

Meeting name BSC Panel

Date of meeting 9 November 2007

Paper Title ASSESSMENT REPORT FOR MODIFICATION PROPOSAL P214 'ISSUES RELATING TO FUNDS ADMINISTRATION'

Purpose of Paper For Decision

1. PROPOSED MODIFICATION

- 1.1. The Proposed Modification seeks to amend the Balancing and Settlement Code ('the Code') to update funds administration procedures that give rise to the inefficient processing of transactions and the large number of small transactions. It also seeks to amend the Code to reflect current banking practices.

2. SOLUTION

- 2.2. The solution for Proposed Modification P214 includes:

- The mandatory introduction of automated, unencrypted email delivery of invoices to BSC Parties ('Parties'), and the discontinuation of current automated faxed invoicing;
- The option for Parties to voluntarily opt in or out of receiving postal invoices in addition to automatically receiving these invoices by email;
- The combining of all different types of FAA charges onto single invoices, to reduce the volume of low-value transactions;
- The introduction of a monetary threshold, such that Parties would not be billed for their charges until their net accrued balance (either payable or receivable) was greater than this threshold;
- An initial value for the monetary threshold of £500, with the ability for the Panel to revise this value from time to time as required without a Modification Proposal;
- The introduction of an additional fixed time threshold of 3 months (tied to the financial year), such that Parties would be billed for their accrued charges at least once every financial quarter;
- The ability, in certain limited circumstances (such as withdrawal or insolvency), for Parties to request Advice Notes without having breached the thresholds;
- The introduction of different processes for the various types of supporting invoice backing information, to reflect Parties' existing use of this information; and
- Amendments to the Code to reflect other modern banking procedures which are already current practice amongst the industry.

3. HER MAJESTY'S REVENUE AND CUSTOMS

- 3.1 The introduction of thresholds would lead to a daily shortfall or excess of funds. This would lead to a change in the current concept of payments balancing to zero each Payment Day. Therefore,

this change requires Her Majesty's Revenue and Customs (HMRC) approval, which was sought during the Assessment Procedure once the Modification Group had an agreed solution.

- 3.2 BSCCo and its financial advisors have met with HMRC and have received verbal confirmation that the proposed solution would present HMRC with no issues. Formal written confirmation from HMRC is still outstanding and may be received before the Panel meeting.
- 3.3 For this reason two sets of recommendations are presented to the Panel. If approval has not been received from HMRC the recommendation of BSCCo is that the Assessment Procedure be extended by 1 month in order that the Modification Group can be fully satisfied that its solution is acceptable to HMRC. If approval has been received BSCCo recommend that P214 should proceed to the Report Phase.

4. RECOMMENDATIONS

4.1. Having considered, and taken into due account, the contents of the P214 Assessment Report, the Panel is invited to:

- a) **AGREE a 1 month extension to the Assessment Procedure to allow HMRC to approve the proposed solution;**

OR

- b) **NOTE the P214 Assessment Report and the recommendations of the P214 Modification Group;**
- c) **AGREE a provisional recommendation that Proposed Modification P214 should be made;**
- d) **AGREE a provisional Implementation Date for Proposed Modification P214 of 6 November 2008 if an Authority decision is received on or before 8 February 2008, or 25 June 2009 if the Authority decision is received after 8 February 2008 but on or before 4 September 2008;**
- e) **AGREE the draft legal text for Proposed Modification P214;**
- f) **AGREE that Modification Proposal P214 be submitted to the Report Phase; and**
- g) **AGREE that the draft Modification Report be issued for consultation and submitted to the Panel for consideration at its meeting of 13 December 2007.**

Chris Rowell
Modification Secretary

List of attachments:

- Attachment A: Assessment Report for Modification Proposal P214
Attachment B: Attachment 1 to the Assessment Report – Proposed Modification draft legal text
Attachment C: Attachment 2 to the Assessment Report – CSD Requirements Table

Attachment D: Attachment 3 to the Assessment Report – Assessment Procedure consultation responses

Attachment E: Attachment 4 to the Assessment Report – High level description of the initial solution options

Attachment F: Attachment 5 to the Assessment Report – Detailed description of the revised solution

Attachment G: Attachment 6 to the Assessment Report – First industry impact assessment responses

Attachment H: Attachment 7 to the Assessment Report – Revised industry impact assessment responses

Attachment I: Attachment 8 to the Assessment Report – Data analysis