

General Directions 2 and 4
CHAPS Clearing Company Limited
Access and Governance Compliance Report 2016

CHAPS Co Compliance Report

- General Direction 2
- General Direction 4

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Form A - General Direction 2

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.

a) Self-assessment by the operator on compliance of its access requirements with the obligation in Direction 2.1 throughout the relevant period. <i>An operator of a regulated payment system which is not a PSR 2009 payment system or Northern Ireland Cheque Clearing must have objective, risk-based and publicly disclosed access requirements which permit fair and open access to the regulated payment system.</i>	
<p><i>I) Please provide a statement as to whether you consider that you have complied with the obligation in Direction 2.1 throughout the relevant period.</i></p> <p><i>You should cross-refer to a statement of compliance from a responsible person in this regard.</i></p>	<ul style="list-style-type: none"> ▪ 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>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>[X].</p>
<p><i>II) Please provide us with an explanation and evidence as to why you consider that your access requirements comply with General Direction 2.1.</i></p>	<ul style="list-style-type: none"> ▪ 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. <p>CHAPS Co’s access requirements – CHAPS Rules</p> <ul style="list-style-type: none"> ▪ At the date of submission of this Report, CHAPS Co’s access requirements are contained in the CHAPS Rules and are as follows: <p><u>As extracted from the CHAPS Rules (v13):</u></p> <ul style="list-style-type: none"> ▪ 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;

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- 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;
- pay a single entrance fee as determined by the Board from time to time when first becoming a Member of the CHAPS System. Such entrance fee is to be based on the cost of technical implementation;
- 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; and
- pay its Contingency Reserve Amount.

CHAPS Co's access requirements' compliance with the obligations in General Direction 2.1

- 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 access requirements which permit fair and open access to the regulated payment system”

All access requirements and assessment of objectiveness and public disclosure

Objective

- 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.

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	<p><i>Publically disclosed</i></p> <ul style="list-style-type: none">▪ The eligibility criteria for direct CHAPS participation are set out in the CHAPS Rules¹ 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 set out therein on its website, prospective and existing Participants are permitted fair and open access to the CHAPS System by ensuring that the access requirements are transparent and accessible to all. <p><u>Risk-based access requirements</u></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">▪ Participants are required to hold a sterling Settlement 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").▪ The requirement to hold a sterling Settlement Account enabling settlement of CHAPS payment obligations in central bank money benefits by minimising credit and liquidity risk. <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">▪ 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.▪ CHAPS Co 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).▪ Designation under the Settlement Finality Regulations provides 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
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¹ Confidential Annex, Appendix of Evidence, item 3. 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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the event of insolvency of a participant. This ensures that settlement of all payments within the CHAPS System, is final and irrevocable and underpinned by statute.

Access requirements to “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”

- 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 is set out in the new CHAPS Reference Manual (further details about the CHAPS Reference Manual are detailed below).
- Whilst the CHAPS Reference Manual itself is not due to become formally effective until Q1 2017, the Company adopted and has implemented the PCM from 2014 and continues to apply this model to all existing and new CHAPS participants.
- The PCM 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.

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For those CHAPS participants who are categorised as Category 2 or 3, only a subset of the requirements in the CHAPS Reference Manual apply.

- 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 less onerous requirements which in turn should support easier risk-based access and continued participation in the payment system.

Access requirement to “be a shareholder of the Company”

- This criterion provides a corporate governance mechanism that maintains the credibility and effective functioning of the payment system by ensuring that all key stakeholders have strategic visibility on performance and risk.
- Further, as a condition to the designation of CHAPS under the Settlement Finality Regulations, the Company is required to satisfy the Bank of England (as designating authority) that it has “financial resources sufficient for the proper performance of its functions as a system operator”. The criterion to be a shareholder of the Company which entails shareholder contribution to the costs, liabilities and expenses of the Company is a reasonable and appropriate risk-related requirement on this basis and with regard to the current position of the Company and its system.

Access requirement to pay a single entrance fee as determined by the Board from time to time 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 costs incurred by joining Participants in relation to onboarding project, technical management and costs associated with obtaining an independent legal opinion. Any costs incurred are done on a recovery only basis. This criterion is a risk-based as it ensures the continued efficient and effective operation of the payment system through cost controls which ensure that these costs are not passed to other existing Participants.

