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

Minutes of the Market Implementation Group 4 Held on 25 September 2019 at Davy's Offices, 49 Dawson St, Dublin 2, Ireland

Members Present:

Chairman: **Brian Healy**
Issuer representative: **Ronan Deasy**, Kerry Group
International banks representative: **Sofie Janssen**, BNYMellon (by conference call)
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 (by conference call)
CCP representative: **Bradley Arrowsmith**, EuroCCP (by conference call)
ETF Issuer representative: **Paul Young**, Vanguard (by conference call)
Euroclear representative: **Sandra Aboutboul**, Euroclear

Apologies:

International banks representative: **Peter Stewart**, Citi

In attendance:

David Fitzgerald, Euronext Project Manager
An Mestdagh, Euroclear
Olivier Lefranc, Euroclear
Raymond Mallon, Euroclear (by conference call)
Kathleen Seurinck, Euroclear

The Chairman opened the meeting at 14:00, welcomed the members to the fourth meeting of the MIG and thanked Mr. O'Carroll for hosting this meeting at Davy's offices. He also welcomed Mr. David Fitzgerald, the recently appointed project manager at Euronext, to his first MIG.

APPROVAL OF MINUTES

The MIG approved the minutes of 21 August 2019 with some changes received from Mr. Molony prior to the meeting. Mr. Fitzgerald highlighted that the Euronext Issuer Dashboard referenced in the minutes would in practice be a summary view of Euronext's internal Issuers tracker which would not disclose individual Issuer information, for confidentiality reasons. The Chair referred to the initial action agreed with Euronext at the Steering Board (SB) in June that the SB and MIG receive an Issuer Dashboard so as to be able to monitor the Issuers' level of preparedness. He added that the dashboard must be sufficiently detailed for the MIG and SB to permit them to do this.



UPDATE ACTION POINTS

The Chairman invited Ms. Seurinck to go through the action points and the MIG noted that:

- Mr. Fitzgerald would provide her with the post-October dates on which the quarterly Issuer briefing sessions would be held, one of which he mentioned would be scheduled before Christmas (AC103);
- Euroclear's Commercial Division continued to approach clients individually about the tariff (AC108);
- AC152 (Broker alternate invitation to migration workstream) and AC153 (organisation of Registrar/Broker workshops) had been completed;
- AC154 (Issuer dashboard) and AC155 (copy of Law Society's submission to DBEI) would be covered at this MIG meeting following which these actions could be closed.

Before turning to the first point on the agenda, the Chairman gave his assessment of the previous month's achievements, highlighting that Euroclear had made considerable further progress over that period. Many meetings had taken place, generating significant engagement, and more had been organised, amongst others:

- the first migration sub-stream workshop in London on 4 September;
- a productive and well attended workshop with Registrars the previous day. Another session would take place on 30 September to which Brokers are also invited and a further workshop, focussing on corporate actions, was agreed for 10 October. Ms. Mestdagh added that these sessions were also open to the members of the Personal Investment Management and Financial Advice Association (PIMFA) and she would send the details of the meeting invitation to PIMFA's Chair to extend the invitation to its members (**Action point**);
- further AFME engagement; and
- a meeting with the Irish Revenue Commissioners (IRC) earlier that day.

The Chairman noted that the next major milestone was the publication of the service description for Investors, and that Euronext's Issuer briefing session on 15 October was also crucial as part of the need for ongoing proactive communication to bring Issuers to the appropriate level of knowledge and preparedness.

While fully acknowledging the good progress made over the previous month, the Chairman underlined that, with the timeline remaining very challenging, it was of paramount importance to maintain this pace. This sentiment was agreed with by all members of the MIG. He then asked Ms. Mestdagh to go through the overall project update.

PART I: OVERALL PROGRAMME UPDATE

Ms. Mestdagh apprised the MIG as follows:

- The service description for Investors would be released in the first week of October. Certain topics will still be subject to change/further clarification and these will be updated in a further release of the document. Following the agreement to gradually release completed sections of the service description for Registrars and the detailed discussion at the 24 September Registrar workshop, certain parts of EB's service offering would be shortly signed-off and released. This would likely include Security Eligibility and Settlement, whereas other sections such as Corporate Actions would take some more time to complete. Once all elements are at hand, the full service description for Registrars will be published.

