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## **EUROCLEAR BANK (EB) AS LONG TERM CSD FOR IRELAND POST BREXIT**

### **FINAL**

#### **Minutes of the Market Implementation Group 2**

**Held on 25 June 2019 at Citi, 1 North Wall Quay, North Dock, Dublin 1**

#### Members Present:

Chairman: **Brian Healy**  
Issuer representative: **Ronan Deasy**, Kerry Group  
International banks representative: **Peter Stewart**, Citi  
Broker representative: **Aidan O'Carroll**, Davy  
Registrar representative: **Joe Molony**, Computershare  
Legal community representative: **Paul Egan**, Mason Hayes & Curran  
Stock exchange representative: **Eric Bey**, Euronext  
CCP representative: **Bradley Arrowsmith**, EuroCCP  
Euroclear representative: **Sandra Aboutboul**, Euroclear

#### Apologies:

ETF issuer representative: Paul Young, Vanguard

#### In attendance:

Niall Jones, Euronext  
An Mestdagh, Euroclear  
Nicolas Micheli, Euroclear  
Christopher Twemlow, Euroclear  
Cevdet Sumbultepe, Euroclear

The Chairman opened the meeting and welcomed the members to the second Market Implementation Group (MIG).

### **PART I: MIG GOVERNANCE**

The Chairman welcomed Sandra Aboutboul and Niall Jones, Euronext as respectively representative of Euroclear and alternate representative of Stock Exchanges to their first MIG. He added that Mr. McKenna will no longer participate in the MIG and thanked him for his contribution to the WG and in proactively liaising with the legal constituency. He also noted that Mr. Molony had replaced Mr. Halligan as representative of the Registrars. **ACTION:** Ms. Mestdagh asked each member to confirm his/her alternate by the end of the week to ensure continuity. Mr. Stewart confirmed that Ms. Janssen, BNY Mellon was the alternative representative for the international banks. Mr. Deasy confirmed that Mr Neil Colgan (CRH) will be the issuer alternate. Mr. Molony confirmed that Mr Jai Baker will be the registrar alternate.

The minutes of WG8 – MIG1 were circulated, which already reflected the Chairman's and some other comments. The members have until the end of the week to provide any further proposed amendments.

The Chairman indicated that both open points in the matters arising, i.e. Nationality Declaration and Representation were covered in the agenda. He then asked Ms Mestdagh to provide an overall project update.



Ms. Mestdagh presented the implementation timeline and stressed that meeting the milestones was crucial for the success of this project. The MIG noted the following upcoming milestones:

End of June 2019:

- Confirmation of the legislative changes shared by the Authorities. Ms. Mestdagh was still hoping feedback would be received by then.
- Anticipated sign off from the RC on the Stamp Duty proposal made by EuroCCP, Citi, Davy, EB, EUI to the Irish Revenue in March 2019.

End of September 2019:

- Migration strategy needed to be completed. This would include an agreement on exact date of migration as well as the process around pending corporate actions, pending stock borrow loans, updated stock exchange flows etc. Ms. Mestdagh indicated that the Migration sub workstream was in the process of being formed and was looking for volunteers. She asked for names to be submitted by 5<sup>th</sup> July.
- Publication of online market guides which would provide detailed service descriptions of the processing in EB. These would be available on the Euroclear website and as pdf documents.
- The finalisation of the specifications for the EB-Registrars model outlining the roles and responsibilities, the timeline, etc.

End of September 2020:

- Registrars would be expected to start testing with EB. This is a mandatory activity before being able to act as a Registrar for Irish corporate securities in EB.

December 2020:

- Issuers to confirm that the necessary shareholder resolutions (or in the absence of legislation, SoAs) had been effected.

January 2021:

- Start of the testing with Euroclear Bank participants. This was a non-mandatory activity as most already had an account with EB. The Chairman asked what the expected coverage of participants engaging in the testing was. Ms. Mestdagh responded that it depended on the participants given that the Irish model was mainly using existing EB processes most of the processes already existed.