Access requirement to, 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

- This criterion provides the Company with a high degree of certainty that Participants will, inter alia, be able to fulfil their

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corporate, regulatory and contractual obligations as CHAPS Participants on a timely basis, and provide comfort that their relevant jurisdiction recognises and supports the protections afforded to the CHAPS System under its contractual and statutory framework (including those relating to settlement finality).

Access requirement to pay its Contingency Reserve Amount

- 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.

Further items supporting CHAPS Co's compliance with GD2.1

CHAPS Reference Manual

Background

- The Participant Categorisation Model is contained in the CHAPS Reference Manual which is due to go live in Q1 2017. 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.
- As with the current CHAPS Rules document, the Company has also already published a draft version of the CHAPS

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Reference Manual on the Company's website ahead of its effective date to support the Company's compliance with GD 2.1 and the CPMI-IOSCO Principles (in particular Principle 1: the requirement for FMIs to have a clear and transparent legal basis) enabling full transparency on the rules and requirements for participating in the CHAPS payment system directly, and provides the opportunity for any interested stakeholder to comment.

- 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.
- 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 and

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- The Company has worked extensively to ensure that the CHAPS Reference Manual facilitates clear, open and transparent access to CHAPS Co's access requirements. [X].
- Prior to publication of the CHAPS Reference Manual on the CHAPS Co website, the Company consulted with Direct Participants, Onboarding Participants, the Bank of England and the PSR, all of whom were invited to comment.
- It is important and the Company is pleased to note that of the 500+ comments received from respondents, that there were no comments relating to, querying or objecting to CHAPS Co's access requirements.
- Notwithstanding this, the CHAPS Reference Manual has also had the benefit of external legal review², including a high level review to ensure that there were no obvious failures to comply with the PSR regime under Part 5 of FSBA and therefore no misalignment with the PSR's key objectives in that respect. [X]

² Confidential Annex, Appendix of Evidence, item 7

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	<ul style="list-style-type: none"> ▪ The CHAPS Reference Manual has been presented upon and updates given at Service User Groups to ensure that the Company is able to reach a wider stakeholder base when communicating the updated documentation in which our access requirements are contained. ▪ [§<].
<p><i>III) Please highlight any changes that have been made to the access requirements over the relevant period. 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><u>Changes to access requirements over the relevant period</u></p> <ul style="list-style-type: none"> ▪ As mentioned and explained earlier in this 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 publication of the CHAPS Reference Manual on the CHAPS Co website significantly increases 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 the 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. <p>Further changes currently under review</p> <ul style="list-style-type: none"> ▪ The Company is pleased that the Bank of England have, in the course of their strategic review³, been examining alternative solutions and settlement models to facilitate more open access to Settlement Accounts that are intrinsically linked to direct participation in CHAPS and other payment systems⁴. ▪ The Company, in conjunction with the PSR is considering whether any of its existing criteria would need to change in order to allow non-bank PSPs ("Payment Service Providers") to participate in the CHAPS system. [§<]. ▪ The Bank of England has announced that in order to facilitate more open access it will make Settlement Accounts available to Payment Service Providers and when doing so, the definition of 'participants' in the Financial Markets and

³ <http://www.bankofengland.co.uk/markets/Pages/paymentsystem/strategy.aspx>

⁴ Currently at the time of submitting this report, Settlement Accounts are not available to non-bank PSPs.

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Insolvency (Settlement Finality) Regulations 1999 (the “Settlement Finality Regulations”) will be extended to Payment Service Providers. The Settlement Finality Regulations afford certain UK designated systems such as CHAPS, specific protection from the operation of the standard insolvency laws in England and Wales.

- This represents a significant step in opening up access to UK payment systems such as CHAPS and the Company looks forward to continuing to work with the Bank of England in support of their strategic review as well as continuing to engage with the PSR to ensure that the Company can, where able, support any policy adopted by the PSR to enable non-bank PSPs to access the CHAPS System.

