
**Minutes of a Link Scheme Ltd (the “Company”) Board Meeting
Telephone Call held on Saturday 10th December 2016**

Present:

Dr Ken Andrew - Chairman
Tracey Graham
John Howells
Lord David Hunt
Liz Richards
Adrian Roberts
Jonathan Simpson-Dent
Fiona Walmsley

Apologies:

None

In Attendance:

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

1. Welcome

The Chairman welcomed the Directors to the meeting and thanked them for giving up some of the weekend to discuss the important issue of interchange. The purpose of the meeting was:

- (i) to review the contents of the paper “Interchange Way Forward”, (acknowledging that Jonathan Simpson-Dent had also submitted a paper for Board consideration);
- (ii) Assess if Directors feel that a combination of these areas could make sense (part of this discussion has been redacted under confidential grounds)
- (iii) Decide if a position should be agreed on this call, or at the 5th January Board meeting.
- (iv) Decide whether the decision is (part of this discussion has been redacted under confidential grounds) straight to an NMC vote (part of this discussion has been redacted under confidential grounds).
- (v) Assess the risks of NMC rejecting, and decide what to do if that happens.

In terms of sequencing, given that there had been an NMC meeting on 8th December, the Chairman agreed to provide feedback from that meeting at the outset so that the discussion on the points above could take place in that context.

He 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, Adrian Roberts, 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) Adrian Roberts declared his existing relationship with Bank of Ireland, being a Network Member and a shareholder of VocaLink.
- (ii) Jonathan Simpson-Dent declared his existing relationship with Cardtronics, being a Network Member.
- (iii) Fiona Walmsley declared her existing relationship with RBS, being a Network Member and a shareholder of VocaLink.

2. Feedback from NMC meeting on 8th December 2016

The Chairman and John Howells provided a brief summary of the NMC meeting on 8th December 2016 relating to interchange. The main points were as follows:

- (i) NMC accepted the proposition that LSL should come back with a proposal on interchange;
- (ii) Lloyds Bank had proposed accelerating the work but this had been rejected by most Members;
- (iii) It was by no means certain that NMC would approve a reduction in interchange, and this analysis is set out in the paper for this meeting.

3. Review of the paper “Interchange Way Forward”, discussion on potential LSL proposal and implications

(i) – (iii) Review of paper and potential proposal

John Howells presented the paper “Interchange Way Forward” which contained an analysis of areas raised at the Board Meeting on 7th December 2016 mapped to the Frontier recommendations.

The Board considered in detail the impact on interchange of the seven options covered by the paper in turn and the potential impact on Members, ie:

- (i) Reducing Cost of Capital;
- (ii) Reducing Depreciation;
- (iii) “Dynamic Indexation” (speeding up changes due to interest rate movements);
- (iv) Discouraging Balance Enquiry Promotion;
- (v) Discouraging Merchant Fill Machines;
- (vi) Adjusting Down Branch Rates;
- (vii) Occupancy.

Firstly, at the start of the meeting, John Howells referenced that any desired reductions in issuer interchange costs would need to come mainly from non-branch interchange, because net branch interchange costs are relatively low. Board agreed with this, and that branch interchange should continue to be in scope of discussions and that it was important to assess branch and non-branch.

John Howells noted that item (i) Cost of Capital had been increased following a previous review in 2013. Some elements of that review had also had the involvement of the

International Court of Arbitration and an adjudication, following procedures set out in the Members Agreement. A copy of the adjudication report would be circulated to Directors, together with a summary highlighting how the International Court of Arbitration had been involved. **ACTION : JOHN HOWELLS**

Post-meeting amendment to minutes:

Following the meeting John Howells reviewed the Adjudication of the London Court of International Arbitration and advised the Board that it related to the “Opportunity Cost of Cash” element of the Cost Study, and not the “Cost of Capital Option 1” that had been discussed on the call. This means that the Adjudication does not impinge on any of the options that the Board is currently considering.

Of the options listed above, it was noted that item (vii) Occupancy had the potential to have the greatest impact on interchange, albeit that any major change in this area would need to be implemented in a controlled way.

It was noted that any proposal could consider ring-fencing certain sensitive ATMs, or indeed increase them where needed, whilst reducing the deployment of ATMs elsewhere.

The possibility of enabling consumer charging at levels below £1.50 as a means of enabling businesses to continue as going concerns was also discussed.

It was agreed that John Howells would take the feedback from the meeting and come back with a specific proposal on interchange for consideration at the Board Meeting on 5th January 2017. **ACTION : JOHN HOWELLS**

The Chairman thanked John Howells and Graham Mott for producing a good paper for the Board to consider.

(iv) Engagement with a Member (Member redacted due to confidentiality)

(Board discussed the engagement but has been redacted due to confidentiality).

(v) NMC position

It was noted that changes to interchange require an 80% majority at NMC. The Board discussed the possible voting intentions of Members, given the relative weightings of votes between net issuers and net acquirers. It was agreed that there remains a high degree of uncertainty and risk on whether NMC would approve any proposal made by Board.

It was acknowledged that there would need to be consultation with Members prior to seeking NMC approval for any proposal.

The Board also discussed the possibility that the NMC may reject the LSL proposal. Under this scenario, the LSL Board and NMC would be in conflict, and it may be necessary to reconsider the reserved powers of NMC proposed by the IGR.

John Howells was requested to lay out a process of moving to an NMC vote in the new year, including a potential consultation period with members before a vote was put forward to the NMC. It was requested that Board should review and agree this process at the January Board, subject to also meeting the requirements of the NMC and Members Agreement including the recent decisions at the December NMC meeting.

(vi) Other

It was noted that the PSR and the Bank of England were aware of the situation with a Member (Member redacted due to confidentiality) and were currently adopting a watching brief rather than providing guidance towards any potential solution. It was agreed that the Chairman and CEO would maintain close communication with the PSR and the Bank, and update them following the call.

For the sake of good order, Jonathan Simpson-Dent confirmed that he was comfortable that any differences in the analysis between the paper that he had circulated to the Board and the “Interchange Way Forward” paper had been addressed in the discussion.

In summary, the Chairman felt that the Board was moving towards a potential solution and thanked the Directors for their participation in the call.

4. Next Meeting

The next meeting will be held on Thursday 5th January 2017 at 10.30 am at 33 St James’s Square, London SW1Y 4JS.