

Pay. UK Limited**Minutes of a meeting of the Board of Directors held on 16 March 2022**

Members	Attendees
Mark Hoban (MGH), Pay.UK Chair	Dougie Belmore (DB), Chief Payments Officer
Anna Bradley (AB), Senior Independent NED	Michael Ellis (ME), Chief Finance Officer
Diane Cote (DC), Independent NED	Angela French (AF), Head of Business Continuity
Matthew Hunt (MH), CSO and Deputy CEO	Carolyn Gibson (CG), Head of Corporate Governance
David Pitt (DP), CEO	Helen Hunter-Jones (HHJ), Chief Risk Officer
Jean-Yves Rotté-Geoffroy (JY), Independent NED	Charlotte Lamkin (CL), Head of Business Support
Lesley Titcomb (LT), Independent NED	Stefan Linn (SL), Operational Resilience Analyst
Lars Trunin (LTR), NED	Steve Sollars (SSO), Operational Resilience Project Manager
Peter Wyman (PW), Independent NED	Dave Stockwell (DS), Head of Operations
	Louise Rebuck (LR), Company Secretary & Special Projects
Apologies:	
Marc Pettican (MP), NED	

**Board members and attendees met remotely by video conference.*

22/11 Opening Business

- 22.11.1 Quorum – The Chair noted that a quorum was present in accordance with the Company’s Articles of Association.
- 22.11.2 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.

22/12 impact Tolerances

- 22.12.1 HHJ provided a summary of the four operational resilience items that Board would be expected to have an understanding of: Important Business Services (IBSs), Impact Tolerances, Self-Assessment and Framework.
- 22.12.2 Having approved the IBSs at the November 2021 Board meeting, the Impact Tolerances were presented for discussion and approval. HHJ confirmed that an introduction to the Self-Assessment and Framework would also be provided at the meeting prior to approval being sought on 30 March.
- 22.12.3 SSO noted that the judgement of the Subject Matter Experts was a significant factor when determining the Impact Tolerances. It was expected that the tolerances would be reviewed and become more accurate over time as the methodology for calculating them improved.
- 22.12.4 The Board was asked not to consider the Impact Tolerances in the context of future investment which could impact the Tolerances.

22.12.5 The Board considered financial stability and the element of settlement risk, noting that end user detriment could also impact financial stability in a scenario where end users were not able to make and receive payments over an extended period of time. It was noted that the overview of regulatory scope and considerations was confusing as harm to consumers was not separate from market integrity or financial stability. Whilst the overview highlighted the focus of each regulator, Pay.UK had considered that disruption to any of Pay.UK's IBSs would have downstream impacts on customers as well as market integrity and had looked at these alongside the FMID requirement of financial stability.

22.12.6 The Board believed that the appropriate starting point was to focus on operational resilience from a customer and end user perspective rather than simply meet regulatory requirements. The Board requested an overarching narrative that made clear that Pay.UK had considered operational resilience for its business, the impact on Pay.UK's participants and end users and had mapped these onto the regulatory requirements of financial stability, harm to end users and market integrity. **ACTION: HHJ/ AF**

Impact Tolerances - Bacs for individuals

22.12.7 The Board considered the Impact Tolerances for the direct debit, direct credit and messaging services of Bacs. DS gave an overview of the analysis and work that had led to the chosen scenario and the importance of ensuring that payments reached beneficiary accounts as expected on day 3. Disruption during the input window on day 1 when payments were received at Pay.UK, could impact the ability for payments to reach accounts on time. DS added that it had been decided to look at direct debit and direct credit together as processing for the two services could not be separated out. The input window could be held open to allow payments to be received and the SMEs had looked at the latest time that the input window could close to allow for the subsequent processing of a peak day's volumes. The Bacs payment system would need to be restored by 03:00 on day 2 to allow sufficient time for a peak day's volume to be processed and payments to be sent out by 06:00.

22.12.8 It was agreed that the primary consideration was the receipt of payments by end users when they were expected and not customer harm. It was agreed that the summary would be updated to reflect this and the correct time by which the Bacs system would have to be restored, i.e. 03:00.

22.12.9 The messaging service was non-financial and DS advised that as a consequence a more generous impact tolerance had been allowed although AUDDIS utilised the same infrastructure as Bacs payments. He confirmed that there were alternative ways of making changes if the messaging services were not available.

22.12.10 The Board **agreed** the Impact Tolerances for Bacs subject to the requested amendments being made.

Impact Tolerances - ICS services

22.12.11 DS presented the Impact Tolerance for ICS noting the significantly lower volumes through the imaging system and the two day processing cycle. When looking at a scenario of extreme but plausible events for ICS the SMEs had focused on MSG13 which was the means by which the beneficiary bank was told if a cheque had or had not been paid. On receipt of MSG13 the beneficiary bank would make the funds available to the beneficiary.