Focus Area: Onboarding

- CHAPS Co noted in particular that a **focus area** of the PSR, as set out in the report on Access and Governance by the PSR in December 2015, was to ensure that Payment System Operators’ onboarding processes are:

“clear and well-defined joining processes. Operators also need to identify areas that could be streamlined or made consistent across participants including taking steps to manage new joiners, including those seeking to join as a result of structural reform legislation”⁵.

Onboarding Handbook and CHAPS Onboarding Team

- CHAPS Co has recruited a Head of Onboarding, an Onboarding Project Manager [redacted].
- [redacted].
- [redacted].
- CHAPS Co has introduced an Onboarding Handbook that is intended to cover the onboarding of all participants, irrespective of their reason for joining (i.e. as a result of a strategic or business decision, from the result of legislation on structural reform or who join as a result of the Company’s Tiering Criteria⁶⁷). [redacted].

⁵ PSR, Access and Governance Report, December 2015

⁶ Confidential Annex, Appendix of Evidence, item 8

⁷ The Tiering Criteria seeks to manage the credit, liquidity and operational risks resulting from tiered participant by obliging indirect participants that are systemically important to the CHAPS system in terms of the total value of the payments that they send and receive such that financial stability would be enhanced by their direct participation.

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	<ul style="list-style-type: none">▪ Once an interested party has entered into a Non Disclosure Agreement with the Company, CHAPS Co shares its Onboarding documentation which includes the Onboarding Handbook as part of the exercise to assess an Onboarding Participants' readiness to join as a Direct Participant.▪ The development by the Company of its Onboarding team and related documentation assisting with ensuring that the Company remains ahead of the demand for direct participation in the CHAPS System and in continuing to support greater access to the CHAPS System.▪ In addition to the Onboarding Handbook, the Company has also revised the accompanying suite of procedural documentation⁸ which assists Onboarding Participants with understanding their obligations and requirements as a system participant.▪ [X].▪ [X].▪ The process of assessing a Prospective Participants' readiness assists with fair and open access by ensuring that those Prospective Participants who are in advanced stages of readiness are able to achieve Direct Participant status as soon as practicably possible, whilst those Prospective Participants who are not as advanced may clearly understand the steps needed to achieve a state of readiness and enlist any necessary assistance from CHAPS Co. <p>Common and consistent payment system operator participation model and rules</p> <ul style="list-style-type: none">▪ The Company is also a member of ISOCC, the Interbank System Operators Coordination Committee, who are working together on a cross-payment system operators' basis to simplify the onboarding process, terminology and assurance process, to streamline and improve the onboarding journey for those Prospective Participants who may wish to join more than one of the payment systems.▪ The Interbank System Operators' Coordination Committee members, with LINK and Paym have initiated a project to address the ten detriments⁹ identified by the PSF's Simplified Access to Markets Working Group. The project is funded by
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⁸ Confidential Annex, Appendix of Evidence, item 9

⁹ 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 Schemes and a Project Manager has been appointed. A stakeholder group of new challenger and existing PSPs has been assembled who are providing guidance and reviewing output to ensure it is fit for purpose. This group has agreed the principles to be used to create the output. The project is working on the following detriments; common terminology, eligibility criteria, Scheme comparisons and the categorisation of Participants, for the remainder of 2016. This will allow time to organise the work of the more complex detriments in 2017. During 2017 the Common and Consistent Payment System Operator Participation Model and Rules Project will be tackling the more complex detriments of engagement, onboarding documents, assurance and rules. This work will need to consider the recently announced governance changes for the Payment Scheme Operators to ensure goal congruence and efficient implementation. Central Project funding is being secured with the ISOCC members and LINK for 2017.

Expressions of Interest

- The Expressions of Interest Tracker¹⁰ is an internal tool used by CHAPS Co to track expressions of interest from prospective participants. With respect to Expressions of Interest received, CHAPS Co's data (set out in anonymised numerical form in the table below) shows continued demand from organisations interested in participating in the CHAPS system directly.
- In response to that demand, CHAPS Co, in liaison with the Bank of England has been able to increase the number of slots¹¹ available for Onboarding Participants to join as Direct Participants in 2018. The Company and the Bank of England continue to assess the demand for direct participation and the corresponding availability of slots.
- [REDACTED].

