

Minutes



18th September 2015

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To C&CCC Board of Directors

From Stephanie Watson

CCB/108/15

MINUTES OF THE MEETING OF THE C&CCC BOARD HELD ON 17TH SEPTEMBER 2015

Present:	Jane Bevis	Deputy (Interim) Chair
	Sameer Dubey	Barclays Bank
	Lorraine Suttie	Clydesdale Bank
	Dave Sanders	Co-Operative Bank
	Sue Yarham	HSBC Bank
	Richard Hill	Lloyds Banking Group (Alternate)
	Michaele Moudden	Nationwide Building Society (Alternate)
	Damian Pettit	Royal Bank of Scotland Group
	Bill Andrews	Santander UK
	Steve McArdle	Independent Director
	Sarah De Bunsen	Bank of England (Observer)
	Peter Sparkes	C&CCC, Head of Risk
	Angela Thomas	C&CCC Chief Executive Officer
	Stephanie Watson	C&CCC Secretary

1938 CONFLICTS OF INTEREST

Directors and Alternates had reviewed their entries and all changes advised had been incorporated in the revised version of the register.

The conflicts of interest advised by the two new Directors, Damian Pettit and Sue Yarham were noted and have also been added to the register.

1939 MINUTES OF THE BOARD MEETING HELD ON 16TH JULY 2015

The full minutes were approved.

The redacted version was also approved and would be sent to PSR and published on the C&CCC website.

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MEMBER CIRCULATION

1940 DIRECTORS AND ALTERNATES

The appointments, as recommended by the Appointments & Nominations Committee, under Article 23.1, of Sue Yarham as Director representing HSBC and of Damian Pettit as Director representing RBSG, were endorsed.

The appointments as recommended by the Appointments & Nominations Committee, under Article 26.1, of John Blanchfield by Sue Yarham as Alternate Director for HSBC and of Judy Lenihan by Damian Pettit as Alternate Director for RBSG, were endorsed.

1941 REVIEW OUTSTANDING ACTIONS

Action 1901 Discussion re the removal of Alternate Director role was included within the agenda for Planning Day with the pros and cons being considered. See Minute 1946. **Action Complete.**

Action 1917(i) The demonstration re Cyber security has been received by those Directors wishing to see it. Alternate Directors received a security presentation from Craig Rice, Head of Security, UKPA, as part of the Planning Day programme. **Action Complete.**

Action 1926 All Directors and Alternates had reviewed and updated, where appropriate, their entry on the conflicts of interest register. **Action Complete.**

Action 1931 The report from Advanced Boardroom Excellence (ABE) following the review of Board effectiveness had been received and circulated. Directors had reviewed and prioritised the recommendations which were discussed during Planning Day. See Minute 1946. **Action Complete.**

Action 1931(i) Jane Bevis had commenced a series of 1:1 sessions with Directors to provide feed back to them as part of the ABE exercise. This action is not yet complete.

Action 1932 Financial Statements and Letter of representation for 2014 to be approved. See Minute 1947. **Action Complete.**

Action 1935 Nominations for companies to approach for work on C&CCC Strategy received and processed. **Action Complete.**

1942 FUTURE CLEARING MODEL

Angela Thomas, CEO, introduced the update which had been circulated with the agenda papers.

Early Test & Learn

Directors' concerns centred on the arrangements for the proposed Early Test & Learn Pilot (ET&L) which is being discussed at FCM Senior Sponsors Group (SSG) with a decision due at their meeting on 30th September.

This ET&L pilot has been suggested as a means of providing assurance as to the quality of the image before moving to the main testing phase. It also shows clear industry intent and progress for the benefit of HMT.

The ET&L is not included in the Programme budget so there would be a considerable cost impact if the pilot is approved.

Some Members have expressed concern about the potential for commercial advantage obtained by those taking part in the ET&L and the issue had been debated at the FCM Customer Experience Working Group (CEWG). Views were mixed with some seeing the ET&L as wholly beneficial but others seeing disadvantages such as confusion for customers. Steve McArdle cautioned against the ET&L if it could in any way be seen as favouring customers who have a smartphone. Noting this comment, Directors felt that proving the image quality is a key factor in the programme and that SSG will be making their decision on the ET&L at the end of September.

