

LINK 2018 ANNUAL COMPLIANCE REPORT

Basic Information

Company name	Link Scheme Holdings Ltd
Person to contact with any questions	Dave Morgan
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Reporting Period	October 2017 – September 2018

Form B - General Direction 3

Please complete the form below. The **main headings** relate to the reporting requirements of general direction 3 (3.4, a-f). The sub-headings provide you with guidance on the information that we would like you to provide in order to meet the reporting requirements.

GD3.1 Self-assessment by the operator on compliance of its access requirements contained in regulation 97 of the Payment Services Regulations 2009 (PSRs 2009) [now updated to regulation 103 of the PSRs 2017] throughout 2017/18.

GD3.1.1 Please state whether you have or have not complied with the obligation contained in regulation 97 of the PSRs 2009 [now updated to regulation 103 of the PSRs 2017].

Please include a summary relevant to your response.

It is the view of Link Scheme Holdings Ltd (LSHL) that "LINK Scheme" is compliant with the requirements of Regulation 103 of the PSR 2017.

Membership of LINK Scheme remains open to any organisation that meets the relevant defined access criteria set out at Para 1.3 of Members Agreement Appendix 1 Part A 1 - Operating Rules as attached (Confidential) and publicly available via the LINK Scheme website:

<https://www.link.co.uk/membership/joining/>

As detailed within LINK's 2016 and 2017 compliance reports, continues to provide access to LINK objectively, proportionally and without discrimination. LSHL manages all access enquiries in the strictest confidence independent from any influence from current Members or external parties.

Access to LINK Scheme is strictly conditional on continual compliance to the Members Agreement which contains rules (including Operating Rules) to ensure that no unnecessary risk is introduced and that operational and financial stability of the Scheme is maintained. All Members are required to attest to annual compliance certification managed by a dedicated Operational Assurance function of LSHL.

There are no restrictions imposed by LINK Scheme on participation in other Payment Systems. A number of LINK Members are known to participate in VISA, Mastercard and other Payment Systems.

<p>GD3.1.2 Please highlight any changes to your access requirements over 2017/18 (that are now complete). Where changes have been made, please explain the impact on the obligations in regulation 97 of the PSRs 2009 [now updated to regulation 103 of the PSRs 2017].</p>	<p>No changes since last report.</p>
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GD3.2 Details of all occasions in the <u>2017/18</u> period when an expression of interest in potentially securing direct access or direct technical access has been made and details of the operator's response to, and outcome of, such expression of interest.				
GD3.2.1 Information for publication on new members and demand for access.	As at 30 September 2018:			
	<i>Expressions of interest</i>	<i>Signed letters of intent</i>	<i>New members during reporting period</i>	<i>No. of participants</i>
	5	1	1	36
GD3.2.2 Confidential information on demand for access.	There have been six new expressions of interest to participate in LINK Scheme and one new Member during this reporting period. A complete list of all such requests is detailed in confidential annex 1 .			
GD3.3 Details of all occasions in the <u>2017/18</u> period when an enquiry or objection regarding potential changes to the <i>access requirements</i> has been made to the <i>operator</i> and details of the <i>operator's</i> response to, and outcome of, such enquiry or objection.				
GD3.3.1 Please detail the number of enquires made to change your access requirements including a summary of the processes followed to deal with those enquiries.	There have been no enquiries made to change the defined access requirements during this reporting period.			
GD3.3.2 Please detail the number of objections made to any proposed changes to your access requirements including a summary of the process followed to deal with those enquiries.	Not applicable.			

GD3.3.3 Confidential information on enquiries and objections.	Not applicable, therefore confidential annex 2 is intentionally blank.
GD3.4 Details of all occasions in the <u>2017/18</u> period when the operator has engaged with, and considered, the views of payment service providers and other interested parties on the operation and effectiveness of its access requirements.	
GD3.4.1 Please detail the instances when you have engaged with and considered the views of PSPs and other interested parties on the operation and effectiveness of your access requirements.	Instances of engagement with PSP's on the operation of LINK's access arrangements are detailed within confidential annex 3 .
GD3.4.3 Confidential information on views express relating to the operation and effectiveness of the access requirements.	A complete list of all views expressed relating to the operation of LINK's access are detailed in confidential annex 3 .
GD3.5 Details of any anticipated <i>operator</i> review, or engagement with <i>payment service providers</i> and other interested parties, that the <i>operator</i> plans to take over the following 12-month period in relation to its <i>access requirements</i>.	
GD3.5.1 If you have work on-going reviewing your access requirements please include a description of that work, the progress that has been made so far, and the expected completion date.	<p>The LINK Payment System is regulated under the Banking Act and LSHL, as the Operator, is responsible for the systemic risk management of the System.</p> <p>As LINK is a domestic Scheme the Members Agreement, Rules and Security Standards are written to support domestic participants and transactions. However, as currently drafted, they do not actually restrict overseas participation and therefore the LINK Network is exposed to the risk of overseas participation where different regulatory, security and technical regimes prevail. LSHL is therefore reviewing its criteria and rules in respect of the risks presented by overseas participants and the deployment of ATMs in other countries/territories and whether these can continue to be</p>