- The definition phase of Euroclear's IT project had been extended from end September to 15 October so as to allow Registrars further time to review the areas that would not be achievable for them. As no further extension could be permitted, it was essential that Registrars provide Euroclear with this information urgently.
- A good meeting had been held with the IRC regarding the Stamp Duty process and formal sign-off was expected on 26 September (subject to minor amendments and only in the area of Euroclear Bank reporting to the IRC). It had been agreed with the IRC that reporting to CCPs is not needed as there would not be much value to them.
- The migration strategy would be signed off soon, the discussion on the specific date of migration was ongoing. A stand-alone migration document would be published, it would not be integrated in the service description, migration being a one-off event.
- It was understood that the Authorities are still targeting December for enactment of the migration legislation, a second draft would be published soon.
- Key findings from the Registrar workshop were that the Dividend Withholding Tax (DWT) service had been agreed upon in principle, further clarification was needed as far as Shareholder Rights Directive II (SRD II) was concerned.
- MIG members were welcome to join the AFME workshops which would be held on 3 October (covering DWT) and 10 October (Stamp Duty and SRDII).
- Discussions with the ETF constituency had accelerated, most Issuers will now migrate their ETFs into iETFs by end 2020. The schedule of agreed ETF "landing slots" would be communicated to Irish Funds on 26 September. Meetings on migration would be organised if and when requested, in parallel with the migration sub-stream workshops.
- There had been a lower level of activity over the last month in following up on securities eligibility and volume of pending transactions because of the vacation period and other more pressing priorities, so there was no material update to communicate to the MIG. Further updates on these, using the agreed format, would be included in future reports, as per those considered at the end-August MIG.

The MIG made observations and raised questions in respect of the following:

- ETF Issuers' progress on migration to iETFs: the MIG noted that the percentage of Issuers that have confirmed a migration date had remained stable, those that yet have to choose a migration date had increased. Only one Issuer had decided not to migrate into iETFs in EB. Discussions were ongoing with the three remaining ETF Issuers that still need to make a decision. The dates of the landing slots were now known and Ms. Mestdagh would confirm the migration dates to Mr. Young (**Action point**).
- Dual liquidity: The MIG heard that Irish CDIs traded on LSE will settle in EUI and Irish equities traded on Euronext will settle in EB, resulting in dual liquidity. There will be no cross-netting on the CCP platforms. The cost of a cross-border realignment from a CDI in EUI to an equity in EB would represent a small fixed cost only, however, there would be a considerable time difference to complete realignment, dependent on whether EB would be accessed directly (10-15 minutes) or through a custodian (three to four days).
- Share transfers to or from the Euroclear system: the MIG underlined the importance of reminding Issuers of their responsibility during the 15 October Issuer briefing session (identifying change of shareholders' rights). Mr. Molony also stressed the importance for Brokers to understand the impact on their trading behaviour as well as the different role they might need to play (this was on the agenda of the 30 September meeting). Mr. Arrowsmith pointed out that there could be an impact on daily fines for late settlement should the Broker trade the same line on two different exchanges. However, it was agreed that this is a decision for each Broker to take. Mr. Egan also noted that the Department of Business, Enterprise and Innovation (DBEI) would need to know what the full end-to-end process for share admission to or removal from the Euroclear system is, so that it could determine what the law would need to be post implementation. Ms. Mestdagh

highlighted that Euroclear could only provide the process detail as between EB and the Registrar and EB and the client, and not the process steps between Broker and Registrar or Broker and the client. The Chair underlined that this needed to be finalised as a matter of priority and in a more comprehensive way than had been done to date, defining and agreeing the entire process around movement of paper share certificates and that the upcoming Broker/Registrar workshop on 30 September was the appropriate forum to do this **(Action point)**. Mr. Egan expressed a desire to participate to that workshop, and Ms. Mestdagh agreed to extend an invitation to him **(Action point)**.

- Issuer communication: The Chairman commented that to date this had not been frequent enough nor was the messaging sufficiently aligned, with the divergent communication coming from the exchanges being a particular cause for concern. The MIG agreed that this needed to be addressed sooner rather than later and the opportunity to do this should be taken at the Issuer briefing session on 15 October. It had to be made crystal clear that there was no prospect of an extended equivalence for EUI and the impact of dual liquidity would need to be explained in depth. The stock exchanges' role in this process was crucial. Euronext accepted the importance of this and informed the MIG that it had recently communicated directly with Issuers individually on the equivalence point and had also scheduled a meeting on 2 October with a subset of the Issuer community to seek an early exchange of views on the information that needs to be communicated at the 15 October Issuer briefing session.
- Interaction with LSE: the Chair highlighted that an extensive dialogue between Euroclear and LSE was ongoing and he asked Mr. Bey or Mr. Fitzgerald to update the MIG on the interactions between Euronext and LSE, reiterating that Euronext's membership of the MIG entailed it representing the views of both exchanges and other trading venues. The MIG heard that most interaction from Euronext was with Issuers directly but that the MIG would be kept informed of the results of such discussions with LSE and, where different views emerge, these would be reflected in the update to the MIG.
- Service description for Registrars: The MIG queried if the service description will contain all elements necessary, including the granular technical details. Ms. Mestdagh explained that it will include the SWIFT message types and content required, but not the establishment of the connection with SWIFT, Registrars would need to liaise with SWIFT directly on this.
- Costs: There was a concern that the full view of cost was incomplete and this was a missing element for the Registrars and Issuers in their decision-making process. The MIG noted that, as far as the cost of the build of the solution was concerned, a complete view was not at hand due to a number of working assumptions. As far as the tariff of the EB service was concerned, this will be shared with clients bilaterally (and not through the service description) as it was dependent on a number of variables. Euroclear's commercial division staff and client relationship managers were available to analyse the impact of the EB tariff with individual clients.

