

**CHAPS Clearing Company Limited**

**GD 2 and 4 Access and Governance Compliance Report 2017**

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*Post-submission note*

*This report was submitted to the Payment Systems Regulator by CHAPS Co by 31 October 2017 in accordance with General Directions 2 and 4.*

*Responsibility for the operation of the CHAPS payment system subsequently transferred to the Bank of England on 13 November 2017. The governance arrangements for CHAPS changed significantly from the point of transfer. Given the extent of change since October 2017, this report has been updated with a number of post-submission notes. General Directions 2 and 4 do not apply to the Bank as the operator of CHAPS.*

*Information about CHAPS can be found on the Bank's website: <https://www.bankofengland.co.uk/payment-and-settlement/chaps>. Questions about this report can be sent to [chapsenquiries@bankofengland.co.uk](mailto:chapsenquiries@bankofengland.co.uk)*

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## Form A - General Direction 2

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Please complete the form below, ensuring that you respond to each section of the paper. The **main headings** relate to the reporting requirements of general direction 2 (2.4, a-f). The *sub-headings* provide you with guidance on the information that we would like you to provide in order to meet the reporting requirements.

### **CHAPS Co General Note/Disclaimer**

#### **Bank of England's blueprint publication for a new RTGS service for the United Kingdom**

**On 9 May 2017 the Bank of England (the "Bank") published its renewed Real-Time Gross Settlement ("RTGS") service for the United Kingdom Blueprint.<sup>1</sup> In there, the Bank announced, *inter alia*, that financial stability would be enhanced by acquiring CHAPS Co and therefore becoming responsible for both the High Value Payment System scheme and the RTGS infrastructure<sup>2</sup>.**

#### *Post-submission note*

*Information about CHAPS is available on the Bank's website, <http://www.bankofengland.co.uk/payment-and-settlement/chaps> . The Bank's acquisition of CHAPS Co concluded in November 2017. This response focusses on compliance with GD2 prior to the transfer of CHAPS to the Bank.*

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<sup>1</sup> <https://www.bankofengland.co.uk/-/media/boe/files/news/2017/may/a-blueprint-for-a-new-rtgs-service-for-the-united-kingdom.pdf>

<sup>2</sup> <https://www.bankofengland.co.uk/-/media/boe/files/payments/a-blueprint-for-a-new-rtgs-service-for-the-uk.pdf>

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a) Self-assessment by the operator on compliance of its access requirements with the obligation in Direction 2.1 throughout the 2016/17 period.	
<p><i>I) Please provide a statement as to whether you consider that you have complied with the obligation in Direction 2.1 over 2016/17.</i></p> <p><i>You should cross reference a statement of compliance from a responsible person.</i></p>	<p><b><u>CHAPS Co response</u></b></p> <p>CHAPS Co (also referred to in this Report as the “Company”) considers that it has operated the CHAPS System in a manner that is compliant with the obligation in General Direction 2.1 (“GD 2.1”) during the relevant period.</p> <p>The Company confirms that it has complied with General Direction 2.1 which requires the Company to have “objective, risk-based and publicly disclosed access requirements which permit fair and open access” (the ‘Access Rule’) and complied with the duty to report on compliance with the Access Rule (the ‘Reporting Rule”).</p>
<p><i>II) Please provide us with an explanation and evidence of why you consider that your access requirements comply with General Direction 2.</i></p>	<p><b><u>CHAPS Co response</u></b></p> <ul style="list-style-type: none"> <li>• In addition to the note of advice referenced above, the Company would also make the following additional observations (with supporting evidence where referenced) to support and evidence why CHAPS Co’s access requirements continue to meet the substantive obligations of General Direction 2.1.</li> </ul> <p><b>CHAPS Co’s access requirements – CHAPS Rules</b></p> <ul style="list-style-type: none"> <li>• At the date of submission of this Report, CHAPS Co’s principal access requirements are contained in the CHAPS Rules and are as listed immediately below. <i>Post-submission note: The access requirements were updated on 13 November 2017 at the point of the transfer to the Bank of England to reflect the revised ownership arrangements.</i></li> </ul>

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As extracted from the CHAPS Rules<sup>3</sup>:

- To be eligible to become and remain a Member (Participant), an institution must:-
  - hold a sterling Settlement Account at the Bank of England which the Bank of England has agreed may be used for the purpose of settling CHAPS payment obligations;
  - be a participant which falls within the definition of 'participant' in the Regulations;
  - have the ability to comply on a continuous basis with the technical and operational requirements of the CHAPS System as set out in the Reference Documents from time to time;
  - be a shareholder of the Company (*Post-submission note: The shareholding requirement was removed at the point of the transfer to the Bank*);
  - pay a single entrance fee as determined by the Board when first becoming a Member of the CHAPS System. Such entrance fee is to be based on the cost of technical implementation (*Post-submission note: This requirement is now to pay a single entrance fee as determined by the Bank and if required to do so*);
  - if required to do so by the Company, provide a legal opinion issued by an independent legal adviser and in terms acceptable to the Company regarding, amongst other things, the institution's capacity to execute and be bound by these Rules, the Company's Memorandum and Articles of Association and its agreement(s) with the Company (*Post-submission note: Reference to the Memorandum and Articles of Association removed at the point of the transfer to the Bank*); and
  - pay its Contingency Reserve Amount (*Post-submission note: This requirement was removed at the point of the transfer to the Bank*).

