
**Minutes of a Link Scheme Holdings Ltd (the “Company”) Board Meeting
held on Thursday 30th November 2017**

Present:

Sir Mark Boleat - Chairman
Tracey Graham
John Howells
Lord David Hunt
Liz Richards
Jonathan Simpson-Dent
Fiona Walmsley

Apologies:

Adrian Roberts

In Attendance:

Mary Buffee – LINK Scheme Executive
Mike Knight – The FDCentre
Graham Mott – LINK Scheme Executive
Sue Wallace – LINK Scheme Executive

1. Welcome and Conflict of Interest Declarations

The Chairman welcomed the Directors to the meeting. He drew the Board’s attention to the current situation on the four big issues facing the Scheme, all of which were on the Agenda:

- The governance changes had been agreed, with no votes against.
- The interchange consultation was proceeding satisfactorily so far. The Scheme had adopted an active rebuttal campaign in the media, supported by Cicero.
- The systemic risk management review was progressing and there would be a Board workshop with Promontory immediately after the Board meeting.
- The tender was being run in accordance with the Direction from the PSR. The Chairman expected to hear the outcome of LINK’s exemption request to the PSR at his meeting with Hannah Nixon on 1st December 2017.

The Chairman reminded the Directors of their obligations under the Companies Act 2006 and the Articles of Association of the Company to declare the nature and extent of their interests (whether direct or indirect) in a situation in which he/she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company.

As required by section 175 of the Act and the Articles, Jonathan Simpson-Dent and Fiona Walmsley (each a Member Director, and together the Member Directors) confirmed and declared the nature and extent of his/her interest (whether direct or indirect) in accordance with section 175 of the Act and the Articles (the Conflicted Directors).

In particular:

- (i) Jonathan Simpson-Dent declared his existing relationship with Cardtronics, being a Network Member.
- (ii) Fiona Walmsley declared her existing relationship with RBS, being a Network Member and a shareholder of Vocalink.

Lord Hunt declared his interest as a Partner of DAC Beachcroft LLP.

The Chairman declared a small financial interest in Yatterbox, a company now owned by Cicero Group.

2. Minutes of the Previous Board Meeting and Matters Arising

The Chairman stated that the minutes of the meeting on 2nd November 2017 had already been approved.

All actions from the previous meetings of the Company have been completed or were on the agenda for this or future meetings.

There were no matters arising.

3. CEO's Report

The Board noted the contents of the CEO Report and observed that the key matters were covered by separate agenda items.

The CEO informed the Board that he had passed on its thanks to the employees of the LINK Scheme for their hard work and professionalism during a very challenging year and that this had been much appreciated.

4. Summary Key Data on Cash Usage

The Board was provided with a report of key data showing consumer cash and ATM usage trends. The Directors discussed the implications of the data and noted in particular the acceleration of the trend of declining volumes of cash withdrawals in the third quarter of 2017.

The Board requested that a report on cash usage segmented by bands of income is obtained and distributed, assuming that such a report is available. The Board also asked that the 2018 Forecast for Consumer Cash usage is distributed when UK Payments makes it available during the course of the year. **ACTION : HEAD OF STRATEGY**

The Board was informed that The Bank of England's Notes Directorate has offered to present to the Board in March/April 2018 on their expectations of the LINK payment system. The Board welcomed this offer. **ACTION : HEAD OF STRATEGY**

5. Preparation for the Promontory Workshop

The Chairman noted that Promontory would be meeting the Board for a workshop on systemic risk management immediately after the Board meeting, but prior to that session no real preparation was possible. He did note that the Promontory team appeared knowledgeable and well-informed.

(Part of this discussion has been redacted under confidential grounds.)

6. Update on the Interchange Consultation

The Board was briefed on the progress with the interchange consultation, including stakeholder feedback and PR status.

(Part of this discussion has been redacted under confidential grounds.)

The Board agreed the following approach to the management of conflict of interest:

- All Directors including Members Non-Executive Directors will be part of the general discussions.
- Consultation responses will only be seen by the Independent Non-Executive Directors and the CEO. Member Non-Executive Directors will not see any of these responses.
- Discussions and votes on decisions will exclude the Member Non-Executive Directors.

The Board was informed that when all the Member responses had been received, a package with a summary paper will be put together for Directors, excluding Member Non-Executive Directors. **ACTION : CEO**

Board conference calls (excluding Member Non-Executive Directors) will be arranged for:

- Thursday 21st December 2017 at 9 a.m.
- Thursday 28th December 2017 at 9 a.m.

The objectives of these calls are to:

- Consider the responses to the Interchange Consultation.

(Part of this discussion has been redacted under confidential grounds.)

7. Update on Governance Changes

The Board was provided with an update on the vote by Network Members that had concluded on 28th November 2017. The resolutions had been supported by all those who voted, which included all of the large issuers and acquirers, apart from a single proactive abstention (Redacted under confidential grounds.) (formally, those Members that don't vote are also recorded as abstentions). There were no votes against. The Bank, the PSR, and HM Treasury had been informed of the result.

The Board acknowledged the importance of this outcome which would now enable it to make the changes necessary to support the results of the Interchange Consultation.

Clean copies of the documentation will be distributed to the Board. **ACTION : COO**

The Scheme Authorisation Matrices will be updated. **ACTION : COO**

A General Meeting of LSHL will be arranged to approve the revised Articles. **ACTION : COO**

8. Update on the Infrastructure Tender

The Board was provided with an update on the progress of LSHL's exemption request and progress on the tender.

