
**Draft Minutes of a Link Scheme Ltd Board Meeting
Held on Wednesday 3rd February 2016**

Present:

Dr. Ken Andrew - Chairman
Jenny Campbell
Tracey Graham
John Howells
Lord David Hunt
Liz Richards
Adrian Roberts
Fiona Walmsley

In Attendance:

Mary Buffee – Secretariat
Sue Wallace – LINK Scheme Executive for Item 4 Commercial Workstream

1. Welcome and Minutes and Matters Arising from the Board Meeting on 22nd January

The Chairman welcomed all Board Directors to the first full LSL Board meeting following the appointment of new Independent and Member Non-Executive Directors as a result of the Independent Governance Review.

The Chairman made reference to the A&O advice that was circulated regarding conflicts of interest. The Member Non-Executive Directors (Jenny Campbell, Adrian Roberts and Fiona Walmsley) declared their potential conflicts relating to decisions on the Independent Economic Review of Interchange. It was agreed by Board that these conflicts did not arise in relation to these Directors taking part in the discussions of the Review.

The Board discussed recent developments regarding the ownership of VocaLink and these are redacted on the grounds of commercial confidentiality.

The letter on recognition has been submitted to HM Treasury who has said that it expects to provide a response within the next month. The PSR has also been provided with a copy of the letter.

All other actions were completed or on the agenda for the meeting.

2. Overview of Challenges Facing LINK and Current Change Plan

The Board discussed the current challenges facing the Scheme and the Change Plan, and agreed that the Plan's contents reflect the critical work under way to complete the commercial deal and the implementation of the Independent Governance Review. Innovation was discussed as a matter that the Board should have a focus on in the near term and it was agreed that innovation should form part of the agenda for the March Board meeting. **ACTION: JOHN HOWELLS.**

3. Next Steps on the Governance Review

The Board discussed the implementation of the Independent Governance Review. Lord Hunt reminded Board that the Panel has stated that its recommendations are not a menu to be selected from but a package. John Howells confirmed that NMC had accepted all of

the recommendations. NMC had also agreed to use LSL as the vehicle in the short term, pending setting up the company limited by guarantee, in order not to slow down restructuring, and to set up the guarantee company after that, transitioning the LSL Board at that point to the guarantee company. There was a debate about whether this timing was appropriate and should be accelerated. It was agreed to review future governance structure and timing at the next Board meeting on 2nd March. John Howells agreed to commission analysis from Allen & Overy to support this review covering a step by step process for moving to a CLG, assessment of “do now or do later” risks, and pros and cons of the CLG structure, particularly with reference to whether or not it can support innovation or would be a hindrance to that. **ACTION: JOHN HOWELLS.**

The Board then discussed the setting up of a formal trust document in relation to Dr Ken Andrews’ holding of LSL shares. Board has agreed at its meeting on 5th January to the preparation of a trust document for its consideration and this work is underway. Some NMC Members have stated that they will require this arrangement to be clear before agreeing to the new restructuring documents as LSL is a party to them. Therefore, the current plan is that Board will consider this trust arrangement very shortly. There was a discussion as to whether the trust was an alternative to setting up a company limited by guarantee or not. John Howells said that he would ensure that the draft trust document was drafted by Allen & Overy in a manner that would not constrain setting up the guarantee company. Subsequent to the Board meeting, Allen & Overy has advised that all shareholders (i.e. all Members) would be required to authorise Ken Andrew before a complete sale of LSL to a company limited by guarantee could occur. Allen & Overy’s initial view is that, under the current less formal arrangement, an NMC decision at 80% could authorise that complete sale. The latter is much easier to achieve at pace. Therefore, Allen & Overy has been asked to set this out in its analysis, on the assumption that this will also be reviewed at the March LSL Board. John Howells has therefore suspended work on the trust. Members will be advised that the intention is to regularise the position as soon as possible and that the LSL Board will also consider the matter shortly. **ACTION: JOHN HOWELLS.**

4. Update on the Commercial Workstream including Contract Negotiation and Separation

Board was updated on progress with the commercial workstream and contract negotiations, these discussions have been redacted due to their confidential nature.

5. Next Steps on Independent Economic Review of Interchange

Board agreed that the Independent Economic Review of Interchange is a critical piece of work to carry out with urgency in order to protect the future of LINK.