The MIG noted the following additional comments:

- The timeline was tight
- Mr. Molony asked whether the plan included any contingency. Ms. Mestdagh responded that the testing window with the Registrars was 3 months and was expected to complete by the end of December as it was a dependency for the testing with the EB Participants.
- Mr. Deasy noted the milestone on the plan referring to the sign off on the roles and responsibilities by the end of June. Ms. Mestdagh added that this milestone was met as the model was agreed but it was now needed to go into more detail, e.g. agreeing the deadlines. The workshop on 24<sup>th</sup> July would help to progress this topic.
- The Company Law Review Group have written to Mr. Twemlow to seek operational details on some corporate actions processing including the process to rematerialise securities.
- Alternates would be key to maintain momentum and for quorum purposes during the July-August holiday period.
- The Chairman had a meeting with the Authorities this morning in which they indicated that their decision on the legislative migration changes sought by the market would be delayed until end of July.
- It was crucial for Issuers to be engaged and they should not be represented solely through the Legal and Registrars community. Euronext would organise Issuers session on a quarterly basis. **ACTION:** Quarterly Issuers sessions to be added to the timeline.
- Another legal briefing would take place in September / October 2019 when there would be more clarity about the migration mechanism.
- The Registrars had discussions with a number of larger Issuers in relation to their contingency plans. In the Registrars' views, the Issuers should start looking into contingency plans with immediate effect. They needed to think about this now as we won't have clarity on the exact nature of the legislation until later in the year. Planning should be looked at today, even if only at a high-level to start with. It was noted that

some equity Issuers have never been through a SoA and therefore a prescriptive style could be adopted whereby planning would be facilitated by template documents and coordinated arrangements which would help to make the process more straightforward, including the Court hearings. It was expected that the SoA process would take 4 to 6 months for Equity Issuers. If a legislative solution is put in place by December 2019, it will be available for the 2020 AGM season. Otherwise likely requirement for separate EGMs later in 2020. If the legislative solution is not in place by end of May 2020, Issuers should initiate scheme of arrangement (and EGM). Final date for receipt by Euroclear of proof of issuer passing either resolution or scheme is 31<sup>st</sup> December 2020.

- The Issuers session on 26<sup>th</sup> June was confirmed and 26 Equity issuers had confirmed their participation so far.
- Having a communication workstream would cover the need for regular briefings to the market as a whole. Its focus would be different to the migration workstream. In the migration workstream, Equities and ETFs would be covered separately as operational aspects and possibly also required timelines were different. Volunteers were sought for the migration workstream. Representation from all constituents was needed. **ACTION:** Volunteers for the migration meetings to contact Ms. Mestdagh by the end of next week. There might be a need for more than one representative per constituency to cover for the differences in systems used. From a logistics perspective, meetings could be organised via video conference however this would depend on the composition and size of the group.

Ms. Mestdagh continued going through the agenda points moving on to the external testing topic. On the Registrars testing, the MIG noted the following points:

- No major Swift changes expected other than some SRD2 requirements.
- The testing phase with the Registrars was mandatory. If this testing was not passed successfully, the Registrars would not be able to act as registrar for Irish corporate securities on EB. In this case, Issuers would need to choose another Registrar or rematerialise their securities.

Today out of six Registrars, the three largest Registrars covering the vast majority of issuers were actively involved and three had been briefed via the Registrars sub-group. Further engagement was needed to ensure all six were fully aware of the changes required and of the deadlines on their end. Mr. Molony confirmed that the message would also be given at the ICSA Registrars Committee.

On client testing, the MIG noted the following points:

- By client testing was meant clients of Euroclear Bank, EB Participants.
- End-to-end testing across venues, CCPs, Euroclear etc was not foreseen at this stage, there would however be bilateral testing.
- CCPs already had the multi settlement logic in place however they would need to change their static data. The Stamp Duty process would be new for the CCPs. This could require testing from CCPs with the Revenue Commissioners.
- The exchanges and the MTFs would need to change their static data.