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[http://webarchive.nationalarchives.gov.uk/20171101175037/http://www.chapsco.co.uk/sites/default/files/documents/chaps\\_reference\\_manual\\_version\\_31\\_july\\_2017.pdf](http://webarchive.nationalarchives.gov.uk/20171101175037/http://www.chapsco.co.uk/sites/default/files/documents/chaps_reference_manual_version_31_july_2017.pdf)  
*Post-submission note: Version as at 5 January 2018: <https://www.bankofengland.co.uk/-/media/boe/files/payments/chaps/chaps-reference-manual.pdf>*

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	<p><b>CHAPS Co's access requirements' compliance with the obligations in General Direction 2.1</b></p> <ul style="list-style-type: none"><li>To support the Company's statement above, CHAPS Co has considered its access requirements in detail below (and assessed each access requirement in turn in respect of their compliance with the obligation to be risk-based) in relation to General Direction 2.1. obliging operators to ensure that the access requirements are:  "objective, risk-based and publicly disclosed <i>access requirements</i> which permit fair and open access to the <i>regulated payment system</i>"</li></ul> <p><u>All access requirements and assessment of objectiveness and public disclosure</u></p> <p><u>Objective</u></p> <ul style="list-style-type: none"><li>For each of the access requirements, the Company applies the same access criteria, in the same manner to all institutions participating or wishing to directly participate in the CHAPS System i.e. the criteria are participant agnostic and are not differentiated for institutions except for the application of the Participant Categorisation Model ("PCM") discussed below (exercised with regard to the Company's role as systemic risk manager). The application of the PCM was introduced to ensure that whilst the access requirements remained objective, that they are also considered from a systemic-risk perspective and that smaller institutions that do not bring the same systemic-risk to the CHAPS System might benefit from reduced technical and operational requirements accordingly.</li></ul> <p><u>Publically disclosed</u></p> <ul style="list-style-type: none"><li>The eligibility criteria for direct CHAPS participation are set out in the CHAPS Rules<sup>4</sup> which are publicly available on the CHAPS Co website and therefore satisfy the obligation to be publically disclosed. By posting CHAPS Co's Rules and the access requirements on its website, prospective and existing Participants are permitted fair and open access to the CHAPS System by ensuring</li></ul>
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<sup>4</sup> CHAPS Rule 2.1 sets out the eligibility requirements for being admitted as and continuing to be admitted as a CHAPS participant.

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that the access requirements are transparent and accessible to all. *Post-submission note: Rules available at <https://www.bankofengland.co.uk/-/media/boe/files/payments/chaps/chaps-reference-manual.pdf>*

- In 2017, in collaboration with the other UK PSOs, CHAPS Co published "An Introduction to The UK's Interbank Payment Schemes"<sup>5</sup> which provides an overview for use by organisations considering their options for joining the payments industry in the United Kingdom, or for those already in the industry who are looking to extend their proposition. The booklet provides an overview of access requirements for CHAPS.
- In view of the anticipated change in Bank of England Settlement Criteria, CHAPS also published along with the other PSOs, FCA and Bank of England a guide entitled "Access to the UK Payment Schemes for Non-Bank PSPs"<sup>6</sup>. Like the aforementioned Guide, this document sets out the eligibility requirements and considerations for joining CHAPS for Non-Banks.
- These Guides along with a shortened synopsis leaflet entitled "Onboarding to UK Interbank Schemes" are publically available on CHAPS website and our access requirements have been presented at the CHAPS Co Service User Group (SUG).
- CHAPS also commissioned a bespoke CHAPS Onboarding Video "What is CHAPS"<sup>7</sup> which is publically available on our website. This video has been created to assist interested parties in explaining our access requirements and onboarding process. This video has also been shown to all Direct Participants and presented to the CHAPS Service User Group in July 2017.
- Upon engagement with CHAPS directly, an interested party is also issued with the CHAPS Onboarding Handbook wherein CHAPS access criteria is detailed and an outline of the CHAPS onboarding criteria is provided.

<sup>5</sup> [http://www.accesstopaymentsystems.co.uk/sites/default/files/An-Introduction-to-the-UKs-Interbank-Payment-Schemes\\_February%202017.pdf](http://www.accesstopaymentsystems.co.uk/sites/default/files/An-Introduction-to-the-UKs-Interbank-Payment-Schemes_February%202017.pdf)

<sup>6</sup> <https://www.bankofengland.co.uk/-/media/boe/files/markets/other-market-operations/accessforonbankpaymentserviceproviders.pdf>

<sup>7</sup> [https://www.youtube.com/watch?v=WSatIGs\\_k7Y](https://www.youtube.com/watch?v=WSatIGs_k7Y).

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	<p><b>Risk-based access requirements</b></p> <p><u>Access requirement to hold a sterling Settlement Account at the Bank of England, which the Bank of England, has agreed may be used for the purpose of settling CHAPS payment obligations</u></p> <ul style="list-style-type: none"><li>• Participants are required to hold a sterling Settlement Account (previously a "Reserves" Account) at the Bank of England enabled for the purpose of settling CHAPS payment obligations, without which, a Participant would be unable to participate in the CHAPS System. The Settlement Account enables Participants to settle interbank obligations in Central Bank Money using the Real Time Gross Settlement System ("RTGS").<sup>8</sup></li><li>• The requirement to hold a sterling Settlement Account enabling settlement of CHAPS payment obligations in central bank money minimises credit and liquidity risk, thereby strengthening financial stability.</li></ul> <p><u>Access requirement to "be a participant which falls within the definition of 'participant' in the Regulations"</u></p> <ul style="list-style-type: none"><li>• CHAPS Co's access requirement for participants to be a 'participant' within the definition of the Financial Markets and Insolvency (Settlement Finality) Regulations 1999 ("Settlement Finality Regulations") is a risk-based access requirement for participation in the CHAPS System.</li><li>• CHAPS is a designated system under the Settlement Finality Regulations (implementing the Settlement Finality Directive 98/26/EC on settlement finality in payment and securities settlement systems).</li><li>• Designation under the Settlement Finality Regulations ensures the maximum legislative protection to minimise the risks to finality and settlement of messages entered in the CHAPS System by Participants by ensuring that the rules of the designated system governing participation shall take precedence over any ordinary insolvency laws, in particular in the event of insolvency of a participant. This ensures that settlement of all payments within the CHAPS payment system is final and irrevocable and underpinned by statute.</li></ul>
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<sup>8</sup> <https://www.bankofengland.co.uk/-/media/boe/files/payments/boesettlementaccounts.pdf>