It was noted that the ET&L could also address HMT concerns that the implementation target would not match the enabling date in the legislation of 31st July 2016. HMT have issued a notice on innovation in banking services, including the completion date for full FCM roll-out agreed by SSG.

Directors supported the ET&L provided it does not jeopardise the 13th March 2017 implementation or the, 31st October 2017 end dates, or adversely impacts customers. All Members will be responsible for covering the additional cost of the exercise so competitive advantage for one or two Members must also be avoided.

Sue Yarham, as Chair of FCM CEWG and Jane Bevis would communicate the Board view to Mark Curran, Chair, SSG.

Any papers on this subject would be made available to Board and, if necessary, an extraordinary Board meeting would be held to discuss this matter further.

Fraud Liability

A joint fraud/ legal workshop was held on 15th September to reach agreement on the FCM fraud liability model.

All Members agree that the principles laid down by HMT that the content of a liability framework, as set out in secondary legislation, should be consistent with the following principles:

1. The innocent customer or customers should not bear the cost of any fraud perpetrated against them.
2. The collecting bank should be liable for matters over which it has control.
3. The paying bank should be liable for matters over which it has control.
4. Non-bank institutions (outsourced service providers) should not be liable.
5. The liability framework should support fair and open access to the payment scheme.
6. Any liability framework should be designed to prevent fraud, and encourage the prevention and detection of fraud.

Acknowledging that there may well be new fraud types not yet seen in the paper based clearing and also that the collecting bank is the only party ever likely to see the original cheque paper, two models have been considered:-

The Contributory Failed Process Model

This is the model favoured by the Company Executive following advice received from Travers Smith LLP. In essence this model is believed to comply with cheque legislation and follows good corporate governance. The principle is that where there is a loss relating to fraud, all parties involved in its passage through the clearing will have had some responsibility for fraud detection and if the fraud still gets through, the process has failed in some way. Accordingly, the loss should be shared between the parties depending on their opportunity to detect the fraud. The apportionment would be agreed and set down in advance in the Fraud Rules.

The Principal Fault Based Model

This model is closest to the current model with the liability for loss resting with the party deemed principal banker for the relevant fraud type. The loss would rest with this party who would then seek to reduce its loss by challenging other parties to take a share, if it could be proved that they have been at fault in any way. Each case would be taken assessed individually and resolved between the parties concerned.

At the workshop there was almost unanimous support for the Principle Fault Based model and, following guidance from SSG, it was, therefore, agreed that this model should be adopted in FCM.

Although the model chosen is not that supported by C&CC legal advice, additional safeguards have been agreed:-

- Far greater central MI would be available in the FCM so that the detail of fraud losses, and banks' share of those losses, would be more visible.
- Service Level Codes would be implemented so that if a single participant consistently failed to detect fraud, they would be required to improve their processes to avoid further losses, and perhaps to pay compensation to those participants who were suffering losses as a result.

Only one agency bank had spoken against the preferred model at the workshop. All responses received to the HMT Consultation on fraud liability will be forwarded in full with a separate response from C&CCC explaining the industry preferred liability model and the way in which agreement to it was reached.

Charging Principles

The CEO introduced the report on the independent review of the FCM Funding & Charging Principles conducted via Cambridge Economic Partnership Associates (CEPA) which had been reviewed by the FCM Governance Group, with no concerns raised. The study was found to be thorough and very helpful and the results were supported particularly the recommendations for cost recovery and the opportunity to provide flexibility to help smaller players meet the universal service obligation.

Directors noted that until the final CGI costs are known at the end of October 2015, it would not be possible for members to finalise their individual shares of the total FCM cost for inclusion in their FCM budgets.

The recommendations from the FCM Governance Group were approved in full with agreement of the final charging model delegated to SSG at their October meeting.

1943 REGULATORY UPDATE

The Bank of England assessment has commenced with the joint decision of the Executive Banking and the Executive Markets Directorates expected in October. The decision will be issued to C&CCC together with the next steps.

Turning to the regulatory report which was noted by Directors, attention was drawn to the recent advice of the list of members of the PSR Strategy Forum. These are mainly financial institutions and it is currently unclear exactly how the forum will operate. The first meeting will be on 18th September and the outcome of that meeting will be advised to Directors.