- 22.12.12 It was noted that due to the volume and value of payments in ICS, end user harm was the primary consideration and not financial stability. The beneficiary would receive value on day 3 and was likely to be a corporate, such as a charity.
- 22.12.13 The scenario used to arrive at the Impact Tolerance was that the central ICS system was down and no cheques were being processed with pay decisions not reaching beneficiary banks.
- 22.12.14 A query was raised as to whether the Impact Tolerance for ICS should be changed to 48 hours to enable time to be given to recover a higher priority service in the event of multiple system failures. AF noted that Impact Tolerances were beyond Recovery Time Objectives and that prioritisation would be considered prior to an Impact Tolerance being met. Prioritisation of service recovery would form part of Incident Response Management and was not a consideration for Impact Tolerances.
- 22.12.15 The Board further considered the customers of ICS and agreed that they were likely to be service businesses and, given the likely personal nature of the relationship between the business and the customer, that they would be able to request funds by other means such as cash. MGH added that the Board's concern was that this Impact Tolerance could be expanded without further detriment to the end user and agreed that it would be left to management judgement to determine whether the Impact Tolerance should be that ICS was not available for a continuous 24-hour or for a 48-hour period. **ACTION: HHJ/ DP**
- 22.12.16 A request was made that the terminology was updated to refer to cheques and bank giro credits not direct debits and credits.
- 22.12.17 The Board **agreed** the Impact Tolerance for ICS subject to management reconsidering the period of service unavailability.

Impact Tolerances - Faster Payments for individuals

- 22.12.18 CL noted that SME judgement was a key factor in determining the Impact Tolerance for FPS Single Immediate Payments. She advised that whilst there was little experience of incidents impacting the whole FPS Central Infrastructure and that the events surrounding the July 2018 incident had been taken into account when considering the Impact Tolerance. She added that the impact on 25% of participants had been based on those participants with the largest market share. LTR queried whether there were any single points of failure, such as the use of specific gateway providers, that could mean that more than 25% of participants could be impacted. CL confirmed that this was not currently the case but that this situation was constantly monitored.
- 22.12.19 MGH questioned whether FPS being unavailable for 8 hours was realistic from an end user perspective given that there would be an immediate impact on end users in some cases. DP confirmed that the SME discussion had considered the 8 hours continuous unavailability of the service as reasonable. **ACTION: HHJ**
- 22.12.20 LTR asked whether the combination of Impact Tolerances for different IBSs had been considered and CL confirmed that the shortest Impact Tolerance was the focus in these instances. There had been an initial focus on individual services and that over time testing would be conducted on combinations of IBSs.
- 22.12.21 MGH noted the concern that the Impact Tolerance was not sufficiently stringent and it was agreed that discussions should be held with customers such as Open Banking and a large participant to understand their view. DP highlighted the feedback received from customers at the Participant

Engagement Forum where it was confirmed that most customers had set their tolerance levels at 24 hours. It was agreed that it needed to be made clear that the Impact Tolerance of 8 hours would not be breached.

22.12.22 CL noted that there was a processing window for Standing Order payments with 90% having to be sent by 06:00. The time of 11:00 had been chosen as it gave sufficient time to recover the system so that participants could send payments based on their final retry times. She added that there was data available to support this and it had been used to determine the Impact Tolerance.

22.12.23 The Board **agreed** the Impact Tolerances for Faster Payments for individuals subject to consideration by management of whether the 8 hours continuous service unavailability was appropriate.

Impact Tolerances - Faster Payments in bulk

22.12.24 It was noted that neither of the FPS bulk services was classed as near real-time and that the expectation was that payments sent using either DCA or FIM would be processed the same day. The bulk services could be used as contingency for Bacs. LT queried the reputational damage statement and it was agreed that it would be updated to reflect end user harm.

Impact Tolerances – Settlement and Liability

22.12.25 DS highlighted that it was likely that Faster Payments participants would not wish to continue processing payments if three settlement cycles had not completed successfully as it could indicate that there was an underlying processing or integrity issue.

22.12.26 The Board queried the process followed should settlement not complete. DS confirmed that not being able to provide the settlement figures to BoE would be a critical issue. DS noted that the decision to continue processing payments would likely be left to Pay.UK. He added that the cap positions of the participants would require careful management as the headroom created by settlement would not be available.

22.12.27 DS added that work had been undertaken with the industry and BoE to determine the steps to be taken if settlement could not take place.

22.12.28 It was observed that there were some actions that could be taken to reduce the impact of an incident, such as putting payments through Faster Payments if they could not be processed by Bacs to achieve the same end result for end users or by banks compensating end users for disruption. HHJ added that the known mitigants had been taken into account when considering the Impact Tolerances. Future validation exercises would test some of the assumptions made and mitigating actions.