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Access requirements to "have the ability to comply on a continuous basis with the technical and operational and security requirements of the CHAPS System as set out in the CHAPS Reference Documents from time to time"

- This criterion (and the technical and operational requirements and associated costs contemplated by it) provides for compatibility with payments infrastructure and safeguards against system compromise.
- It also ensures that the payment system has the benefit of a high degree of security and operational reliability, at a level which is reasonable and appropriate for CHAPS as a high-value payment system at the heart of the UK's payment financial market infrastructure.

Participant Categorisation Model ("PCM")

- Whilst each of the access requirements apply to all Participants participating in the CHAPS System in principle, the Company has implemented a Participant Categorisation Model ("PCM") which determines the extent to which certain access requirements are applicable to ensure that specific technical or operational requirements continue to be applied in a manner proportionate to the integrity, security, efficiency, effectiveness and reputational benefits resulting from those requirements.
- The PCM as set out in the CHAPS Reference Manual is a mechanism and formula allowing the Company to categorise CHAPS participants based on the *systemic risk* which they bring to the payment system. The formula to assess the category of a CHAPS participant involves the Company considering:
  - whether the CHAPS participant is an FMI (Financial Market Infrastructure),
  - the volume and values of transactions submitted, and
  - Whether the CHAPS participant holds the status of a Global-Systemically Important Bank or is a primary clearer for an FMI.
- For those CHAPS participants that are categorised as Category 1 (i.e. bringing the largest potential systemic risk to the payment system), all requirements in the CHAPS Reference Manual governing participation in the CHAPS System apply. For those CHAPS participants who are categorised as Category 2 or 3, only a subset of the requirements in the CHAPS Reference Manual



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applies.

- The PCM enables the Company to balance the objective of supporting financial stability and avoiding disruption to the CHAPS System, whilst also recognising that not all institutions carry the same systemic risk and therefore a “one size fits all” approach could potentially be onerous and disproportionate on certain institutions.
- It therefore follows that those participants that may not bring the same levels of systemic risk as larger institutions should have the benefit of appropriately onerous requirements which in turn should support proportionate risk-based access and continued participation in the payment system.
- CHAPS Co notes that the changing and increasingly diverse profile of DP and On-Boarders means the solutions they are implementing to meet their Operating Model needs is equally diversifying. An example of this is where organisations are seeking to utilise industry offerings such as Cloud and Aggregators. As a result CHAPS Co need to be cognisant of the need for new and enhanced risks controls.

*Post-submission note*

*The CHAPS Reference Manual was updated on 5 January 2018 to set out requirements for Direct Participants wishing to use aggregator or cloud technology services.*

*Access requirement to pay a single entrance fee as determined by the Board when first becoming a Member of the CHAPS System. Such entrance fee is to be based on the cost of technical implementation*

- The CHAPS Board, at present, reserves the right to require a prospective Participant to pay a single entrance fee when first becoming a Member of the CHAPS System to reflect any reasonable costs incurred the Company in support of Participant on-boarding conditions. Costs in this respect include onboarding project management support, technical management and costs associated with obtaining an independent legal opinion. Any costs incurred by the Company are invoiced on a cost recovery only basis to a fixed maximum amount of £35,000. This criterion ensures that these one-off costs are not passed on to other existing Participants. *Post-submission note: Requirement is now to pay a single entrance fee as determined by the Bank and if required to do so.*

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	<p><u>Access requirement to, provide a legal opinion, issued by an independent legal adviser (if required to do so by the Company) and in terms acceptable to the Company regarding, amongst other things, the institution's capacity to execute and be bound by these Rules, the Company's Memorandum and Articles of Association and its agreement(s) with the Company</u></p> <ul style="list-style-type: none"><li>• This criterion provides the Company with a high degree of certainty that Participants will, inter alia, be able to fulfil their corporate, regulatory and contractual obligations as CHAPS Participants on a timely basis, and, of particular importance, provide comfort that their relevant jurisdiction recognises and supports the protections afforded to the CHAPS payment system under its contractual and statutory framework (including those relating to settlement finality). <i>Post-submission note: The references to CHAPS Co's Memorandum and Articles of Association were removed at the point of transfer to the Bank. More broadly, references to the Company or its Board are replaced with the Bank.</i></li></ul> <p><u>Access requirement to pay its Contingency Reserve Amount</u></p> <p>The requirement to pay a Contingency Reserve Amount is a reasonable and appropriate risk-based requirement to ensure that the Company is able to manage general business risk and hold sufficient liquid assets to cover general business losses so that it can continue operations and services as a going concern (or effect an orderly wind-down) if those losses materialise. The company maintains its contingency reserves position in line with the requirements of CPMI IOSCO Principle 15.<sup>9</sup></p> <p style="text-align: center;"><i>Post-submission note</i></p> <p><i>This requirement was removed at the point of the transfer to the Bank.</i></p> <p><b>Further items supporting CHAPS Co's compliance with GD2.1</b></p> <p><b>CHAPS Reference Manual</b></p> <p><u>Note: Please refer to our 2016 CHAPS Access and Governance Compliance Report for additional information on the CHAPS Reference Manual.</u></p>
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<sup>9</sup> <http://www.bis.org/cpmi/publ/d101a.pdf>.