As noted in his opening remarks, the Chairman expected to hear the outcome of LSHL's exemption request at his meeting with Hannah Nixon of the PSR on 1st December 2017. He would report back to the Board after this meeting. **ACTION : CHAIRMAN**

In the meantime, the Scheme was pushing ahead with a full tender process as effectively as possible. In response to PSR's recent information request, the paper "Response to PSR Information Request LINK Scheme Specific Direction 4" had been prepared. The Board reviewed this paper and agreed that it should be sent to the PSR, and with a copy to Hannah Nixon prior to the Chairman's meeting with her. **ACTION : COO**

The Board was updated on the approach to the tender and the meetings that had taken place to-date with potential bidders. Regulatory consultants, Flint Global, had been engaged to help with the tender process.

(Part of this discussion has been redacted under confidential grounds.)

9. Update on the LINK Consumer Council and Innovation

The Board was informed that the Monitoring Trustee had approved the request for an initial £500k drawdown of the Development Fund (Part of this discussion has been redacted under confidential grounds.)

A formal proposal for expenditure on the pilot will be brought to the Board in Q1 2018. **ACTION : CEO**

10. Scorecard Review

The Board reviewed and discussed the LINK Scheme's performance against the 2017 Scorecard.

The Board agreed that the 2017 Summary is Amber with risks reducing as new governance allows the Board to deal with the key issues.

The Board noted the key areas of risk, which both remain at Amber, are:

- Failure to achieve an interchange settlement.

- Failure to resolve the infrastructure procurement position.

The Board also noted that the position with regards to The Bank of England's requirements is Green with the systemic risk management review providing an opportunity to further strengthen the position.

The Board considered the draft 2018 Scorecard as presented and concluded that it largely reflected what had already been agreed. The Board agreed that the format should be streamlined for Q1 2018 and that an additional pillar "Risk Management" should be added in its own right. **ACTION : CEO**

11. Scheme Risk Management

The Board reviewed and discussed the risk position as shown in the Risk Management Dashboard, which consisted of the following reports:

- Overview on Risk Management.
- Risk Summary.
- Risk Register Overview.
- Operational Risk Management.
- Member Risk Management.
- LSHL Cyber Resilience.
- GDPR 12 Step Plan.

The Board noted the following items during its review, that:

- The Red Risks were covered as specific items elsewhere on the agenda.
- Following the reform of Scheme governance, the likelihood of LSHL 03 (interchange settlement not sustainable) had decreased. This will be updated in the next review by the LINK Scheme Executive which is to be held two weeks prior to the next Board meeting. **ACTION : COO**
- In the Risk Register Overview, LSHL 24 (Unexpectedly sudden overall decline in cash volumes undermines ATM investment) had been included twice in error. **ACTION : COO**
- A new Risk LSHL 33 (Public Relations Risk Associated with Interchange) had been added as agreed at the previous Board Meeting.
- The Risk LSHL18 (Lack of Capacity in Scheme Executive) had been changed since the previous Board Meeting but would need to be reconsidered for the next review in the light of Promontory's recommendations. **ACTION : COO**

In accordance with its rolling programme of in-depth reviews, the Board considered the risks related to resilience.

The Board noted that there are four resilience-related risks in the Risk Register. These relate to cyber-attacks against Members and the Vocalink network as well as the scope and enforceability of the Operating Rules.

- (i) LSHL 07 Cyber-attacks against Acquirers, reputational damage to LINK Scheme and Members

- (ii) LSHL 11 Cyber-attack on Vocalink Network
- (iii) LSHL 12 Cyber-attack results in failure of Issuer customer authentication.
- (iv) LSHL 29 Operating Rules content and enforcement may need enhancing to increase Cyber Resilience

The Board noted that all are currently rated Amber which reflects the generally heightened state of industry alert and the reliance of the Scheme on its network. The Board was informed that Cyber Risk is managed holistically across the Scheme in line with the approved Cyber Strategy and will be further influenced by the output from the S195 review. The Board was satisfied with the approach to managing these risks.

12. Scheme Finances

The Board was updated on the Scheme's Finances.

(Part of this discussion has been redacted under confidential grounds.)

13. Noting of any Email Approvals

There were no email approvals for the meeting to note.

14. Committee Meeting Minutes

Audit Committee

Liz Richards (Audit Committee Chairman) provided the Board with a brief verbal report of the Audit Committee meeting that had met immediately prior to the Board Meeting.

She informed the Board that the Audit Committee had approved that:

- (i) The first Internal Audit planned for 2018 will be on risk management, but would then adopt a flexible approach dependent on the outcome of the systemic risk review by Promontory.
- (ii) The accounting policy to defer the £2m Development Fund income in 2017 to match the associated expenditure from 2018 onwards.

15. Any Other Business

The Chairman informed the Board that Jonathan Simpson-Dent would be resigning as a Director immediately after this meeting. The Chairman thanked him for the huge contribution that he had made to the Board during his time as a Director.

The Board fully endorsed these sentiments and wished Jonathan Simpson-Dent every success in his new ventures.

The proposals for the recruitment of a new Director will be brought to the next Meeting.
ACTION : CHAIRMAN/CEO

16. Next Meeting

The next meeting will be held on Thursday 1st February 2018 at 10.30 am (Redacted under confidential grounds.)