to ensure that the core funding proposition was understood and agreed before considering other options. ME advised that a robust internal challenge process would be undertaken and, once discussed generally at SPG, there would be discussions with individual participants so as to be able to revert to the Board with an informed and considered view. LTR noted that there were three specific groups to address: the CMA9, indirect participants and small indirects. MGH requested that LTR, MP and JM meet with SW and the team prior to the next SPG meeting to ensure that all were

aligned and suitably briefed and were able to articulate clear responses to the expected challenges that would be received.

- 22.33.5 SW provided the Board with an update on progress with the s.82 work. He advised that all resources had now been identified and confirmed. SW reported that much of the work to address the findings had now been completed but that supporting evidence to provide the necessary assurance still needed to be compiled. AB suggested that when compiling the evidence it would be useful to consider how it could be used to satisfy any future regulatory requests.
- 22.33.6 The Board considered the requirement for independent assurance to be provided for the s.82 findings. It was suggested that the Bank would require such assurance to come from an external provider, although the Board considered whether a more holistic approach might be possible. SW agreed to investigate the position further and revert. **ACTION: SW/DP**
- 22.33.7 SW advised that the Target Operating Model for the delivery of NPA would be brought to the July Board for consideration. JY queried where the management of the vendor would fit into the TOM structure, noting that a capability gap had previously been identified. DP advised that monthly meetings were now held to discuss and noted that since the original review was undertaken, the Third Party Management System had been implemented and embedded which addressed the previous concerns.
- 22.33.8 SW referred to the forward view of expected NPA activity that had been included in the meeting pack for information. The vendor recommendation/selection would be a significant piece of work and SW noted that this would be presented in a 'discuss' and then 'decide' model so as to ensure full Board awareness and engagement in the process. LTR queried the levels of customer engagement that were envisaged as part of the selection process and SW advised that a commitment had been given to arrange individual meetings before the SPG's next meeting.
- 22.33.9 SW noted that a list of historical decisions made regarding the NPA had been added to the meeting pack for information. DP proposed and it was agreed that the list be kept updated and form part of the regular Board reports.
- 22.33.10 MGH requested that the draft response to the FMID correspondence be circulated for comment before it was issued. **ACTION: DP**

SW left the meeting

- 22.33.11 At the Chair's invitation, DMO provided the Board with his initial impressions of the business and the challenges ahead of him. DMO acknowledged the openness and generosity of colleagues as he sought to learn the business and its requirements. He suggested that there were challenges across the organisation but nothing unsurmountable. DMO noted that there had not been a CTO in post prior to his arrival and that there were a number of steps that could be taken to ensure that the technology used remained fit for purpose. He agreed to bring an update on technology to a future Board meeting. **ACTION: DMO/DP**

DMO left the meeting

22/34 Governance Update

- 22.33.1 CG referred to her paper on the Assurance Framework, advising that embedding work continued. Evidence was also being collated to be able to demonstrate that the findings identified had been considered and acted upon. Acknowledging the work that had already been undertaken, MGH

requested that the findings be made available in readiness for the annual FMID review discussions.

22.33.2 CG commented on the work being done to improve the quality of the papers seen by Board and sought Board's impressions. MP confirmed that the reduction in PowerPoint slides was to be welcomed and LTR advised that the use of coversheets that set out the key purpose and requirements greatly assisted. It was generally agreed that the use of a Reading Room for background reference documents was a useful development although further thought was still required as to structure and signposting.

There being no further business the Chair declared the meeting closed.

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Chair