

Minutes

CCB/068/15

14th May 2015

To Board of Directors

From Stephanie Watson



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MINUTES OF THE MEETING OF THE C&CCC BOARD HELD ON 14TH MAY 2015

Present:	Les Thwaites	Chairman
	Sarah De Bunsen	Bank of England
	Kevin Rake	Barclays
	Lorraine Suttie	Clydesdale
	Dave Sanders	Co-operative Bank
	Glyn Warren	HSBC
	Graeme Donald	Lloyds Banking Group
	Mike Roberts	Nationwide Building Society
	Judy Lenihan	The Royal Bank of Scotland
	Bill Andrews	Santander UK
	Jane Bevis	Independent
	Steve McArdle	Independent
	Angela Thomas	C&CCC, CEO
	David Boast	FCM Programme Manager
	Noreen O'Kelly	Advance Boardroom Excellence (observer)
	Colin Peters	Advanced Boardroom Excellence (observer)
	Stephanie Watson	C&CCC, Board Secretary

1913 CONFLICTS OF INTEREST

The situational conflicts matrix was noted and some amendments made (see revised version).

There is, as yet, no further instruction from PSR regarding service by Directors on more than one Scheme Board.

Registration of conflicts is very much a personal choice with some Directors choosing to register their organisation's shareholding with a central infrastructure supplier.

Directors were asked to consider their registered conflicts carefully and advise any changes.

1914 MINUTES OF THE BOARD MEETINGS HELD ON 19TH FEBRUARY 2015 AND 2ND APRIL

The minutes of the meetings were approved. There were no matters arising.

No further comments had been received on the Scheme Redaction Policy (presented at the February meeting) which will be applied to minutes of this meeting. A redacted version of the minutes would be presented for agreement at the July Board meeting with publication of the redacted version on the C&CCC website 5 working days following agreement.

The PSR objective in asking for minutes to be available in this way is to improve transparency.

1915 REVIEW ACTIONS

The status of each outstanding action was included in the agenda papers and noted. The register will be updated accordingly.

1916 DIRECTORS AND ALTERNATES

The Secretary read out brief career summaries from both Sameer Dubey and Kevin Rake, which had been submitted too late for circulation ahead of the meeting. It was noted that career histories should always be submitted in advance of the Board meeting at which the appointments are proposed for approval in order that a proper assessment of suitability of the individual.

The appointment of Sameer Dubey under Article 23.1 was approved and his appointment of Kevin Rake under Article 26.1 was also approved.

Mike Roberts asked when the Company would have an Appointments & Nominations Committee that would be responsible for setting the profile, skills requirements and standards required to fill vacancies on the C&CCC Board. Angela Thomas advised that this had been on the workplan for September Planning Day but Board asked that this should be progressed now noting that this would eventually replace the existing system whereby Members select their Board Director without reference to any criteria set by C&CCC.

1917 COMPANY REPORT

Angela Thomas drew attention to the fact that HSBC had applied for a second membership of C&CCC, to be applied once FCM is implemented, for their ring fenced arrangements.

Directors agreed that application should be made formally to the Bank of England to set up cash collateral accounts for FCM settlement purposes.

Lorraine Suttie asked how the Company would work with the new Payments Council in their role as collaborative body. The way forward is not clear at present given that the Payment Systems Regulator has made no announcement about the role of their Payments Strategy Forum and the Payments Council becoming a Trade Association.

The question of whether PSR fees will include VAT has not yet been resolved. Pending

resolution of this issue, "Requests for Payment" had been issued for payment of PSR fees which some Directors said their member organisation may not be able to process until they received a full invoice, with or without VAT. These queries would be taken offline with the member organisations concerned.

Audit Risk & Compliance Committee (ARCC)

Judy Lenihan, as Deputy Chairman of the committee, introduced the ARCC report.

The TUPE transfer costs have been reviewed and concerns have been raised as to potential cash flow issues which has resulted, in the interests of transparent audit reporting, of a list of fees which remain outstanding being published (on the budget report page). A full C&CCC cashflow statement is being prepared for review by ARCC. C&CC cashflow is at present inflated by the inclusion of the FCM budget. The Company does not have a 'late payment' policy but it was recognised that, now that the Company has control of its own policies, this should be considered via ARCC.