Board discussed the draft Terms of Reference and suggested some changes. A further draft will be circulated in advance of the workshop scheduled on the 9th February. This needs approving at that workshop as it is then to go to NMC on 25th February for NMC approval. **ACTION: JOHN HOWELLS.**

Regarding funding, the Board supported the budget estimate (which is redacted on commercial grounds) to conduct the Review and agreed that a request be made at the next NMC. Subject to this being agreed, the Board supported receiving these funds. **ACTION: JOHN HOWELLS.**

Board discussed the procurement process that had been followed in considering economic consultancy and then supported the appointment of Frontier Economic. Board noted that Frontier Economics was now working on a time and materials basis to assess and

understand the current situation. Board agreed that it wished to move to a fixed price structure for work with Frontier Economics. **ACTION: JOHN HOWELLS.**

Board approved the appointment of A&O to provide competition law advice for the Review.

A paper on the History of Interchange was commissioned to support discussions at the upcoming workshop. **ACTION: JOHN HOWELLS.**

6. Post Separation Structure

Board discussed the Operating Model Review which had been conducted to understand any weaknesses in LSL's capabilities, and how to fill these gaps.

The Board approved its recommendation of increasing capability in the following areas (salaries are redacted due to their confidential nature):

- Risk and Information Security (via a new FTE)
- Finance (outsourced but equivalent to one FTE)
- Internal Audit (outsourced but equivalent to 1 FTE)

Board agreed that funding for these roles in 2016 should be managed out of reserves for the time being and that a call on NMC should not be made but rather built into the budget request for 2017. Recruitment/outsourcing should commence but at a rate allowing RemCom time to consider costs and potentially recommending reprofiling. **ACTION: JOHN HOWELLS.**

7. LINK Consumer Council

The Independent Governance Review welcomed the work of the Consumer Council but recommended that the Independent Chairman of the Council was different to that of the LINK Scheme. It also recommended a review to consider its membership, interaction with the PSR and engagement with the industry.

The Board agreed to the appointment of Tracey Graham as the new Chairman of the Council. Tracey would assume responsibility at the end of the March meeting. Tracey confirmed she would be happy to take on this role. The Board also approved the review of the operation of the LINK Consumer Council. This will be conducted throughout 2016, with a report back towards the end of the year. **ACTION: TRACEY GRAHAM.**

The Board agreed that the Consumer Council be established as a subcommittee of LSL and that NMC would be briefed on this at its meeting in February. **ACTION: JOHN HOWELLS.**

8. Committee Structures

The Board discussed the committee structures and agreed that Lord Hunt would continue as Chair of RemCom and that Tracey Graham would be appointed to that committee to replace Tim Allen the retiring Director. Tracey confirmed that she would be happy to take on the role.

The Board agreed to continue with the current set up for the Audit Committee which is following the remit of the LINK Governance and Performance Committee. This will continue until LSL's finance and risk capability is developed. At this point, a Risk and Audit Committee will be established and Board agreed that Liz Richards will be appointed as Chairman. Liz confirmed that she would be happy to take on the role.

An innovation committee was discussed and it was resolved to consider this further at the upcoming discussion on innovation at the March meeting.

9. Scheme Finances

Board discussed the scheme finances which remain on track, part of this discussion has been redacted due to its confidential nature.

Board agreed the need to move to a more formalised reporting structure following the appointment of finance resource. Board asked for a summary of the budget lines, with an indication of where the funds are sitting. **ACTION: JOHN HOWELLS.**

10. Scheme Risk Register and Objectives

Board discussed the Risk Register. The impact of The Bank's polymer notes initiative should be added to the register given the cost and risks to the industry. **ACTION: JOHN HOWELLS.**

The Board agreed that operational risks will long term become the concern of the NMC and that strategic risks to LSL should be considered at a future meeting. **ACTION: JOHN HOWELLS.**

11. AOB and Dates for Future Meetings

The item of AOB on innovation was covered by discussion earlier in the meeting.

The dates for future meetings were agreed:

2nd March

6th April

11th May

8th June

6th July

10th August

7th September

5th October

2nd November

7th December

All will be held at 33 St James's Square, SW1Y 4JS. 2017 meeting dates will be the first Wednesday of every month and all 2016 and 2017 meeting invites will be issued. **ACTION: MARY BUFFEE.**