1944 COMPANY BUDGET

Peter Sparkes introduced his paper and explained that the new Audit & Finance Committee, which has delegated authority to manage audit and finance matters, met on 11th September for the first time.

REDACTION COMMERCIAL SENSITIVITY.

It was noted that no provision for formal regulatory reserves are included in the budget, as per the agreement reached in 2014 in the light of other funding requirements.

Following detailed discussion at the Audit & Finance Committee meeting and further discussion at Board, the budget was agreed subject to a re-aligned version of the draft budget being produced to draw out regulatory related activity from the consultancy budget and relevant transfers into FCM.

1945 ANNUAL BUSINESS

Directors confirmed their approval of the core governance items which require annual review.

The future of the Chairman's Committee is to be reviewed as it was set up at the request of the previous Chair and may not be deemed necessary by the new Chair.

The frequency of Board meetings is also a matter for further discussion and agreement with the new Chair. It may be necessary, given the demands of FCM, to meet more

often at least for the duration of the Programme.

1946 RATIFICATION OF PLANNING DAY DECISIONS

Company Strategy

PWC will provide a written summary of the agreements reached during the Strategy Forum which formed the bulk of Planning day this year (to follow).

Each Board agenda going forward would include a Strategy item.

Board Effectiveness Review

The full list of recommendations emerging from the assessment of Board effectiveness conducted by ABE was reviewed following receipt of Directors recommendations as to which should be viewed as High Priority. It was agreed that attention should focus on three areas, Board Composition, Succession & Development Plans and Director Competence with any 'quick wins', e.g. the review of the way in which performance metrics are reported, picked up in tandem. Some of the recommendations on these three specific areas will be addressed via the new Appointments & Nominations Committee as part of their workplan.

It was agreed that there should be a retrospective audit of existing Director skills in order to identify gaps in the overall Board skill set.

Alternate Directors

Directors noted the pros and cons of maintaining the Alternate Director function within C&CCC noting that some Schemes still have Alternates whilst others have discontinued the role.

Directors are expected to attend all Board meetings with Alternates only attending *in extremis*. In normal circumstances extra, unplanned Board meetings, potentially calling on Alternates to attend, are rare. Of late, extraordinary Board meetings have been called more often, usually in connection with critical FCM decisions.

After some discussion it was agreed that Alternates should be retained for the time being with a further review, as part of Board commitment to improving its effectiveness, in 6 months time. It was agreed that if Alternates are retained, then they should be included in the skills review and director development arising from the Board effectiveness review.

Governance & Stakeholder Decision Making Process

The PSR has recommended that affiliates and stakeholders should be engaged in Scheme Companies' decision making process and, to this end, it has been suggested that an Affiliates Group or Participant Liaison Group should be formed by C&CCC.

Directors were of the view that existing C&CCC stakeholder forums, together with the Independent Directors' public interest duties, and Member Directors' close relationships with agency bank and knowledge of their views were sufficient safeguards to ensure stakeholder concerns are taken into account properly. There was an acknowledgement of the potential benefit of a cross scheme affiliate group but it was noted that the electronic schemes were unwinding their joint group. The potential for strengthening the agency bank forum was discussed and it was agreed that this should be explored.

It was agreed that the PSR should be informed that C&CCC see no requirement for a new affiliate group given that existing arrangements already actively consult stakeholder views.

1947 COMPANY REPORT

Operations Management Committee

The options for euro and currency cheque processing post FCM (when the need for a paper exchange facility would no longer exist for sterling cheques) would be reviewed via OMC.

Audit & Finance

The 2014 Company Accounts and Letter of Representation were approved for signature by Graeme Donald, as Chair of the Audit & Finance Committee.

Date of Next Meeting:

2, Thomas More Square

Thursday 10th December 2015

10:30am

OUTSTANDING ACTIONS

Ref	Owner	Action	Target Date for completion
1931(i)	Interim Chair	Jane Bevis had commenced a series of 1:1 sessions with Directors to provide feedback to them as part of the ABE exercise.	
1944	Company Office	Circulate re-aligned Company budget.	End of Sept
1946	PwC	Complete right up and Agenda Item at December Board	December Board
1946	Company Office	To progress an action plan for the Board Effectiveness and Governance actions from Planning Day	December Board