The recommendations from the post TUPE obligational risk review were noted and accepted in full.

The amendments to the bank mandate were approved.

Board agreed that seeking independent assurance on the FCM Programme through an external audit would be beneficial one year since the last review. It was agreed that the next stage would be for ARCC to receive input from SSG on the timing and scope of this external assurance, in the same way as it would if SSG, as the programme steering group, reported directly to Board. ARCC supported the Internal Auditors recommendation that the next internal audit assignment is a review of the SSG Governance, after reviewing the previous CGI Report on the Programme Governance and his C&CCC Governance Audit. Board agreed the recommendation but noted caution around the timing to be agreed in line with the final recommendation to ARCC on the external FCM Programme assurance work.

Glyn Warren proposed that for those Directors who are interested, a short presentation on cyber security by Craig Rice, UKPA Head of Security could be arranged. The proposal was welcomed and a demonstration would be set up to take place, if possible, after the July Board meeting.

Settlement Risk Committee (reporting to ARCC)

Graeme Donald provide a short update on settlement re FCM. The Settlement Risk Committee (SRC) was making good progress and had worked through various default scenarios leading to a member having insufficient funds to meet its settlement obligations.

It was recognised that 'roll over' was not acceptable other than in extreme circumstances and only then with express agreement of the Board.

Governance & Stakeholder Management Committee (GSM)

No questions or comments were raised on the report but it was noted that the first

compliance report to PSR is due at the end of June.

Operations Management Committee (OMC)

Bill Andrews introduced his report.

The extension to the temporary extension granted to Lloyds and Bank of Scotland regarding the submission of settlement figures between the two, to 31st May 2015, was noted.

The recommendations for amendment to Service Level Codes, with changes to Industry Performance Indicators (IPI) on two codes only which would be introduced with effect from the data collection for the month of June 2015. The next review would be in 2017 following the induction of FCM and would specifically include a review of write-off limits.

1918 FUTURE CLEARING MODEL (FCM)

David Boast joined the meeting for this item and reported as follows:-

REDACTION (COMMERCIAL SENSITIVITY)

The Business Requirements Document (BRD) is being drafted and is on track for delivery in mid June in alignment with supplier selection and their subsequent requirements elaboration.

REDACTION (COMMERCIAL SENSITIVITY)

SSG reached agreement on operating days for FCM taking account of the non alignment of UK Nations Bank Holidays. The solution is that the Scheme will operate across the UK on all English bank working days (i.e all Bank of England settlement days) which allows UK Nations to make their own decision as to whether and how they operate on UK Nations Bank Holidays. The Board ratified this decision.

Failure to reach agreement on fraud liability has led to the Fraud workstream moving to RED. The Company had taken legal advice on the approach to fraud liability which was not fully supported by the FCM Fraud Working Group.

The Test Management Group (TMG) has been formed and a test manager appointed. This is the group that will be responsible for implementing the testing strategy and testing Governance across the FCM Programme. Similarly the participation readiness plan is being drafted with a subset of participants.

The Procurement plan remains on track and final supplier presentations are scheduled for the 19/20th May with a recommendation on proposed supplier to be sent to SSG and C&CCC Board on the 21st May.

SSG will meet on 28th May to select the preferred supplier based on the Procurement Group's recommendation. (Board will meet on 1st June to endorse the recommendation).

The supplier plan will be requested for review by the end of June which will then be embedded into the wider industry plan by the end of July for presentation to SSG. Graeme Donald asked if this date could be brought forward to the end of June.

The PR launch plan has not yet been finalised but the mid level approach (no TV) is favoured. Directors were mindful of the need to get the communication absolutely right, recalling the experience of poor communication which adversely impacted the Cheque Replacement Programme.

On Us items (CCB/039/15)

Owing to the restrictions imposed by Competition Law, the way forward for handling on us items in the FCM was not discussed at SSG but was referred to Board for discussion and agreement.