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*Background*

- The Participant Categorisation Model is contained in the CHAPS Reference Manual which went live in Q1 2017 and is currently available on the Company's website.<sup>10</sup> By way of background, the CHAPS Reference Manual is the product of a multi-year project to amalgamate, simplify and rationalise a suite of documents that CHAPS participants are currently required to abide by.
- Chapter I of the CHAPS Reference Manual titled 'Overview of the CHAPS Reference Manual' is to assist on the readers with:
  - the legal basis of the CHAPS Reference Manual,
  - The regulatory framework in which CHAPS co-operates including, a section on the Payment Systems Regulator and its powers and objectives in respect of CHAPS Co and the CHAPS payment system,
  - associated documentation (User Documents), and
  - a Glossary of terms to assist with any definitions used within the CHAPS Reference Manual.
- The CHAPS Rules in which the eligibility requirements for direct CHAPS participation are contained are found in Chapter II of the CHAPS Reference Manual, and all key operational technical requirements and procedures are found in Chapters III and IV.
- This CHAPS Reference Manual also discusses in detail an Appeals Process found in Chapter IV of the CHAPS Reference Manual, that sets out the rights of Direct and Prospective Participants to raise concerns in respect of the way in which the Company's exercise its Regulatory Functions (as defined in the CHAPS Reference Manual). The Appeals Process sets out the procedural steps between an appellant and the Company's Board (or Chief Executive Officer, as the case may be) including the appointment of an independent Appeal Panel to hear the appeal. *Post-submission note: The Appeal Process was superseded by a review process, which is referred to in the CHAPS Reference Manual, at the point of the transfer to the Bank.*

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[http://webarchive.nationalarchives.gov.uk/20171101175037/http://www.chapsco.co.uk/sites/default/files/documents/chaps\\_reference\\_manual\\_version\\_31\\_july\\_2017.pdf](http://webarchive.nationalarchives.gov.uk/20171101175037/http://www.chapsco.co.uk/sites/default/files/documents/chaps_reference_manual_version_31_july_2017.pdf)  
*Post-submission note: Version as at 5 January 2018: <https://www.bankofengland.co.uk/-/media/boe/files/payments/chaps/chaps-reference-manual.pdf>*

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	<ul style="list-style-type: none"> <li>• Notwithstanding any result achieved through the Appeals Process in respect of concerns relating to access to the CHAPS System, should an appellant find that it is unsatisfied with the result achieved through the Appeals Procedure, then it retains the right to apply to the PSR to require the Company to give it access to the CHAPS payment system by exercising the PSR's powers set out in section 56 of the Financial Services (Banking Reform) Act 2013. The Appeals Process enables Participants and/or prospective participants the right to appeal against the performance of the Company in respect of its regulatory function as operator of the CHAPS System. <i>Post-submission note: The PSR's access powers do not apply to the Bank as operator of the CHAPS system.</i></li> </ul>
<p><i>III) Please highlight any changes that have been made to the access requirements over 2016/17. Where changes have been made, please explain how they better meet the obligation in General Direction 2.1. and how they addressed any relevant concerns or focus areas we have identified.</i></p>	<p><i>Please incorporate a response to the following:</i></p> <p>“We expect the operators to finish their work in developing access models and solutions that facilitate the development of aggregators by the end of the year. We also expect them to be ready to progress applications for direct access for non-bank PSPs, if the Bank of England amends its settlement account policy and necessary legislative changes are made.”</p> <p><b><u>CHAPS Co response</u></b></p> <p><u><i>Changes to access requirements over the relevant period</i></u></p> <ul style="list-style-type: none"> <li>• As detailed and explained earlier in this report and also in the CHAPS Co 2016 Access and Governance Compliance Report, the Company has during the reporting period, undertaken and implemented a number of changes which have assisted the Company with maintaining and furthering compliance with GD 2.1. For example, the publications of:             <ul style="list-style-type: none"> <li>○ The CHAPS Reference Manual in March 2017,</li> <li>○ “An Introduction to The UK’s Interbank Payment Schemes”<sup>11</sup>,</li> <li>○ “Access to the UK’s Payment Schemes for Non-Bank PSPs”<sup>12</sup>,</li> <li>○ “On-boarding to UK Interbank Payment Schemes”<sup>13</sup>; and</li> <li>○ “What is CHAPS” Onboarding Video<sup>14</sup>.</li> </ul> </li> </ul>

<sup>11</sup> [http://www.accesstopaymentssystems.co.uk/sites/default/files/An-Introduction-to-the-UKs-Interbank-Payment-Schemes\\_February%202017.pdf](http://www.accesstopaymentssystems.co.uk/sites/default/files/An-Introduction-to-the-UKs-Interbank-Payment-Schemes_February%202017.pdf)

<sup>12</sup> <https://www.bankofengland.co.uk/-/media/boe/files/markets/other-market-operations/accessfornonbankpaymentsserviceproviders.pdf>

<sup>13</sup> [http://www.accesstopaymentssystems.co.uk/sites/default/files/on\\_board\\_to\\_interbanking\\_uk\\_payment.pdf](http://www.accesstopaymentssystems.co.uk/sites/default/files/on_board_to_interbanking_uk_payment.pdf)

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Publication of these materials on the CHAPS Co website significantly increases access to the amount of information relating to direct and indirect CHAPS System participation in the public domain, and is intended to assist with the **enhanced requirement for public disclosure of access requirements, i.e. the availability of more information without the use of an NDA unless reasonably justified**, or strictly necessary.

- Also as discussed earlier in this Report, the introduction and implementation of the PCM which is set out in the publically available CHAPS Reference Manual is also relevant to the Company's compliance with its focus areas by ensuring that its technical and operating requirements, as set out in the CHAPS Reference Manual are **risk based proportional requirements which are publically accessible and which demonstrate** more proportionate and open access.

