

Title

LINK's response to the Consultation Report: FMI's management of general business risks and general business losses: Further guidance to the PMFI

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Contact: Tom Sleight – Chief Risk Officer

e-mail: tsleight@link.co.uk

Web: www.link.co.uk

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By e-mail:

Introduction

1. LINK is a not-for-profit company governed by an independent Board. It has a public interest objective to protect access to cash across the UK.
2. LINK sustains access to cash through maintaining the coverage of free-to-use ATMs in remote and rural locations as well as improving free access in deprived areas of the UK through the operation of its well-established financial inclusion programme.
3. As part of its work, LINK manages the UK's main cash machine (ATM) network. LINK's network connects the vast majority of ATMs (both free and charging) in the country and allows customers of banks and building societies (card issuers) that are LINK Members to make cash withdrawals and balance enquiries with their payment cards at almost all ATMs. All of the UK's major card issuers and ATM operators currently choose to become Members of LINK. LINK processes around 1.3 billion transactions and dispenses £75 billion in cash each year through a network of around 42,779 ATMs.
4. LINK's access to cash role also includes acting as a Coordination Body, having been designated as such by the Treasury on 24th May 2024. In this part of its role, LINK is notified by those Designated Firms that choose to participate in LINK's coordination arrangements of their intention to close branches, and LINK then assesses the impact of the closure on the local area. LINK also receives requests from communities (individuals and groups, including elected representatives) to review cash access. Where LINK identifies a gap in cash access services that cause a significant impact on communities it recommends new cash facilities such as shared banking hubs and deposit services. Responsibility for implementing LINK's recommendations is with the bank or banks concerned, some of whom choose to use a bank-owned infrastructure company called Cash Access UK for implementation.
5. LINK is regulated by the Payment Systems Regulator (PSR), and by the Bank of England (the Bank) as a systemically important payment system and is designated as

such by the Treasury. LINK is also designated by the Treasury and supervised by the Financial Conduct Authority in its role as an industry Coordination Body and is subject to the FCA's Access to Cash Sourcebook.

General

6. LINK welcomes the opportunity to respond to this Consultation Report on proposed supplemental guidance for FMIs on certain principles and key considerations relating to FMIs' management of general business risks and general losses, including in the context of recovery and orderly wind-down.
7. LINK notes that the guidance does not aim at introducing new standards but rather builds on the Principles for Financial Market Infrastructures (PFMI) and the International Organisation of Securities Commission (IOSCO) which are already established and which LINK assesses itself against annually.
8. LINK welcomes the approach and supports the guidance, noting that it will build on and reinforce the exacting standards expected from those FMI firms subject to supervision under PFMI.
9. Other than LINK's response to the 'consultation questions for comment', LINK has no additional comments on the Consultation Report.

Consultation questions for comment

1) Scope and interaction with other PFMI principles

- a) Is the guidance provided on the scope of general business risk and interaction with other PFMI principles clear and sufficient? If not, how should it be amended?

LINK considers the guidance on the scope of general business risks and how this interacts with other relevant PFMI principles clear and sufficient.

2) Identifying, monitoring, and managing general business risks

- a) Is the guidance provided on identifying, monitoring and managing general business risks clear and sufficient? If not, how should it be amended?

LINK considers the guidance on identifying, monitoring, and managing general business risks clear and sufficient.

- b) Are there other approaches and tools, in addition to or instead of those mentioned in the report, that would help FMIs to identify general business risks and estimate the size and timing of general business losses? If so, please describe the approaches or tools.

LINK considers the approaches and tools provided in the guidance robust. LINK has no additional approaches or tools to propose.

- c) Are there other approaches and tools, in addition to or instead of those mentioned in the report, that would help FMIs to minimise and mitigate the sources of general business risk and manage residual risk? If so, please describe the approaches or tools.

LINK considers the approaches and tools provided in the guidance robust. LINK has no additional approaches or tools to propose.

3) Determining the minimum amount of LNAFE

a) Is the guidance provided on determining the minimum amount of LNAFE clear and sufficient? If not, how should it be amended?

LINK considers the guidance provided on determining the minimum amount of LNAFE clear and sufficient.

b) Are there other factors, in addition to or instead of those mentioned in the report, that an FMI should consider in its calculation of (i) the costs of implementing its recovery and orderly wind-down plans and (ii) the appropriate amount of LNAFE? If so, please describe the factors.

LINK considers the factors noted in the guidance suitable and has no other factors to propose.

4) Governance and transparency

a) Is the guidance provided on governance and transparency related to general business risk clear and sufficient? If not, how should it be amended?

LINK broadly agrees with the guidance provided on governance and transparency related to general business risk as outlined in the Consultation Report. Strong governance processes should be in place to ensure effective management of general business risks. However, it is important that FMIs have the discretion to structure the governance elements outlined in the Consultation Report in a way that is appropriate and proportionate to their business. Each FMI is structured differently including in their size, complexity and legal structure so a 'one-size fits all' approach should be avoided.

b) What particular information related to an FMI's process for managing general business risk would be useful for the FMI's participants so they can assess the risks they incur by participating in the FMI? Are there practical problems with providing such information, and if so, how can they be addressed?

LINK recognises the importance of transparency and clarity of information and the need to ensure an FMI's participant firms can assess the risks they face through participation. For LINK, this is achieved through pre-contract engagement with potential participants and as a part of ongoing relationship management once onboarded, including through the provision of management information and consultation through structured participant forums. LINK considers it important to ensure that any proposed guidance continues to allow FMI firms to tailor their internal procedures accordingly to meet those requirements.

c) Are there other areas, in addition to or instead of those mentioned in the report, where an FMI should consider seeking stakeholder input on its process for managing general business risk?

LINK considers stakeholder engagement important. LINK observes the areas noted within the guidance for stakeholder input in managing general business risk, and notes that stakeholder engagement and input will depend on an FMIs structure, rules, and governance

arrangements. As such the areas noted should be guidance for an FMI to consider, rather than mandatory. LINK does not propose any other areas in addition to those mentioned in the guidance.

5) Should the guidance distinguish between operating losses and non-operating losses in determining the minimum amount of LNAFE?

LINK considers that guidance is not necessary to distinguish between operating losses and non-operating losses. It is for the FMI to make that distinction in the course of its annual accounting processes to ensure relevance to the firm's operating model, and in accordance with agreed accounting principles.

Ends.