It would be easier for all items, including 'on us' items, to be processed via the switch but if this is not acceptable, then provided the data and image can be uploaded into the switch (to enable duplicate data and fraud checking functions) it is acceptable for on us items to be excluded.

It was noted that the rules must be very clear regarding agency banks' ability to move between sponsors in that any data stored which could be related to 'on us' items must transfer with the agency to the new sponsor.

Graeme Donald asked for the charging principles to be removed from the recommendation. With this amendment, therefore, the Board approved the following recommendation, in principle, and accepted that the operational detail would be worked through via SSG:-

- The Scheme will not mandate that participants submit all their on-us items through the Scheme;
- The Scheme will mandate within the Scheme Rules that the risks that result when a participant chooses not to submit their on-us items through the Scheme sit with that participant and not any other Scheme participant;
- On the basis the Scheme is enabling on-us items to be presented as a way for participants to reduce their risks but not mandating this then the Scheme has not needed to take further competition law advice;

- Individual participants have the choice to make their own risk based decision on whether these items are presented via the Scheme; and,
- The Scheme will require participants to inform the Scheme regarding their own policy regarding the submission of items to the Scheme

Fraud Liability

Judy Lenihan, Chairman of the FCM Fraud Working Group (FWG), introduced this item. The FCM Fraud Working Group has been trying to reach agreement on the fraud liability model. They have agreed on the key principles, the main one being that an innocent customer should not suffer loss as a result of fraud.

The Company has taken external advice on the way liability should be managed which is seen to be in accordance with the law and which is in accordance with the CPMI IOSCO principles. The advice proposes strict apportionment of liability based on the type of fraud which is clearly set down in the scheme rules, with no regard for which bank may or may not be to blame for a loss.

The FWG does not support this model believing that if liability is set down in advance there will be less incentive to prevent fraud. They prefer a model based on assessment of blame, proof of actions taken, and where agreement cannot be reached, referral to an arbitration panel.

Angela Thomas explained that the Company cannot put in place a liability model which goes against the legal advice it has received.

The C&C Scheme Legal Sub Group has been asked to confirm their own organisations' legal view of the external advice received by C&CCC.

The agreement of the liability model is not on the critical path for FCM in terms of keeping to the agreed timescale but it is essential to gain agreement as to the way forward.

The Board is charged with ensuring and maintaining integrity of the clearings and it is for this reason that the issue has been referred to the Board for guidance at this stage. The Chairman noted that the innocent customer must always be protected against loss relating to fraud and that fraud prevention initiatives must continue to be promoted in the image based environment.

Work is continuing in order to reach agreement and Judy Lenihan highlighted that understanding of the options could improve with input from the preferred supplier, once selected. The SSG meeting at the end of June will include a report on worked examples of fraud in order to establish the impact on collecting, beneficiary and paying bank in the

new image based processing environment.

1919 GOVERNANCE

Authorised Signatures List

The list of signatories authorised to sign on behalf of the Board regarding day to day operational matters, and only with CEO approval, has been amended to reflect changes in personnel. The amendments were approved.

Committee Obligations

Angela Thomas introduced her paper on committee obligations and explained the problems which were highlighted recently, via GSM, on the role of members and Directors on committees reporting direct to Board and the role and responsibilities of member representatives serving on sub groups of those direct reporting committees.

It is likely that some recommendations will be received as part of the review being undertaken by Advanced Boardroom Excellence. Other recommendations are already being considered by GSM as part of the review of PSR expectations on wider involvement of end users in Scheme decision making processes.

It was agreed that work on review of the governance structure should continue via GSM and that consideration should be given to the formation of a Member (or Participant) Liaison Group to assist.

Remuneration & Employment Committee

Revised Terms of Reference for the Remuneration and Employment Committee were offered for approval. As a result of the transfer of staff from UKPA to C&CCC the Board has assumed a number of additional responsibilities including control of Employee Policies and, with all staff remuneration now included, the role of the this committee has been enhanced. It is anticipated that the committee will meet 4 times each year and Directors willing to join the Committee would be reviewed via the enhanced Appointments and Nominations Committee process discussed earlier in the meeting.