*Post-submission note*

*Introduction of Aggregators/Cloud Technology to CHAPS*

- *The Bank, continuing CHAPS Co's work on aggregators, has considered the use of Aggregators and the related risks associated with their introduction. The CHAPS Reference Manual permits Category 3 Direct Participants to use aggregators or cloud technology subject to the published requirements being met. These requirements hold the Direct Participants accountable for their use of aggregators/cloud technology.*

*Access to the Scheme by Non-Bank PSPs*

In July 2017 the Bank of England announced its change to its Settlement Account criteria. The resulting change paves the way for Non-Bank Payment Service Providers to directly settle via the CHAPS central infrastructure.

CHAPS launched a project in May, 2017 to review access criteria to the CHAPS Scheme to ensure readiness for inclusion of Non-Bank PSPs. This included a review of the onboarding process, risk operations and legal requirements.

<sup>14</sup> [https://www.youtube.com/watch?v=WSatIGs\\_k7Y](https://www.youtube.com/watch?v=WSatIGs_k7Y)

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Subsequently, we have amended access criteria on our website to reflect a change from "Reserves Account" holder to "Settlement Account". CHAPS has also enhanced its Risk Assessment process to proportionately factor in risks relating attributed to NBPSPs anticipated profiles (new technology, safeguarding etc.).

In anticipation of this change, CHAPS Co engaged with the UK's PSOs, Bank of England, FCA and PSR collectively to produce an information guide entitled "*Access to UK Payment Schemes for Non-Bank Payment Service Providers (July 2017)*", which aims to inform Payments Service Providers (PSPs) that are thinking of joining or extending their existing payment services to their customers. It provides an overview of the steps to follow to help you engage with the Payments System Operators (PSOs) and the common process you should expect to follow to join them. This information is publically available on CHAPS website and is provided to all interested Non-Bank PSP's when engaging with CHAPS.

CHAPS also meets quarterly with the other PSOs, Bank of England, FCA and PSR to ensure that we have commonality in approach to provision of information (FAQs) to NBPSP's wishing to gain access to the Scheme.

CHAPS is actively engaged with several NBPSPs that have expressed an interest in direct participation in CHAPS.

Focus Area: Onboarding

From September 2016 CHAPS conducted an end to end review of the CHAPS Onboarding journey to ensure effective and efficient onboarding of participants and to encourage interested parties to join in a more timely fashion, aiming to ensure project effectiveness, coordination and elapse times remained appropriate. As part of this exercise CHAPS developed a full suite of onboarding documents to assist the On-boarders, their Shepherds and Bank of England RT through the life cycle of each onboarding project and transition to becoming a Direct Participant of the Scheme.

Onboarding Portal – Toolkit for on-boarders

*The 2017 on-boarders to CHAPS have welcomed the Onboarding Portal which was originally rolled out in 2016. It is a secure web portal which holds all relevant documents for on-boarders – launch and test plans, guides and scheme documentation tailored to each on-boarder's needs. The relevant*

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	<p><i>onboarder, the Bank of England and the allocated Shepherd can all access the portal.</i></p> <p><u><i>Onboarding Video (see above)</i></u></p> <p>In May 2017 CHAPS Co commissioned and launched a CHAPS Onboarding video.<sup>15</sup> This video aims to inform interested parties about CHAPS and how to on-board to the Scheme and it is publically available on the CHAPS Co website and has been presented at the Service User Group in June 2017.</p> <p style="text-align: center;"><i>Post-submission note</i></p> <p><u><i>Shepherding support</i></u> <i>CHAPS Direct Participants provide 'Shepherding/Buddying' assistance to support onboarding participants as they access to the scheme. This is without charge, and may cover acting as a test partner as well as broader sharing of best practice and experience. The high level requirements on 'Shepherds' are set out in the CHAPS Reference Manual, with more detailed guidance available to the onboarders and their Shepherds.</i></p> <p><u><i>Cross Scheme Collaboration – Improving Access</i></u></p> <ul style="list-style-type: none"><li>• CHAPS as part of the “The Interbank System Operators’ Coordination Committee” (ISOCC) members, with LINK and Paym initiated a project to address the ten detriments<sup>16</sup> identified by the Payment Strategy Forum’s Simplified Access to Markets Working Group. CHAPS continues to collaborate in an initiative that aims to enable easier access for Participants joining multiple payments systems by:<ul style="list-style-type: none"><li>○ Providing a more transparent and accessible framework of rules, requirements and procedures which clearly define Participants’ rights and obligations;</li><li>○ Increasing ease and efficiency of on-boarding;</li><li>○ Providing a cost effective payments solution; and</li><li>○ Eliminating non-essential scheme differences.</li></ul></li></ul>
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<sup>15</sup> [https://www.youtube.com/watch?v=WSatIGs\\_k7Y](https://www.youtube.com/watch?v=WSatIGs_k7Y)

<sup>16</sup> These include: 1. Common terminology 2.Common eligibility criteria 3.Categorisation of participants 4. Articulation of payment products common by PSO 5. Engagement with indirect participants prospective entrants and providers 6.Rules, Procedures and Participant Agreements 7.Technical Accreditation process 8.Assurance process 9. Onboarding process and migration to common connectivity model 10. Access to information and documentation.