	<p>supported in a Domestic Scheme. Legal advice has been provided in respect of overseas ATMs and legal consideration, including competition advice, is currently being given to overseas participants.</p> <p>It is anticipated that the LSHL Board will make a decision as to whether LINK can continue to support overseas participation in Q4 2018.</p>
<p>GD3.5.2 If you are planning to review your access requirements in the next 12 months please include a description of the planned work.</p>	<p>LINK is currently developing an innovation opportunity to provide cash and balance services through retail counter terminals. This has arisen from LINK Consumer Council work to address the broader requirement of access to cash in a declining market and to, more specifically, allow consumers access to their full available account balance which would not usually be available from an ATM. This has also been referred to as the '£3.60' problem, highlighting that consumers cannot easily access to lower values at ATMs which typically do not dispense values lower than £5 or £10. This work is dependent on ongoing discussions with the FCA.</p> <p>A review of access requirements may be required as a result of this innovation opportunity.</p>
<p>GD3.6 Details of any anticipated future developments that the <i>operator</i> considers may require or justify material updates or changes to its <i>access requirements</i>.</p>	
<p>GD3.6.1 Please provide an explanation of any anticipated future external developments you have identified that will impact on your access requirements.</p>	<p>No updates or changes to access requirements are currently anticipated.</p>

Form C - General Direction 4

Please complete the form below, ensuring that you respond to each section of the paper. The **main headings** relate to the reporting requirements of general direction 4 (4.2, a-c). The sub-headings provide you with guidance on the information that we would like you to provide in order to meet the reporting requirements.

GD4.1 self-assessment by the <i>operator</i> on compliance with the obligation to represent the interests of service users in the operators governing body's decision, contained in General Direction 4, over <u>2017/18</u>	
<p>GD4.1.1 Please state whether you have or have not complied with General Direction 4 to ensure that there is appropriate representation of the interests of service-users in your governing body's decision-making processes. Please include a summary relevant to your response.</p>	<p>Link Scheme Holdings Ltd (LSHL) considers consumers and Members to be the Service Users of the LINK Scheme and therefore in our view LSHL is compliant with the PSR's requirement that there is appropriate representation of their interests in its decision making.</p> <p>There have been no changes to consumer engagement since our last report.</p> <p>Our 2016/17 report highlighted that, as a result, of the Independent Governance Review (IGR) the Network Members Council had been abolished and that the management of the Scheme is now carried out by the independent Board of LSHL. Network Members continue to be represented through their Network Member Representatives' supported by a Network Member Advisory Group (NMAG) which represents the views of Members in relation to the LINK operating environment.</p>
<p>GD4.1.2 Please highlight any changes to the manner in which you have engaged with service-users in order to ensure there is appropriate representation within decision making processes. Please include any changes to Governance arrangements.</p>	<p>LINK has launched a new website (www.link.co.uk) which uses a modern interface that's responsive to different devices and is fully accessible for Service Users. The website design takes account of service user needs and provides the capability to engage with LINK, including:</p> <ul style="list-style-type: none"> • A 'suggest a site' service (www.link.co.uk/consumers/suggest) that helps consumers make suggestions for new ATMs in their area. • Information for site owners (www.link.co.uk/membership/site-owners) who may be considering an ATM for their premises. • 'ATM Locator' (www.link.co.uk/consumers/locator) to help consumers find their nearest ATM. <p>The launch of a LINK Mobile App has also provided consumers with an opportunity to provide feedback on their experience using the LINK Network whilst on the move. This valuable Service-</p>