Conflicts of Interest Policy

The Conflicts of Interest Policy was approved subject to the removal (at the request of Bank of England) of Paragraph 4, Section 1 Introduction. There was a query as to the whether observers should be specifically mentioned in the policy. This will be considered separately by GSM. The Policy was approved and will now form part of the governance documentation suite.

Articles of Association

The proposed amendments to the Articles of Association, agreed at GSM, were approved. A further review is required once clarity on regulation has been received from PSR following its Market Reviews into ownership and access.

Transfer of A Ordinary shares

The proposal for amending the holding of two A ordinary (non voting) shares in C&CCC were approved. The shares are currently held by UKPA and will be converted to holding by C&CCC Governance Manager or Board Secretary, subject to final confirmation by Clydesdale whose legal adviser felt that another option might have been more appropriate. Clydesdale's legal rep would be invited to speak with C&CCC's legal rep to gain a better understanding of the rationale for the selection of the recommended option.

1920 INTERNAL AUDIT RECOMMENDATIONS

The proposal to split the current ARCC into two separate committees, one called Audit Committee and one called Risk Committee was approved. The terms of reference for each committee were agreed in principle noting that final sign off would be a matter for each new committee, once formed, to finalise.

The split raises an issue regarding Chairmanship and representation on these committees. Whilst the Internal Audit recommendation was for Independent Chairmanship, the Board agreed that it is essential that relevant expertise is available to serve on each committee and to this end a job descriptions for the Chairman of each have been drafted.

Directors were asked to consider their own position and, if they wish to be considered, submit a short precis of their qualification to fulfil the role of Chairman for each committee. Directors were also reminded of the outstanding request from ARCC to nominate appropriately skilled senior member representatives for the Risk Committee.

The C&CC Appointments and Nominations Committee would then consider the applicants. If no suitable applicants come forward, permission would be sought to recruit a Chairman, to cover both committees, from outside the current directorship.

1921 PAYMENT SYSTEMS REGULATOR

The arrangements for the first PSR Compliance Return, which is due at the end of June 2015 were noted and approved.

Directors considered the suggestion of a 'change freeze' to be implemented up to the commencement of FCM in July 2016. The effect of the change freeze would be to prevent new members joining the current scheme which clearly cuts across the open access criteria set by the PSR and encouraging them to join under FCM. Whilst the term 'freeze' was not seen as appropriate, the approach was endorsed.

It was agreed that PSR should be provided with an explanation of the reasoning behind such an approach within the Compliance Return.

Dave Sanders suggested and the Board agreed that the minimum collateral levels required in the current Eligibility Criteria should be aligned with those allowed for existing Members. The draft Compliance Return would be reviewed via GSM, to ensure in this first instance that the positioning of the messages around current scheme membership and future FCM participation are carefully positioned.

Discussion on the paper re Recognition under the Banking Act was deferred owing to

lack of time.

NON AGENDA ITEMS

Sarah de Bunsen resigned as Director representing Bank of England, with immediate effect.

Bank of England has formally submitted their intention to move to observer status on the C&CC Board. They will continue to attend committee meetings, where applicable, in their capacity as C&CCC member but will no longer have a Director on the Board.

Date of Next Meetings:

Monday 1st June 12:30pm (re endorsement of SSG recommendation for preferred FCM supplier)

**Thursday 16th July 2015,
at 10:30am**

ACTIONS

Ref	Owner	Action	Target Date for completion
1901	Company Office	Discuss removal of Alternate Director role at Planning Day	Planning day 2015
1904	Company Office	A proposal for facilitating the Company strategy to be discussed at Planning Day. Papers in the July Board meeting papers.	July 2015
1916	Company Office	Arrange formation of Appointments & Nominations Committee	
1917	ARCC	Consider adoption of a late payment policy for C&CCC invoices.	
1917(i)	Company Office	Set up demonstration re Cyber security to follow July Board meeting	July Board
1919	Company Office	Arrange formation of Participant Liaison Group via GSM	
1919	Clydesdale	Complete review of recommendation re change of ownership of C&CCC A Ordinary shares	
1921	Company Office	Discussion of merits of recognition under Banking Act 2009 deferred to July	July Board