
**Minutes of a Link Scheme Ltd (the “Company”) Board Meeting
Held on Wednesday 11th May 2016**

Present:

Dr Ken Andrew - Chairman
Tracey Graham
John Howells
Liz Richards
Adrian Roberts (except item 10 iii)
Fiona Walmsley (except item 10 iii)

Apologies:

Jenny Campbell
Lord David Hunt

In Attendance:

Mary Buffee – Secretariat (except item 8)
Mike Knight – The FDCentre
Graham Mott – LINK Scheme Executive (for item 7)
Sue Wallace – LINK Scheme Executive (except item 8)

1. Welcome

The Chairman welcomed the Directors to the meeting and noted the apologies for absence received from Lord David Hunt and Jenny Campbell.

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, Adrian Roberts 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.
- (ii) Fiona Walmsley declared her existing relationship with RBS, being a Network Member.

2. Minutes of the Previous Board Meetings on 13th April 2016 and Matters Arising

The Board agreed the revised minutes of the meeting held on 13th April 2016.

There were two matters arising:

John Howells reported that he had sought feedback from two large issuers on the proposal for on line PIN authentication of Point of Sale transactions which was discussed at the previous meeting. He and Sue Wallace would also be discussing the proposal with VocaLink. He will report back his findings at the June meeting. **ACTION: JOHN HOWELLS**

John Howells will circulate the innovation slide pack on consumer needs previously reviewed in 2015 for a general discussion on the “where” and “how” of innovation at the June Board meeting. **ACTION: JOHN HOWELLS**

With the exception of the above, all actions have been completed or were on the agenda for the meeting.

3. Update on Managing Conflicts of Interest

The Chairman summarised his discussions with members of the Board on Director’s conflict of interest. Recognising that the Member Non-Executive Directors provide a valuable insight into the Scheme and are an important voice to have at Board meetings, there were three areas of potential conflict faced by Member Non-Executive Directors that were identified:

- i. Some matters that arise at Board which clearly cause a perceived or real conflict of interest. Such an example is in relation to discussions around the future of interchange and setting a new formula.
- ii. Situations where a Member Non-Executive Director is directly involved in a commercially valuable development in their company or division but the development if launched might have a negative effect on LINK and the Scheme.
- iii. Situations where a Member Non-Executive Director is aware of an action in another part of their organisation which might have a negative effect on LINK and the Scheme but has been sworn to secrecy.

The Board discussed and recognised the difficulties that such conflicts posed and agreed that a detailed policy should be developed to cover them. John Howells will ask A&O to draft such a policy. **ACTION: JOHN HOWELLS**

Pending the adoption of a formal policy, as an interim step it was agreed that a Director in this situation should raise the conflict with the Chairman and discuss what the appropriate action should be.

The Board agreed the Chairman’s proposal that the composition of the Board between Member and Independent Non-Executive Directors should run as currently constituted for the remainder of 2016 and then be reviewed again in January 2017. **ACTION: CHAIRMAN**

4. Implementing the Independent Governance Review

John Howells briefed the Board on the recommendations of the Governance Members Working Group (“GMWG”) which was set up to interpret how the Independent Governance Review (“IGR”) recommendations agreed by NMC could be implemented. The GMWG recommendations follow those of the IGR in all areas with the exception of two:

- i. the number of Member and Independent Directors on the Company Limited by Guarantee (“CLG”) Board; and
- ii. the ability for the CLG to set up subsidiaries to promote innovation without NMC approval.

The Board discussed the points raised by the GMWG and agreed that it continued to support the original recommendations of the IGR in both cases. The Articles for the CLG that are being prepared by Beachcroft, for approval in principle by LSL and at the June NMC meeting, will be drafted on this basis. Following LSL and NMC approval in principle

of the Articles, there will follow a period of further refinement of both the Articles and the Members Agreement to align them. LSL and NMC will then formally approve the Articles and the revised Members Agreement hopefully in September, allowing the CLG to be formed.

It was also noted that the subsidiary company originally set up for LINK's innovation activities, Link Innovation Limited, was in the process of being closed.

The Board approved the GMWG's recommendations that the FD (Mike Knight) and the COO (Sue Wallace) will attend Board meetings as participants (ie not as Directors and with no voting rights) and that Mike Knight would take on the role as minute secretary.

John Howells and Mary Buffee briefed the Board on the latest communications with the Payments Strategy Forum ("PSF"). Payment scheme governance is part of the PSF's work. There is now a PSF activity considering if there are benefits in integrating the governance of the interbank schemes, including LINK. There was a discussion on how best to engage with the PSF although in general the Board supported the current approach of maintaining a constructive and helpful dialogue whilst explaining why LINK is different to the other interbank schemes and should have the independent governance structure that was recommended by the Independent Governance Review. John Howells will circulate to the Board the draft response to the PSF's latest questions. **ACTION: JOHN HOWELLS**

John Howells provided an update on his recent discussions with the Treasury regarding the potential recognition of LINK under the Banking Act 2009 for supervision by the Bank of England. He will update the Board with any further developments. **ACTION: JOHN HOWELLS**

5. Supplier Discussion

The Board then discussed matters regarding VocaLink, these discussions have been redacted because of their commercial nature.

6. Update on Separation and Developing LSL Functions

John Howells updated the Board on the progress on developing LSL's organisational and finance capabilities. The requirement for resource for LSL's innovation activities will be discussed at the June Board meeting. **ACTION: JOHN HOWELLS**

Mike Knight summarised the key points from his review of the Finance function and financial activities. In summary, the position was confirmed as effective, with a combination of the outsourced accounting service provided by RSM, external advisors and internal resource working well and all major financial issues either addressed or now in hand. An action plan had been put in place to further develop the financial management capability of LSL going forward.

Mike Knight presented the summary, these have been redacted due to their confidential nature.

Liz Richards advised the Board that the first Audit Committee meeting has been scheduled for 28 June 2016. Prior to that meeting two Directors will need to be appointed as Audit Committee members. **ACTION : CHAIRMAN**

One of the first responsibilities of the Audit Committee will be to make a recommendation to the Board for the appointment of LSL's external auditor. Three firms were discussed, these have been redacted due to their confidential nature.

7. Next Steps on Independent Economic Review of Interchange

John Howells and Graham Mott briefed the Board on the main findings of the review of the LINK interchange fee arrangements by Frontier Economics. The Board then discussed the content and also the presentation of the findings to NMC.

It was agreed that Frontier Economics would be asked to present their findings to the Board prior to the approach to NMC being agreed. Noting that the NMC meeting papers are due to be sent out on 2 June 2016, a special Board meeting will be arranged for the morning of Friday, 27th May to consider this. **ACTION: MARY BUFFEE**

8. Update on RemCom

Tracey Graham briefed the Board on the activities of the RemCom since the last Board meeting.

9. Scheme Finances

The update on Scheme finances was covered in item 6 (Update on Separation and Developing LSL functions).

One additional item was noted which is redacted on commercial grounds.

10. Any Other Business

A number of items were discussed under AOB, these have been redacted due to their confidential nature.

- i) On behalf of the Board, the Chairman thanked Mary Buffee for the great job she had done in supporting the Board in her Secretariat role over the last 18 months.
- ii) The Board meeting originally scheduled for Wednesday 7th September will be rearranged to the afternoon of Thursday 1st September at the IOD. **ACTION: MARY BUFFEE**

11. Next Meeting

The date of the next meeting is Friday 27th May 2016 with the June meeting remaining on 8th June 2016, both at 33 St James's Square, SW1Y 4JS.