
**Minutes of a LINK Scheme Ltd Board Meeting
Held on Wednesday 5th August 2015
The Institute of Directors, 116 Pall Mall, London**

Present:

Dr. Ken Andrew - Chairman
Tim Allen
Jenny Campbell (by telephone)
Michael Coffey (by telephone)
John Howells
Lord David Hunt

Apologies:

Anne Dalgleish

In Attendance:

Mary Buffee – Secretariat
Sue Wallace was in attendance from agenda item 4 onwards.

1. Minutes of Board Meeting on 9th June

The minutes of 9th June had already been approved via email.

2 Matters Arising from the Minutes

John Howells thanked the Board directors for their efforts in trying to secure secondment resource for the Scheme Executive and confirmed that a project manager had now been recruited into the team to cover work on the commercial and separation workstreams.

All other actions were complete or are to be covered in the agenda.

3. Independent Governance Review (IGR)

John Howells updated the Board on progress with the Governance Member Working Group (GMWG), a meeting with the PSR, and discussions with DAC Beachcroft on the feedback from the GMWG.

The attached paper summarises the feedback from the GMWG (this is redacted on commercial grounds) and John confirmed that the meetings had been constructive and well attended. The Group were in agreement that recognition of LINK by the Bank of England as a systemic scheme would not be helpful in addressing the governance and completion issues that LINK faces. The Bank has subsequently confirmed to the Scheme Executive that it is not minded to follow this route and the Panel is being asked to reflect on their recommendation in light of this. The GMWG were also in agreement that, given the costs and risks involved, there should be independent economic review of interchange to support the long term stability of the Scheme.

There were two key areas where the GMWG could not reach a consensus;

- Board structure to ensure adequate Member representation. A number of models were discussed, as the current proposal from the Panel was not considered optimal, and the feedback suggests further thought in this area.

- Company structure to achieve the PSR's objectives of competition and innovation. The Panel are being asked to reflect further to ensure that the PSR's latest thinking is supported by the final recommendations.

John Howells updated the Board on discussions with the PSR who confirmed its statutory objectives of ensuring competition and innovation in payments and that the Scheme's revised governance would need to support this. The PSR also noted that it recognised that LINK is different from the other interbank schemes as it was already operating in the competitive space. The Board discussed whether LINK should continue to have the objective of being competitive and innovative and agreed that this would need to be the case to ensure it can prosper and defend itself against the other schemes with which it competes.

The Chairman raised the current review of VocaLink structure by the PSR, and the Board discussed the future of the ATM switch in the circumstance that VocaLink is broken up and/or its ownership changes. The discussion is redacted on commercial grounds.

The Board then discussed the commercial contract and details have been redacted on commercial grounds.

Lord Hunt updated the Board on the Panel's progress and confirmed that the GMWG feedback note had been shared with the Panel and would be discussed by them at their next meeting on 3rd September. Lord Hunt also noted that the Review Team had met with Sir Jon Cunliffe, the Deputy Governor of the Bank of England, to discuss the IGR. Sir Jon had noted the importance of ensuring that LINK is kept on a steady and stable course and added that the Bank is considering a broad ranging review of aspects of the payments industry as part of its role in supervising integrity.

Lord Hunt confirmed that the team is currently working on the production of a transition plan and on refining the draft report in the light of the comments that have been received. A draft of the transition plan will be available in the next couple of weeks, and the IGR remains on time and to budget for the end of September.

The Board discussed the timetable over the next couple of months, including points of engagement with Members. John Howells confirmed that there would be a follow-up NMC proposed for October to take a vote on any governance changes, as the September meeting would be the opportunity for Lord Hunt to present the final report on behalf of the Panel and take questions. The Board agreed that, given the significance of the matter, an 80% majority was the right level for any NMC vote on changes to LINK's governance. The format of the governance return to the PSR is not yet clear but a template is likely to be issued in the next few weeks. Given the significance of the matter, the draft return on governance will be reviewed by the Board before being submitted to the PSR. **ACTION: JOHN HOWELLS.**

Given that the existing Member Board Directors will stand down at the end of the year, the Board concluded that the initial work to start selection of two new independent directors should start immediately to ensure that the Board remains capable of effective operation past the year end. Beachcroft are supportive of explaining this to the Panel on the basis that this does not in any way assume a particular conclusion from the Panel, for example, on matters such as Board make-up and company purpose and structure. The Board agreed that this work would be led by the Chairman with the support of LSL, and with complete transparency to the NMC. **ACTION: CHAIRMAN.**

4. Commercial Workstream

This discussion is redacted on commercial grounds.

5. Separation Workstream

Some of this section has been redacted on commercial grounds. John Howells confirmed that the separation work is broadly in hand although it is complex because of VAT and financing issues.

On the matter of VAT on PSR Fees, the Scheme Executive has met with the PSR and HMRC, supported by Deloitte, and is awaiting a VAT ruling. The position is expected to clarify by the end of September.

The Board agreed that in order to continue with TUPE arrangements LSL will need to enter into a contract with Baker Tilly. This is limited in scale and so any VAT inefficiencies will be minimal. The extent of potential TUPE liabilities will be provided to the Board at its next meeting. **ACTION: JOHN HOWELLS.**

6. Scheme Finances

John Howells outlined the current status of the finances and restated that the restructuring activity is currently being funded by LINK Scheme from reserves, due complexities with VAT and contracting with LSL. The first contract that needs to be switched over from VocaLink to LSL is the one with A&O. This is due to its size and the need for LSL to rely on the advice. A&O have asked that the LSL Board agree to the following in order to achieve this switch and allow A&O to act for both NMC and LSL:

- LINK Scheme and LSL would at all times give joint instructions (preferably from one person authorised by the LINK Scheme and LSL).
- A&O would have to be able to share all information in its possession as a result of this matter with both LINK Scheme and LSL without restriction. As such, there would have to be complete transparency of information and advice between the LINK Scheme and LSL and A&O would not be able to treat information as confidential between these two clients.
- In the event that the interests of the LINK Scheme and LSL diverge, it would need to pre-agreed in the interests of which client A&O would act.
- A&O would need reasonable evidence of the authorisation of the LINK Scheme (i.e. Network Members as a group) and LSL of the terms of the engagement including acceptance of the above conditions.

The Board agreed to these terms and to authorise John Howells to instruct A&O on behalf of LSL. **ACTION: JOHN HOWELLS.**

7. AOB and Date of the Next Meeting

The Chairman raised the question of the need for future meetings of the Incorporation Subcommittee. In the light of the setting up of the Governance and Incorporation Working Groups, along with NMC calls and meetings over the coming two months, the Board agreed to propose at the next ISC that it had had run its course and would not be reconvened for the time being. **ACTION: CHAIRMAN.**

The date for the next meeting is Wednesday 9th September at 10.30 at the IOD.