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- The project, which involves CHAPS Co has been working on the following detriments; common terminology, eligibility criteria, Scheme comparisons and the categorisation of Participants which it completed at end of 2016. During 2017 the Common and Consistent Payment System Operator Participation Model and Rules Project tackled the more complex detriments of engagement, onboarding documents. It continues to work on commonality of assurance and rules.
- CHAPS in conjunction with other schemes collaborated and published the "An Introduction to The UK's Interbank Payment Schemes" in January 2017. A further booklet entitled "On-boarding to UK Interbank Payment Schemes" which summarises the guide into a leaflet was subsequently published in July 2017<sup>17</sup>. Both of these publications aim to inform and assist Indirect Participants in deciding which Scheme to Access and are publically available on the CHAPS website. Hard copies are available in our reception and are issued to all attendees at the Service User Group and presented on by the representatives of all the Schemes to the attendees at the recent New Bank Seminar hosted by the Bank of England.

Service User Group ("SUG")

The Company continues to develop the activities of the SUG which primarily provides a vehicle for Direct and Indirect participants and the wider market to engage with CHAPS. In this respect the biannual meetings continued in the year under review focussing on strategic developments, access/onboarding improvements, critical market issues/concerns, cyber risks and the Banks' RTGS Blueprint. Additionally SUG is now co-chaired by CEO and an independent non-executive director with extensive payment and Fintech market experience. The SUG is supported by a bi-annual newsletter which is circulated to all SUG members and accessible through the CHAPS website.<sup>18, 19</sup> *Post-submission note: The Bank will continue to undertake a range of external engagement including the creation of a Strategic Advisory Forum. See <https://www.bankofengland.co.uk/payment-and-settlement/chaps>*

Extended Settlement Day (ESD)

In June 2016, CHAPS Extended its operating hours by 1:40 hours, allowing CHAPS to close for

<sup>17</sup> [http://www.accesstopaymentsystems.co.uk/sites/default/files/on\\_board\\_to\\_interbanking\\_uk\\_payment.pdf](http://www.accesstopaymentsystems.co.uk/sites/default/files/on_board_to_interbanking_uk_payment.pdf)

<sup>18</sup> [http://webarchive.nationalarchives.gov.uk/20171103094707/http://www.chapsco.co.uk/sites/default/files/chaps\\_service\\_user\\_group\\_newsletter\\_february\\_2017.pdf](http://webarchive.nationalarchives.gov.uk/20171103094707/http://www.chapsco.co.uk/sites/default/files/chaps_service_user_group_newsletter_february_2017.pdf)

<sup>19</sup> [http://webarchive.nationalarchives.gov.uk/20171103094707/http://www.chapsco.co.uk/sites/default/files/aug17\\_chaps\\_newsletter.pdf](http://webarchive.nationalarchives.gov.uk/20171103094707/http://www.chapsco.co.uk/sites/default/files/aug17_chaps_newsletter.pdf)



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	customer payments at 17:40 (and for settlement at 18:00). The extended settlement day applies to other users of the RTGS system including Euroclear UK and Ireland, which operates CREST. Although awareness and adoption are at an early stage, we note some benefits, including increasing volumes within the extended hours and fewer extensions, better time zones overlap and anecdotally more house purchases completed on the contracted day when delayed.								
<b>b) Details of all occasions in the <u>2016/17</u> period when an expression of interest in potentially securing direct access or direct technical access has been made and details of the operator's response to, and outcome of, such expression of interest.</b>									
I) Information for publication on new members and demand for access.	<p>Complete the following table. Data should be correct as at 30 September 2017.</p> <p><b>Expressions of Interest</b></p> <table border="1" data-bbox="674 630 2042 831"> <thead> <tr> <th data-bbox="674 630 1016 699"><i>Expressions of interest</i></th> <th data-bbox="1016 630 1359 699"><i>Signed letters of intent</i></th> <th data-bbox="1359 630 1702 699"><i>New members during reporting period</i></th> <th data-bbox="1702 630 2042 699"><i>No. of participants</i></th> </tr> </thead> <tbody> <tr> <td data-bbox="674 699 1016 831">• 18</td> <td data-bbox="1016 699 1359 831">• 2</td> <td data-bbox="1359 699 1702 831"> <ul style="list-style-type: none"> <li>• 2 Direct Participants</li> <li>• 2 Technical Access*</li> </ul> </td> <td data-bbox="1702 699 2042 831">• 26</td> </tr> </tbody> </table> <p style="text-align: center;"><i>Post-submission note</i></p> <p>* Barclays participated directly through two operational flows ahead of legal separation under ring-fencing requirements from July 2017. The same circumstances applied for HSBC from September 2017.</p>	<i>Expressions of interest</i>	<i>Signed letters of intent</i>	<i>New members during reporting period</i>	<i>No. of participants</i>	• 18	• 2	<ul style="list-style-type: none"> <li>• 2 Direct Participants</li> <li>• 2 Technical Access*</li> </ul>	• 26
<i>Expressions of interest</i>	<i>Signed letters of intent</i>	<i>New members during reporting period</i>	<i>No. of participants</i>						
• 18	• 2	<ul style="list-style-type: none"> <li>• 2 Direct Participants</li> <li>• 2 Technical Access*</li> </ul>	• 26						
II) Confidential information on demand for access.	Please complete the table at <b>confidential annex 1</b> . This information will not be published.								
<b>c) Details of all occasions in the <u>2016/17</u> period when an enquiry or objection regarding potential changes to the access requirements has been made to the operator and details of the operator's response to, and outcome of, such enquiry or objection.</b>									
I) Number of enquires made to change access requirements	<b><u>CHAPS Co response</u></b>								