Service User Group ("SUG")

- The Company has devised a series of introductory meetings for all prospective participants who meet wholly or in material part the Eligibility Requirements (as set out in Rule 2.1 of the current CHAPS Rules) to understand the Onboarding Process and timeframes in which direct participation can be achieved. These meetings are detailed in the Onboarding Handbook and were presented by way of slides to the PSR and prospective participants at the Service User Group in July 2016¹².

¹⁰ Confidential Annex, Appendix of Evidence, item 16

¹¹ Confidential Annex, Appendix of Evidence, item 17

¹² Confidential Annex, Appendix of Evidence, item 18

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	<ul style="list-style-type: none"> ▪ The Service User Group was held on 4th July 2016 at CHAPS Co offices and to which the PSR were invited and who kindly attended, by Paul Smith of the PSR who presented at the event. The Service User Group was held on 4th July 2016 at CHAPS Co offices and to which the PSR were invited and who kindly attended, by Paul Smith of the PSR who presented at the event in relation to CHAPS Co's work on access and to support the objective of the Service User Group in holding informed discussions about access. ▪ Fuller details of the SUG, its objective, the composition and feedback from attendees is discussed in further detail in GD 2.1 Question (d) of this Report.
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b) Details of all occasions in the relevant 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.

<p><i>I) Information for publication on expressions of interest and demand for access.</i></p>	<p><i>Complete the following table. Data should be correct as at 30 September 2016.</i></p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th style="width: 25%;"><i>Number of Expressions of interest</i> <i>(these includes parties who have expressed an interest during the reporting period)</i></th> <th style="width: 25%;"><i>Number of signed letters of intent</i> <i>(with agreed dates for onboarding as a Direct Participant)</i></th> <th style="width: 25%;"><i>Number of new members/Direct Participants who were onboarded during the reporting period</i></th> <th style="width: 25%;"><i>Number of members/Direct Participants at the date of this report</i></th> </tr> </thead> <tbody> <tr> <td>▪ 23</td> <td>▪ 9</td> <td>▪ 2</td> <td>▪ 24</td> </tr> </tbody> </table> <p><i>Expressions of interest could be expected to include: written communications or verbal notifications (where the interested party has made contact).</i></p>	<i>Number of Expressions of interest</i> <i>(these includes parties who have expressed an interest during the reporting period)</i>	<i>Number of signed letters of intent</i> <i>(with agreed dates for onboarding as a Direct Participant)</i>	<i>Number of new members/Direct Participants who were onboarded during the reporting period</i>	<i>Number of members/Direct Participants at the date of this report</i>	▪ 23	▪ 9	▪ 2	▪ 24
<i>Number of Expressions of interest</i> <i>(these includes parties who have expressed an interest during the reporting period)</i>	<i>Number of signed letters of intent</i> <i>(with agreed dates for onboarding as a Direct Participant)</i>	<i>Number of new members/Direct Participants who were onboarded during the reporting period</i>	<i>Number of members/Direct Participants at the date of this report</i>						
▪ 23	▪ 9	▪ 2	▪ 24						

<p><i>II) Confidential information on demand for access.</i></p>	<p><i>Please complete the table at confidential annex 1. This information will not be published.</i></p> <ul style="list-style-type: none"> ▪ [X].
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c) Details of all occasions in the relevant 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.

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<p>I) Specify the number of enquiries made in relation to change access requirements</p>	<ul style="list-style-type: none"> ▪ 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). <p>[X].</p>
<p>II) Please provide a general explanation of the process you follow in dealing with these enquiries.</p>	<ul style="list-style-type: none"> ▪ [X]. ▪ As the Company's access requirements are enshrined in the CHAPS Rules (and from February 2017, will be enshrined in the 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. [X]. ▪ 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 & Regulatory Affairs in the first instance. [X]. ▪ [X].
<p>III) Specify the number of objections made to any proposed changes</p>	<ul style="list-style-type: none"> ▪ None received.
<p>IV) Provide a general explanation of the process that is followed to deal with these objections.</p>	<ul style="list-style-type: none"> ▪ 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 & Regulatory Affairs in the first instance. [X]. ▪ [X]. ▪ [X].
<p>V) Confidential information on enquiries and objections.</p>	<p>Please complete the table at confidential annex 2. This information will not be published.</p> <p>None received.</p>