	<p>User feedback highlighted limitations with ATM Geo-Locating Member provided ATM address and post code data. LINK engaged a third-party organisation specialising in Geo-Location validation which has dramatically improve the mapping accuracy of LINK ATMs. LINK has an ongoing programme continuously validate ATMs as they are added to the Network.</p> <p>In January 2018 LINK implemented its second and final round of Governance changes and became compliant with the Bank of England’s Code of Code of Practice and Supervisory Statement relating to governance in recognised payment system operators September 2016. These changes increased the decision-making powers of the LSHL Board whilst maintaining consultation obligations to Members.</p>
<p>GD4.1.3 Please highlight any changes to how discussions and decisions are fed back to service-users.</p>	<p>The Governance changes implemented on 1st January 2018 introduced obligations for consultation with Members and also introduced a Right to Object (RTO) for decisions where the decision-making powers had been transferred to the LSHL Board. These consultations take place via the NMAG forum and also via direct communication with nominated Network Member Representatives. Where an RTO is required, a formal notice is issued to the Network Member Representatives.</p> <p>The LINK Consumer Council provides advice on consumer issues that relate to LINK and represents the interests of consumers in the governance and development of the network ensuring that the consumer is put at the heart of LINK. Further details together with a copy of the Consumer Council’s annual report are available on the LINK website (www.link.co.uk/initiatives/consumer-council).</p> <p>On 1st November 2017, LINK announced a proposal and consultation with Members and Consumer Council on the future levels of LINK Interchange. Details of the proposal, consultation and responses together with subsequent LSHL Board announcements on measures to secure the future of free ATMs are available on the LINK website (www.link.co.uk/about/news).</p>
<p>GD4.1.4 Where applicable, please highlight how you have addressed the focus areas that we had identified in the 2018 Access and Governance report.</p>	<p>The PSR’s 2018 Access and Governance report did not highlight any areas of focus specific to LINK.</p> <p>Within the 2018 Access and Governance report the PSR stated its intention to review the General Directions in 2018 to consider whether they continue to take account of user’s needs. LINK provided a full response to this consultation in June 2018.</p>

GD4.2 Details of all occasions in <u>2017/18</u> when the operator has engaged with, and considered, the views of service-users (including indirect payment service providers) and other interested parties on the effectiveness of the representation of the interests of service-users in its decision-making processes of its governing body.	
GD4.2.1 Confidential information on engagement with service-users.	Examples of engagement with service-users are detailed within confidential annex 4 . LINK understands this information will not be published.
GD4.3 details of any anticipated review, or engagement with service-users (including indirect payment service providers) and other interested parties, that the operator plans to take over the following 12-month period in the representation of the interests of service-users in its decision-making processes of its governing body.	
GD4.3.1 If you have on-going work reviewing or changing your engagement with service users please include a description of that work. Please include the progress that has been made so far, the way in which stakeholders have informed the work, and the expected completion date.	<p>LINK remains consumer focused in its approach and has a number of projects underway or planned over the next year. These include;</p> <ul style="list-style-type: none"> • Trialling the ability to offer cash and balance Services at a Retail Counter terminal. This will enable improvements to both geographic inclusion and allowing consumers to get access to small balances in their accounts. This has been developed by the Consumer Council and the LSHL Board in response to consumer need and the requirements of Government. • Access to Cash Review is looking at the long-term consumer demand for cash and is taking direct input from a range of Service Users via an open consultation and a range of regional workshops and sessions where specific user needs are considered. • In 2018 LINK implemented enhancements to its work on Financial Inclusion to maintain and improve the coverage of the free-to-use machines in deprived, remote and rural locations. These changes came into effect on the 1st July. <p>The LINK Financial Inclusion Programme is aimed at providing free access to cash in the most deprived areas of the UK through providing subsidies to ATM Operators who run free-to-use ATMs in these locations. 2,650 deprived areas have been identified in the UK that have historically not had free access and over 1,860 of these now have a free-to-use ATM. LINK has introduced an up to tripling of the subsidy available in these locations from 10pence to up to 30pence to help resolve the remaining outstanding areas. In addition to this LINK has committed to maintain or increase the interchange on all free-to-use ATMs that do not have another free-to-use ATM within 1km, these machines are called Protected ATMs. This announcement was made alongside the changes to</p>

	interchange in January 2018 to ensure that where there is a community that relies on one ATM there is no commercial reason for an ATM Operator to close the machine. There are 2,365 Protected ATMs.
GD4.3.2 If you are planning to review or change your engagement with service users please include a description of the planned work. You should explain the aim of the work, the planned stages of the project and the expected completion date.	No change since the last report.