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	As at the date of this report, the Company is not aware of any objections or enquiries about changes to the access requirements (being Rule 2.1 of the CHAPS Rules).
<i>II) Please provide a general explanation of the process that is followed to deal with these enquires.</i>	<p><b><u>CHAPS Co response</u></b></p> <ul style="list-style-type: none"> <li>As the Company's access requirements are enshrined in the CHAPS Rules (CHAPS Reference Manual, Chapter II, CHAPS Rules) should the need for any changes arise, the Company would (subject to the specific circumstances) issue a formal consultation to its Direct Participants, Onboarding Participants (including where appropriate any prospective Participants that are not yet Onboarding as a Direct Participant but who have expressed an interest to do so), the Bank of England and the PSR, and where appropriate members of the Service User Group to ensure that the Company has consulted with necessary and desirable stakeholders to effect and implement a change to its access requirements.</li> <li>Any queries on the Company's access requirements, whether queries are unsolicited or in response to a consultation exercise, or otherwise would be received by or forwarded to the CHAPS Legal &amp; Regulatory Affairs in the first instance.</li> </ul>
<i>III) Number of objections made to any proposed changes</i>	None received.
<i>IV) Please provide a general explanation of the process that is followed to deal with these objections.</i>	<p><b><u>CHAPS Co response</u></b></p> <ul style="list-style-type: none"> <li>Should any objections arise out of a change or proposed change to our access requirements, whether as a result of a consultation exercise or otherwise would be received by or forwarded to the CHAPS Legal &amp; Regulatory Affairs in the first instance.</li> </ul>
<i>V) Confidential information on enquiries and objections.</i>	<p>Please complete the table at <b>confidential annex 2</b>. This information will not be published.</p> <p><b><u>CHAPS Co response</u></b></p>

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	None received.
<b>d) Details of all occasions in the 2016/17 period when the operator has engaged with, and considered, the views of payment service providers and other interested parties on the operation and effectiveness of its access requirements.</b>	
<i>I) Confidential information on views express relating to the operation and effectiveness of the access requirements.</i>	<p>Please complete the table at <b>confidential annex 3</b>. This information will not be published.</p> <p><b><u>CHAPS Co response</u></b></p> <p>The Company has not received any specific feedback on the operation or effectiveness of the access requirements however, if any feedback was received, it would be immediately escalated to the Company's Governance, Audit and Compliance Committee to review and address as a priority.</p>
<b>e) Details of any anticipated operator review, or engagement with payment service providers and other interested parties, that the operator plans to take over the following 12-month period in relation to its access requirements.</b>	
<i>If you have work <b>on-going</b> reviewing your access requirements please include a description of that work. You should explain the aim of the work (and how it related to the GD2 obligation), the progress that has been made to date, the way in which stakeholders have informed the work and the expected completion date.</i>	<p><b><u>CHAPS Co response</u></b></p> <p>Notwithstanding the transition that is taking place due to the Bank's blueprint publication for a new RTGS service for the United Kingdom, as this report identifies in previous sections, CHAPS Co has undertaken assessments of its criteria to ensure it continues to be transparent and fair in accommodating new entrants seeking to onboard using Aggregators and Cloud Technology, Non-Bank Payment Service Providers, Structural Reform and also for those entrants who are currently going through Mobilisation.</p>
<i>If you are <b>planning</b> to review your access requirements in the next 12 months please include a description of the planned work. You should explain the aim of the work (and how it related to the GD2 obligation), the way in which stakeholders will be engaged in</i>	<p><b><u>CHAPS Co response</u></b></p> <p>Any access requirement reviews planned in the next 12 months will form part of the Bank's transformation programme.</p>

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<p><i>the work, the planned stages of the project and the expected completion date.</i></p>	
<p><b>f) Details of any anticipated future developments that the <i>operator</i> considers may require or justify material updates or changes to its <i>access requirements</i>.</b></p>	
<p>Please provide an explanation of the anticipated future external developments you have identified.</p>	<p><b><u>CHAPS Co response</u></b></p> <p>Notwithstanding the transition that is taking place due to the Bank’s blueprint publication for a new RTGS service for the United Kingdom, as this report identifies in previous sections, CHAPS Co has undertaken assessments of its criteria to ensure it continues to be transparent and fair in accommodating new entrants seeking to onboard using Aggregators and Cloud Technology, Non-Bank Payment Service Providers, Structural Reform and also for those entrants who are currently going through Mobilisation.</p>
<p>Please provide an explanation of how any of these developments could have an impact on your access requirements.</p>	<p><b><u>CHAPS Co response</u></b></p> <p>Any access requirement reviews planned in the next 12 months will form part of the Bank’s transformation programme.</p>

## Form C - General Direction 4

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Please complete the form below, ensuring that you respond to each section of the paper. The **main headings** relate to the reporting requirements of general direction 4 (4.2, a-c). The *sub-headings* provide you with guidance on the information that we would like you to provide in order to meet the reporting requirements.

### *Post-submission note*

*Responsibility for the operation of the CHAPS payment system transferred to the Bank of England on 13 November 2017. The governance arrangements for CHAPS changed significantly from the point of transfer. General Directions 4 does not apply to the Bank.*

*On service-user interests, the Bank is committed to giving an appropriate voice to users of CHAPS. A Strategic Advisory Forum will be established for senior user representatives, and the Service User Group will continue. The Bank will engage with Direct Participants one-to-one on a regular basis. The Bank is continuing to hold a Technical & Operations Committee for all Direct Participants, supported by a number of working groups.*

*The Bank will have regard to the importance of fostering competition and innovation, where doing so can be achieved without threatening financial stability. The new arrangements should provide users with a materially more direct line of communication with the Bank, for day-to-day operations, system development, and operational incident management.*

*Information about how the Bank will engage with users, including through the Strategic Advisory Forum and a Service User Group can be found on the Bank's website. <https://www.bankofengland.co.uk/payment-and-settlement/chaps>*