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d) Details of all occasions in the relevant 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.	
<p><i>I) Please provide a general explanation of the process you follow to engage with interested parties.</i></p>	<ul style="list-style-type: none"> ▪ Any engagement relating to CHAPS Co's access requirements, whether as a result of a consultation exercise or otherwise would be received by or forwarded to the CHAPS Legal & Regulatory Affairs in the first instance. [§]. ▪ [§]. ▪ Additionally the Company utilises the Service User Group forum, last held in July 2016, as a primary means to engage with interested parties. Access is open to all and is underpinned by the SUG presence on the Company's website, a dedicated email address for interested parties to utilise and the SUG's terms of reference found at http://www.chapsco.co.uk/governance/chaps-service-user-group/participate-chaps-co-service-user-group. ▪ The Company's most recent SUG specifically addressed access to the CHAPS System and attendees were invited to provide feedback in response to a questionnaire¹³ specifically querying their views, if any and if desired anonymously, on access to the CHAPS System. Whilst general feedback was provided, there were no concerns or views raised about the Company's access requirements. Notwithstanding this, the Company continues to explore ways to gather feedback from the SUG, for example, by the Company's recent appointment a fourth Independent Director¹⁴ (INED), whose primary remit will include the assessment and actions arising from feedback from the SUG, continued strategic development of the SUG and related service-user engagement initiatives. The fourth INED's objectives will also include exploring new methods of engagement. ▪ The Company continues to explore engagement models that support the widening of access including, for example engagement with aggregators (operating platforms for payments), to discuss their aggregator models both in terms of widening access but also ways to innovatively support those participant types once on boarded. The attributes of the organisations with which CHAPS Co are having discussions on direct CHAPS participation continue to become more diverse and led to the Company's onboarding plans to becoming wider and more dynamic enabling the onboarding of challenger banks, small technology institutions in addition to larger more traditional bank institutions.
<p><i>II) Confidential information on views expressed relating to the operation and effectiveness of the access requirements.</i></p>	<p><i>Please complete the table at confidential annex 3. This information will not be published.</i></p> <ul style="list-style-type: none"> ▪ The Company has not received any specific feedback on the operation or effectiveness of the access requirements

¹³ Confidential Annex, Appendix of Evidence, item 21

¹⁴ Confidential Annex, Appendix of Evidence, item 22

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	<p>however, if any feedback was received, it would be immediately escalated to Governance and Compliance Committee and reviewed as a priority.</p>
<p>e) Details of any anticipated <i>operator</i> review, or engagement with <i>payment service providers</i> and other interested parties, that the <i>operator</i> plans to take over the following 12-month period in relation to its <i>access requirements</i>.</p>	
<p><i>If you are currently 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 of the work and the expected completion date.</i></p>	<p><u>Service User Group (“SUG”)</u></p> <ul style="list-style-type: none"> ▪ The Company will continue to utilise the SUG to collate any and all feedback relating to access requirements, with automatic feedback to Board¹⁵. ▪ [X]. ▪ As at the date of this compliance report , and as per our email sent to the PSR on 28th October 2016, the Company does not feel that it is appropriate or necessary for the Company to modify its access requirements. Should future analysis indicate otherwise, then the Company will approach the same in consultation with identified stakeholders, which will include: <ul style="list-style-type: none"> - the PSR and the Bank of England, - CHAPS Co Board (including Independent Directors) - CHAPS payment system Direct Participants, and - CHAPS payment system prospective Participants
<p><i>If you are planning 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 the work, the planned stages of the project and the expected</i></p>	<ul style="list-style-type: none"> ▪ See above. ▪ Notwithstanding the outcome of the Bank of England’s strategic review or any independent assessment that the Company receives with respect to its access criteria, the Company will continue to explore ways in which stakeholders can become engaged with respect to any access initiatives including through: <ul style="list-style-type: none"> ▪ Collating and reviewing feedback on the SUG (and such feedback, where not confidential, to be posted on the Company website),