Testing of the migration was at this stage not envisaged given the workload it would generate on the Registrars side. Moreover, it was a similar process to that of the ETF to iETF migration which had already been executed. Volume was difficult to test.

## **PART II: LEGAL UPATE**

Mr. Twemlow continued the presentation and moved on to the legal update. The MIG noted the following points:

- The last two or three weeks were spent building a common understanding of the model across the legal community and of what it entails. The key topic was the migration mechanism.
- A Board resolution potential migration approach had been put forward by the legal community. It was expected that it would require primary legislation to make it robust. If that was in the legislation that should provide a good enough basis for the Issuers to be satisfied. However it was expected that companies would not exercise their board discretion given the perception that the Board of Directors might act in disregard of the interests of some of the shareholders. They would instead opt for the decision to be one made by the shareholders. It was believed that a special resolution was the best route.
- "Plan C" would be rematerialisation of the security – an absolutely worst case option.

- The Company Law Review Group had submitted questions to EB on detailed issues around corporate actions processing and asset servicing. EB would revert to the CLRG with the detail sought.
- Other legal changes, limited in number, had been submitted to the Authorities to facilitate the model. Those changes were separate to the required alteration of the Stamp Duty process, this latter posing an easier legislative change due to the Finance Act timing.

### **PART III: UPDATE ON SECURITIES ELIGIBILITY**

Ms. Aboutboul continued the presentation and moved on to the update on securities eligibility topic. The MIG noted the following points:

- It was confirmed that the REITS were eligible in EB.
- It was possible for EB to communicate to Registrars details about those securities for which required further analysis to assess whether they were eligible in EB or not. For those securities with balances and value it came down to 3 funds. Then the analysis would continue with those securities which have a balance but no value, then those securities with no balance, followed by the securities with no value would be considered. **ACTION:** EB to provide details about the securities that require further analysis for their EB eligibility assessment to the Registrars.
- Currently the volume of pending transactions and how old those transactions were was unknown. **ACTION:** Provide an analysis of the volume of pending transactions as well as how old these transactions are to the next meeting for the benefit of the MIG. It was not only related to transactions but also to corporate actions and stock loans. It was a topic for the migration workstream and an analysis was on-going to understand what could and could not be done. There would need to be a message to the EUI client base, including registrars, asking for them to clean up pending transactions. This would be looked at as part of the migration sub-workstream.

### **PART IV: UPDATE ON PARTICIPANTS' ELIGIBILITY**

Mr. Sumbultepe continued the presentation and moved on to the update on participants' eligibility topic. The MIG noted the following points:

- CDIs was different to DIs (depository interest) Issuers could go down the DI route however this would settle against eligible currencies in the CREST system, and most likely would not be against Euros. In this model, there would still be a need for an issuer CSD which might further complicate how processes might work. There could be potential stamp implications which would also need to be considered. Mr. Molony would like to have a conversation around DI's issued in the books of Registrars
- CDIs would be considered as an international instrument and the tariffs would be different to a domestic instrument and so would the service offering, e.g. no tax relief while in EB securities would benefit from dividend withholding tax at source. All of this would be explained in more detail at the AFME meeting including certain securities that had allowed UK source of income such as Experian which would continue as a specific corporate action. Experian was however not considered as an Irish corporate security and hence could continue in EUI as today with the caveat of limitation of currency settlement and dividend payment.
- Quick refund was something that did not exist in Ireland. It was something that, going forward, the Irish market could benefit from however it was not on the critical path.
- Providing withholding tax services for CDIs to QIs to benefit from relief at source would be a new service to be developed by EUI which would require to be budgeted and prioritised.
- Participants did not need to wait until March 2021 to open their EB account. They should do so as soon as possible so they could start testing. The commercial team at Euroclear were looking into whether fees could be waived until March 2021.

### **PART V: UPDATE ON NATIONALITY DECLARATION**

Ms. Mestdagh continued the presentation and moved on to the update on nationality declaration topic. The MIG noted the following points:

- The target process on nationality declaration had been identified and the formal go ahead from Ryanair was still pending.