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a) self-assessment by the <i>operator</i> on compliance of the representation of the interests of service users in the operators governing body's decision making process throughout <u>2016/17</u>	
<p>I) Please provide a statement as to whether you consider that you have complied with the obligation in Direction 4.1.</p> <p>You should cross reference a statement of compliance from your responsible director.</p>	<p><b><u>CHAPS Co response</u></b></p> <ul style="list-style-type: none"> <li>▪ CHAPS Co believes that it has appropriate representation of the interests of service-users in the operator's governing body's decision-making processes.</li> </ul>
<p>II) Please provide us with an explanation and evidence of why you consider that your governance arrangements and internal processes mean that there is appropriate representation of the interests of service-users in the operator's governing body's decision-making processes.</p>	<p><b><u>CHAPS Co response</u></b></p> <ul style="list-style-type: none"> <li>▪ The primary justifications for this statement are that:</li> <li>▪ The Board of the company includes individuals whose employing organisations are Participants in and users of the CHAPS system.</li> <li>▪ The Board of the company now includes 5 independent non-executive directors with public interest responsibilities (3 were appointed in 2013 and a further 2 were appointed in September 2016). The Company's Articles of Association define public interest as follows:</li> <li>▪ <i>" in considering whether a matter concerns the public interest, a matter concerning the Company, CHAPS and the payments industry for the long term benefit of the United Kingdom, its citizens and businesses as a whole with particular emphasis on the customer needs, competition, innovation, reducing barriers to entry in the payments industry and limiting systemic risk, as determined in accordance with Article □"</i></li> <li>▪ <i>Article 33.6 states:</i></li> <li>▪ <i>"Where a resolution proposed at a meeting of the Board relates to a matter concerning the Public Interest, such resolution shall not be passed nor any decision implemented unless a majority of Independent Director votes in favour of such resolution. For these purposes, a matter shall be deemed to concern the Public Interest if so deemed by the Chairman".</i></li> </ul>

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	<ul style="list-style-type: none"> <li>▪ The two independent director appointments in 2016 significantly enhanced the governance of the Company. One appointment was made to fulfil the important role of a senior independent director and the other to be chair of the Service User Group.</li> <li>▪ The Board of the Company is chaired by one of the independent directors. All of the non-operational Board committees are chaired by independent directors. Currently these are:             <ul style="list-style-type: none"> <li>▪ Appointments/Remuneration Committee</li> <li>▪ Strategy &amp; Finance Committee</li> <li>▪ Governance, Compliance &amp; Audit Committee</li> <li>▪ Risk Committee</li> <li>▪ Security Committee</li> </ul> </li> <li>▪ CHAPS Co has a Service User Group. This provides a balance of executive and independent non-executive experience to ensure the interests of relevant parties are collated and addressed.</li> <li>▪ The composition of the Service User Group is broadly based and reflects every segment of the CHAPS user community.</li> <li>▪ Feedback from the Service User Group is provided directly to the Board.</li> <li>▪ Organisations represented in the Service User Group can be found in the Confidential Annex to this report.</li> <li>▪ The Company has identified 7 User Segments – FMIs, Government, Wholesale Interbank, Treasury Operations, Business to Business, Housing Market and Individuals.</li> <li>▪ The Board informs itself through the direct representation of its primary service users on the Board of the Company, engagement with the Service User Group, by receiving reports and updates from the Service User Group and through input by Executive Management, who are actively engaged in the industry and speak to users.</li> <li>▪ The Company informs itself by engagement with its suppliers, its service users, by the proactive establishment and maintenance of the Service User Group, with relevant trade associations and in the wider payments industry.</li> </ul>
<p><i>III) Please explain the process</i></p>	

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<p><i>that you have in place to collect service users' views (eg forms/user groups, surveys and research, meetings and request, consultation).</i></p>	<p><b><u>CHAPS Co response</u></b></p> <p>Please see above.</p>
<p><i>IV) Please explain the process that you have in place to ensure these views are represented at board level (eg INED, service users represented on the board, board sub-committees)</i></p>	<p><b><u>CHAPS Co response</u></b></p> <p>Please see above.</p>
<p><i>V) Please explain the process that you have in place to ensure that service users get general and specific feedback from the board and understand the rationale for the board's decisions.</i></p>	<p><b><u>CHAPS Co response</u></b></p> <p>Please see above.</p>
<p><i>VII) Please highlight any changes that have been made to your governance arrangements and internal processes over the relevant period. Where changes have been made, please explain how they better meet the obligation in General Direction 4.1.</i></p>	<p><b><u>CHAPS Co response</u></b></p> <p>Please see above.</p>
<p><b>b) Details of all occasions in <u>2016/17</u> when the operator has engaged with, and considered, the views of service-users (including indirect payment service providers) and other interested parties on the effectiveness of the representation of the interests of service-users in its decision-making processes of its governing body.</b></p>	



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<p>I) Confidential information on engagement with service-users.</p>	<p>Please complete the table at <b>confidential annex 4</b>. This information will not be published.</p>
<p><b>c) details of any anticipated review, or engagement with service-users (including indirect payment service providers) and other interested parties, that the operator plans to take over the following 12-month period in the representation of the interests of service-users in its decision-making processes of its governing body.</b></p>	
<p>If you have <b>on-going</b> work reviewing or changing your engagement with service users please include a description of that work. You should explain the aim of the work (and how it related to the GD4 obligation and any relevant concerns or focus areas we have identified), the progress that has been made to date, the way in which stakeholders have informed the work and the expected completion date.</p>	<p><b><u>CHAPS Co response</u></b></p> <p>Please see the post submission note at the beginning of Form C.</p>
<p>If you are <b>planning</b> to review or change your engagement with service users in the next 12 months please include a description of the planned work. You should explain the aim of the work (and how it related to the GD4 obligation), the way in which stakeholders will be engaged in the work, the planned stages of the project and the expected completion date.</p>	<p><b><u>CHAPS Co response</u></b></p> <p>Please see the post submission note at the beginning of Form C.</p>

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