¹⁵ Confidential Annex, Appendix of Evidence, item 23

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<p><i>completion date.</i></p>	<ul style="list-style-type: none"> ▪ Continued representation of SUG topics, including access, to be fed directly to Board by the fourth INED, ▪ Any information or feedback that the Onboarding Team gathers from engagement with prospective participants, including main concerns about accessing the CHAPS payment system, and ▪ The escalation of any findings from the above (or any other) engagement to be forwarded to both the Independent Director (who will also be the Chair of the SUG) and GCC as appropriate with a view to assisting the Company and its Executive Management Team with taking the appropriate action in conjunction with the Company's regulators to continue to support fair and open access to the CHAPS System. <p>PSR teach-ins and Bank of England engagement on access for non-bank PSPs</p> <ul style="list-style-type: none"> ▪ The Company has engaged with the PSR on a plan to assist PSPs that have approached the PSR, on understanding CHAPS Co's access requirements in particular its legal, technical and operational framework. This exercise will be to assist PSPs with deciding on whether direct participation is appropriate for them, and if so, assisting them by embarking them upon the onboarding process including assessing their state of readiness and helping them set a timeframe by which they wish and CHAPS Co can assist upon direct participation to become effective. ▪ The Company will continue to work closely with the Bank of England and the PSR to effect any changes necessary to the Company's access requirements to facilitate access to the CHAPS System by PSPs.
<p>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>. (N.B. please note the guidance provided at 2.5 in the General Direction)</p>	
<p>Please provide an explanation of the anticipated future external developments you have identified.</p>	<p><u>Potential changes arising from the Bank of England strategic review and current PSR engagement</u></p> <ul style="list-style-type: none"> ▪ Any review of the Company's access requirements will be in line with the outcome of the Bank of England's strategic review which the Company, having liaised with both the BoE and the PSR, is confident will result in positive outcomes for PSPs in supporting more fair and open access to the CHAPS System. ▪ The Company has responded to a request from the PSR on determining what changes might need to be made to its access requirements to enable and support any outcome from the Bank of England's strategic review and/or any policy adopted by the PSR for enabling access to the CHAPS System by non-banks. ▪ The Company will accordingly engage with the PSR and the Bank of England, its current Direct Participants and

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	<p>prospective participants on any changes to its access requirements.</p> <p><u>Ring-fencing related amendments</u></p> <ul style="list-style-type: none"> ▪ A number of CHAPS Co Direct Participants fall under the ring fencing regime, as introduced with the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014, and are, therefore, required to make all the necessary arrangements in order to comply with the respective ring-fencing requirements by 1 January 2019. ▪ In order to facilitate <i>the affected Direct Participants</i> with testing the operational robustness and efficiency of the group settlement arrangements that are intended to apply once a Ring-Fenced body ('RFB') within the group commences its core services on and from 1 January 2019, the Company intends to introduce a separate Annex to the current CHAPS Rules. ▪ The separate Annex will describe a set of additional operational requirements that the <i>affected Direct Participants</i> will need to comply with in order to operate within the CHAPS System during the testing period (the period prior to 1 January 2019, during which the <i>affected Direct Participants</i> would be preparing for the transition to the ring fencing regime). Currently, there is no scope for the introduction of any additional access requirements and the separate Annex will be removed post the <i>affected Direct Participants'</i> compliance with the ring fencing regime. <p><u>PSR Consultation Paper CP 16/4 - Draft guidance on our approach to handling applications under sections 56 and 57 FSBRA.</u></p> <ul style="list-style-type: none"> ▪ The Company has provided its input to the afore-mentioned Consultation. Should GD2 and/or GD4 be amended as a result of the outcome of the Consultation, the Company may have to re-assess its current access requirements in consultation with the PSR and the Bank of England.
<p>Please provide an explanation of how any of these developments could have an impact on your access requirements.</p>	<p><u>Potential changes arising from the Bank of England strategic review and current PSR engagement</u></p> <ul style="list-style-type: none"> ▪ The Company welcomes the Bank of England's strategic review and is confident of a positive outcome from the review for on opening up access to the CHAPS System for non-bank PSPs. <p><u>Ring-fencing related amendments</u></p> <ul style="list-style-type: none"> ▪ A number of CHAPS Co Direct Participants fall under the ring fencing regime, as introduced with the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014, and are, therefore, required to make all the necessary arrangements in order to comply with the respective ring-fencing requirements by 1 January 2019.