22.12.29 MGH requested that the primary consideration of end user harm was clearly linked to the rationale that end user initiated payments would cease to be processed. **ACTION: HHJ/ AF**

22.12.30 The Impact Tolerances for Settlement and Liability were **approved**.

Impact Tolerances – CISA, CASS, Payment Redirection Service, BRD and UTSP

22.12.31 It was noted that the unavailability of the Cash ISA transfer facility would be inconvenient rather than critical unless it occurred over the tax year end and that it was possible that financial loss could be suffered if there was a difference in interest rates between the current ISA account and the one being moved to.

- 22.12.32 PW queried whether these services were important in this context and DS confirmed that there was not necessarily a readily available alternative for some end users.
- 22.12.33 The Board considered the alternatives for Cash ISA transfer, noting that the speed of transfer could vary significantly and could be a barrier to consumer choice in the ISA market.
- 22.12.34 It was noted that there were mitigants in place in the event that CASS was unavailable with the new bank obliged to make funds available for the end user.
- 22.12.35 DS confirmed that the unavailability of the payment redirection service would mean that the previous day's redirection data would have to be used for which there was a one day tolerance.
- 22.12.36 Bank Reference Data underpinned the payment systems and provided the routing data for both payments and settlement. The SMEs had determined that there was an Impact Tolerance of five working days and during that time the previous week's routing data would be utilised. DS confirmed that the number of changes to Bank Reference Data was not large.
- 22.12.37 UTSP was primarily used in Bacs and if the service was unavailable then revocation checks could not be conducted. However, DS noted that once the service was restored, it was possible to replay all the certificates used to check for any revocation failure.
- 22.12.38 The Impact Tolerances for CISA, CASS, Payment Redirection Service, BRD and UTSP were **approved**.
- 22.12.39 MGH thanked the team for taking the Board through the Impact Tolerances and for responding positively to the challenges and queries that had been raised.

DB, DS, CL left the meeting.

22/13 Framework and Self-Assessment Summary

- 22.13.1 SSO reiterated the four key decision points and added that the summary paper highlighted the key items, the Self-Assessment and Operational Resilience Framework, that Board would be asked to approve at the meeting on 30 March.
- 22.13.2 The Self-Assessment articulated the work undertaken to date whilst the Framework described the future state of Operational Resilience within Pay.UK. SSO drew attention to the Transition Plan that was not detailed in the summary paper but that would set out the Operational Resilience embedding activities and timelines.
- 22.13.3 AB questioned why two years was required for the Transition phase. HHJ explained that the time was required for further testing and validation exercises which could identify further vulnerabilities that would mean that the Impact Tolerances could not be met. The mitigations needed to resolve the vulnerabilities would need to be in place by 2025. AB observed that the Transition phase described two very different activities, cultural embedding of Operational Resilience and vulnerability resolution and requested that the summary paper was updated to make this clear. **ACTION: AF/ SSO**
- 22.13.4 It was noted that subsequent validation exercises would focus on the assets for IBSS.

- 22.13.5 DC queried the level of alignment with Vocalink and whether access to their validation exercises would be given. HHJ confirmed that some joint testing had been carried out and that a request had been made to see Vocalink's Self-Assessment. Due to commercial sensitivities Vocalink was not prepared to share the entire document and was looking to provide a redacted version. It was agreed that visibility of the vulnerabilities identified by Vocalink was needed to ensure that Pay.UK and Vocalink were working on the same vulnerabilities.
- 22.13.6 DC highlighted the importance of alignment with Vocalink and the need for any changes in tolerance levels to be reflected in Pay.UK's approach and framework. The ability to follow up on Vocalink's remediation plans was noted as an essential requirement.
- 22.13.7 The asset selection methodology that would drive the validation testing would be documented in the Transition Plan. SSO asked that the summary given was challenged adding that the approval of the Operational Resilience would also enable vulnerabilities and lessons learned to be addressed.
- 22.13.8 HHJ stated that progress against the Transition Plan would be reported to Risk Committee and that the Board would also have visibility of the work taking place during the Transition Phase. The results of testing and identified vulnerabilities would be provided. HHJ added that any business case requiring large investment that was needed to resolve a vulnerability would also come to the Board. DC requested that the validation scenarios were brought to the Risk Committee for comment and challenge prior to any further development. **ACTION: HHJ/ AF**

LTR left the meeting.

- 22.13.9 PW asked for clarity on what the Board was being asked to approve, given that the summary paper stated 'Agreement to the proposed remedial action plans' although these action plans and their costs were not yet known. HHJ agreed to consider the impacts of Operational Resilience on the business planning process, budgeting and the Board's future engagement. AB reflected that Operational Resilience was not a project where a conclusion would be reached but a permanent discipline that needed to be embedded within the business and constantly developed. It was agreed that the Self-Assessment would be updated to convey this. The summary would also be reworded to address DC's comments on the approval aspect of the roles and responsibilities of the Board and Risk Committee. **ACTION: HHJ/ AF**
- 22.13.10 DC noted the need to embed Operational Resilience within the Enterprise Risk Management Framework. **ACTION: HHJ**

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

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Chair