- It was similar to the proposed process for Stamp Duty whereby trading continues to happen on a gross basis. The buyer and the seller needed to identify the nationality in their instructions, and it became a mandatory field however it was not a matching field. In case an account was held on the behalf of multiple investors, either segregated account per nationality would be opened or an own account transfer would need to be entered whereby EB would send a report to the Registrars outlining all the transactions for non-EU participants based on the nationality entered by the buyer and the seller.
- EB is awaiting a confirmation from Ryanair that Registrars could send the notice to an additional party other than the registered party, i.e. EB Nominee and the non EU Participants that EB had identified. **ACTION:** Euroclear to share the proposed process on the nationality declaration with the MIG
- For Ryanair, Link had requested Custodians to declare every time the beneficial owner for the entire holding on the omnibus in the event of a non-EU transaction was reported.

## PART VI: ANY OTHER BUSINESS

Ms. Mestdagh continued the presentation and the planned bilateral meetings were discussed by the MIG. The MIG noted the following points:

- The Issuers seminar was divided into a morning session for equity Issuers and another one in the afternoon for ETF Issuers.
- The 2<sup>nd</sup> July SWIFT workshop with Registrars would focus on corporate actions, income and proxy voting.
- The 3<sup>rd</sup> July AFME meeting was organised by AFME but was open to everyone. It would be a detailed session covering how end-to-end corporate actions processes would work irrespective of the type of party, e.g. Registrar or Custodian. This first session was dedicated to corporate actions but it was the first session of a series.
- The commercial team of Euroclear had started organising pricing sessions. Mr. Stewart noted that Citi had not been approached yet. **ACTION:** Euroclear to confirm when Citi would be approached about tariffs.

Despite the holiday period, the members of the MIG confirmed their availability on 21<sup>st</sup> August for the next MIG.

The Chairman concluded by saying that the implementation of the project was progressing well, key decisions by the Authorities, on legislation and SD, were imminent and Euroclear had mobilised their full team to work on the Issuer CSD migration. Ms Mestdagh confirmed that it was recognised as a priority by the organisation. The project was now moving at a high pace as time was not in our favour.

Summary:

- Nomination of names by the end of the week for the migration workstream.
- Any news on legal matters would be shared.
- Euronext to confirm dates for the communication workstream.

The Chairman and Ms. Mestdagh thanked the members before closing the meeting.

Next meeting: 21<sup>st</sup> August, location TBC.

*Summary of new/outstanding actions:*

Action item ID	Description of Action items	Date of Analysis/ Discussion	Assigned to	Planned Closure Date	Status
AC033	Euronext to discuss how and when to engage with the LSE	11/03/2019	Euronext	25/03/2019	In Progress
AC049	Euronext to raise awareness of the matters being discussed by the WG and the migration to EB among the exchange and other market venues constituency by the end of the week	02/04/2019	Euronext	05/04/2019	In Progress
AC102	Ms. Mestdagh asked each member to confirm his/her alternate by the end of the week to ensure continuity	25/06/2019	All	28/06/2019	In Progress

AC103	Quarterly Issuer briefing sessions to be added to the timeline	25/06/2019	Euronext	05/07/2019	Pending
AC104	Volunteers for the migration workstream to reach out to Ms. Mestdagh by the end of next week.	25/06/2019	All	05/07/2019	In Progress
AC105	EB to provide details about the securities that require further analysis for their EB eligibility assessment to the Registrars	25/06/2019	Euroclear	05/07/2019	Pending
AC106	Provide an analysis of the volume of pending transactions as well as how old these transactions are to the next meeting for the benefit of the MIG	25/06/2019	Euroclear	20/08/2019	Pending
AC107	Euroclear to share the proposed process on the nationality declaration with the MIG	25/06/2019	Euroclear	05/07/2019	Pending
AC108	Euroclear to confirm when Citi would be approached about tariffs.	25/06/2019	Euroclear	05/07/2019	Pending

*Summary of completed actions:*

*None to list*