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	<ul style="list-style-type: none">▪ In order to facilitate <i>the affected Direct Participants</i> with testing the operational robustness and efficiency of the group settlement arrangements that are intended to apply once a RFB within the group commences its core services on and from 1 January 2019, the Company intends to introduce a separate Annex to the current CHAPS Rules. ▪ The separate Annex will describe a set of additional operational requirements that the <i>affected Direct Participants</i> will need to comply with in order to operate within the CHAPS System during the testing period (the period prior to 1 January 2019, during which the <i>affected Direct Participants</i> would be preparing for the transition to the ring fencing regime). Currently, there is no scope for the introduction of any additional access requirements and the separate Annex will be removed post the <i>affected Direct Participants'</i> compliance with the ring fencing regime.
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Form C - General Direction 4

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.

a) self-assessment by the <i>operator</i> on compliance throughout the relevant 12-month period with the obligation in General Direction 4.1 (requirement to ensure that there is appropriate representation of the interests of service-users in the operator's governing body's decision-making process).	
<p><i>I) Please provide a statement as to whether you consider that you have complied with the obligation in Direction 4.1.</i></p> <p><i>You should cross-refer to a statement of compliance from your responsible person.</i></p>	<ul style="list-style-type: none"> ▪ CHAPS Co believes that it has appropriate representation of the interests of service-users in the operator's governing body's decision-making processes. ▪ [X]
<p><i>II) Please provide us with an explanation and evidence as to 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.</i></p>	<ul style="list-style-type: none"> ▪ The primary justifications for this statement are that: ▪ The Board of the company includes individuals whose employing organisations are Participants in and users of the CHAPS system. ▪ 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: ▪ <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 33"</i> ▪ <i>Article 33.6 states:</i> ▪ <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>

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	<ul style="list-style-type: none">▪ The two recent independent director appointments will significantly enhance the governance of the Company. One appointment has been made to fulfil the important role of a senior independent director and the other to be chair of the Service User Group.▪ 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">▪ Appointments/Remuneration Committee▪ Audit & Finance Committee▪ Business & Strategy Committee▪ Governance & Compliance Committee▪ Risk Committee▪ Security Committee▪ The other Board Committee (Technical & Operations Committee) is chaired by a Participant nominated director with the appropriate knowledge and expertise.▪ CHAPS Co has a Service User Group that was initially chaired by the independent Board Chair and then another independent director. It is now chaired by one of the two new independent directors, specifically recruited for the role.▪ The composition of the Service User Group is broadly based and reflects every segment of the CHAPS user community.▪ Feedback from the Service User Group is provided directly to the Board.▪ Organisations represented in the Service User Group can be found in the Confidential Annex to this report¹⁶. They include Direct Participants, Onboarding Participants (including, where appropriate those prospective Participants who have expressed an interest in joining the CHAPS System directly), indirect participants and other interested parties.▪ The Company maintains its awareness of user needs through the analysis of multiple qualitative sources of information, including:<ul style="list-style-type: none">▪ Information from Direct Participants gained through their relationships with their Indirect Participants (tiering information),▪ Information provided by the new Chair of the Service User Group,
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¹⁶ Confidential Annex, Appendix of Evidence, item 24

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	<ul style="list-style-type: none"> ▪ Inviting feedback from onboarders on the onboarding process, and ▪ The knowledge and expertise Direct Participants bring to the Board and its Committee through their participation in the CHAPS Scheme. ▪ The Company has identified 7 User Segments – FMs, Government, Wholesale Interbank, Treasury Operations, Business to Business, Housing Market and Individuals. These are regularly monitored and analysed by the CHAPS Co Principal Advisor who also provides input into the CHAPS Market Report http://www.chapsco.co.uk/sites/default/files/chapsmarketreport2015.pdf ▪ 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. ▪ 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. ▪ The interests of service users were represented in a number of ways including the following: <ul style="list-style-type: none"> ▪ An Affiliate Group (now renamed the Service User Group) was set up in 2014, made up of service users, initially with a reporting line into the Company’s Business & Strategy Committee (it now reports directly to the Board) ▪ The Business & Strategy Committee is one of 7 Board Committees and is responsible for formulating company strategy ▪ The Board includes 5 Independent Directors, including the Chair, who, inter alia, have a responsibility (detailed in the Company’s Memorandum and Articles of Association) to represent the public interest ▪ The Board receives reports from all its Committees, including specific updates from Committee Chairs and the Chair of the Service User Group
<p><i>III) Please explain the process that you have in place to collect service users’ views (e.g. forms/user groups, surveys and research, meetings and request, consultation).</i></p>	<ul style="list-style-type: none"> ▪ The process we have in place to collect service users’ views includes obtaining feedback from all service users. ▪ Service User Group members were asked about the frequency of meetings and decided they wanted bi-annual meetings. ▪ Two way communication between the Service User Group and the Board in facilitated by the Chair being an independent director. Service users can contact CHAPS Co directly via the website and comments provided would be assessed by the Legal team, the Governance & Compliance Committee and the Chair of the Service User Group, for subsequent discussion at Board, if appropriate. To date, no specific comments have been received.
<p><i>IV) Please explain the process that you</i></p>	<ul style="list-style-type: none"> ▪ A new INED was appointed specifically to chair the Service User Group (and will be a chair/member of Board Committees).

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<p><i>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><i>Give examples of views that have been considered by the board and the outcome of that consideration.</i></p>	<ul style="list-style-type: none"> ▪ There is a standing item on Board meeting agendas specifically to allow the chair of the Service User Group to update the Board on all relevant matters. The number of Board meetings for 2017 has been increased and the Chair of the Service User Group will have the opportunity, at each Board meeting, to bring to the Board's attention any appropriate service-user related issues. ▪ [X]. ▪ Updates on the Service user Group were provided to the Board meetings held in April and July 2016. ▪ [X].
<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><i>Give examples of such feedback being provided.</i></p>	<ul style="list-style-type: none"> ▪ [X]. ▪ <u>Example - Extended Settlement Day (ESD)</u> ▪ In 2014 CHAPS Co participated in a consultation to consider whether to extend the CHAPS settlement day. The Bank of England formally consulted on the ideas and proposals relating to ESD and this process included the key user trade associations. ▪ The Participants of CHAPS were formally consulted on the ESD proposals by CHAPS Co and the benefits for users were specifically tested as part of that consultation. CHAPS Co set up a specific Working Group (made up of representatives from Direct Participants) to oversee the successful implementation of the ESD project. ▪ Throughout this process the Service User Group, who originally identified the desire to extend the CHAPS Co operating day, received presentations and updates from the Bank of England and CHAPS Co about the progress of the initiative. This will continue through to implementation and beyond. The ESD initiative was the subject of broadcast communication via the CHAPS Co and the Bank of England websites.
<p><i>VI) 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>	<ul style="list-style-type: none"> ▪ A significant change was the appointment of an additional INED in September 2016 specifically to chair the Service User Group. This will enhance the existing link between the Service User Group and the Board. Every Board meeting agenda contains a standing item for the Service User Group to be discussed. ▪ [X]. ▪ [X]. ▪ [X]. ▪ [X]. ▪ [X].

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<p><i>Please provide examples of how this service user representation is captured in the decisions of your board when performing its functions and duties.</i></p> <p><i>For example – How do you ensure that your strategy captures service-user needs?</i></p>	<ul style="list-style-type: none"> ▪ [§<]. ▪ [§<]. ▪ [§<].
<p>b) Details of all occasions in the relevant 12-month period 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.</p>	
<p><i>1) Confidential information on engagement with service-users.</i></p>	<p><i>Please complete the table at confidential annex 4. This information will not be published.</i></p>
<p>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.</p>	
<p><i>If you are currently 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 relates to the General Direction 4 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.</i></p>	<ul style="list-style-type: none"> ▪ The new Service User Group chair has the specific task of reviewing its effectiveness. He was appointed on 12th September 2016 and work on this is about to start. Areas of particular focus will include the need for increased access (including the logistics of onboarding payment service providers).
<p><i>If you are planning to review or change your engagement with service users in the</i></p>	<ul style="list-style-type: none"> ▪ Please see above.

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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 General Direction 4 obligation), the way in which stakeholders will be engaged in the work, the planned stages of the project and the expected completion date.

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