The Chairman concluded the discussion recognising that good progress had been made but equally urging each of the constituencies to up the tempo and the breadth of their project engagement.

PART II: EURONEXT/EXCHANGES' UPDATE

The Chairman then asked Mr. Fitzgerald to brief the MIG on the progress made on the Euronext/Exchanges side. Mr. Fitzgerald summarised the updates outlined in the presentation, highlighting in particular that:

- one of Euronext's key goals was to move to a more proactive communication with the Issuer community. It was important to bring structure and make it a joint Euronext-Issuer plan and a two-way communication. Euronext committed to issue a monthly communication to the wider community via email providing updates on legislation, recent developments and what Issuers need to focus on in the next three to four weeks;

- the outcome of the Issuer survey had been updated to include the latest Issuer feedback received and the results indicate the clearly lower engagement from Small Caps vs Mid and Large Caps.

The MIG made the following observations:

- Euronext's focus now needed to shift from survey-mode to intensified bilateral Issuer interaction with a clear focus on those entities identified as insufficiently engaged. Mr. Fitzgerald confirmed this would be the case, with the emphasis to be on providing Issuers with practical guidance and identifying usable action plans and key next steps.
- Registrars would be interested in attending the Issuer briefing session on 15 October **(Action point)**.
- The survey response to the question on attendance at future Euronext briefing sessions was worrying. It underlined the need for Exchanges to work proactively on ensuring effective communication across their full Issuer base using various channels. Mr. Fitzgerald concurred with this, noting that as communication builds up, the tone of the message will be adapted, moving away from awareness building to full project mode. Less engaged Issuers would benefit from more direct communication clearly outlining the steps they need to undertake and in what timeframe. To achieve this goal, Mr. Fitzgerald suggested that a subgroup be formed to work on a "next steps for Issuers" list and also to cover the legal aspects such as drafting template circulars, etc. The Chairman welcomed Euronext taking the lead on this and remarked that such a subgroup should not be a subgroup of the MIG per se but could operate as did the subgroups of Registrars, Brokers, CCP, ETFs and of the legal community. He also suggested that Euronext should involve Plc legal advisors, e.g. from Arthur Cox and MHC, and that the previously mentioned Euronext 2 October meeting with a subset of the Issuer community could be used to progress this initiative.
- Mr. Egan noted that the draft migration bill had set out various pieces of information that would need to be provided to shareholders, and that some of that would need to be provided by Euroclear, such as information regarding the Belgian law rights.
- The MIG requested to receive a copy of the recent update sent by Euronext's Orla O'Gorman to Issuers on the time-limited status of equivalence, legislation and milestones **(Action point)**.

As a next step, Mr. Fitzgerald highlighted that Euronext's focus would be on establishing the messages to relay during the 15 October Issuer briefing session as well as the development of a FAQ and other marketing materials. The Chairman expressed the view that concentrating on the 15 October Issuer briefing combined with proactive bilateral Issuer engagement should be the key priorities and that a FAQ was of secondary importance. Other members of the MIG agreed with this view.

PART III: LEGAL UPDATE

The Chairman invited Mr. Mallon to present the legal update. The MIG then noted the following:

- The main comments that Euroclear had made on the draft migration legislation proposal which were submitted through Arthur Cox to the Authorities on 9 September. As the priority was to have the legislation enacted by year-end, there had been less focus on Stamp Duty. Ms. Mestdagh complemented that Stamp Duty will not be applicable on the migration itself. If securities as part of the migration are moved from CDI in EUI to EB, the correct Stamp Duty flag will have to be completed. She also pointed out that this was part of the ongoing analysis whereby Euroclear is trying to find a mechanism to efficiently transfer the positions on behalf of clients.
- Recurring questions asked by the Department of Finance, Takeover Panel and the Company Law Review Group (CLRG). The answers to these were being progressed and related to the EB Nominee, voting arrangements and shares in escrow.

- Euroclear will be responding to the UK Law Commission's recent call for evidence on intermediated securities.
- Mr. Egan noted that the CLRG had decided not to submit comments on the migration bill, given the desire that the legislation be implemented as soon as possible. They did have one observation, i.e. that the approvals could be sought as part of an AGM, rather than there being a need to have an EGM. On the post-implementation law, there were diverging views among lawyers on the Scheme of Arrangement. It was important to understand the detailed steps to decide discrete issues of law that will arise (e.g. re SRD II).

PART IV: SHAREHOLDER RIGHTS DIRECTIVE II

The Chairman then asked Ms. Aboutboul to provide an update on the SRD II offering. She referred the MIG to the details in the presentation which had been presented at the Registrar workshop the previous day, where the more limited transparency for Issuers became very apparent.

The MIG discussed the differences in the meeting process flow between EUI and Registrars today as compared to with EB in the future and noted that:

- EB clients' individual voting instructions will be sent to Registrars the same day on an ongoing basis; a subsequent voting instruction will not replace a previous instruction;
- EB will facilitate enabling an EB participant to vote directly in the meeting through a proxy rather than issuing an electronic vote through EB. The exact process would need to be established with the Registrars;
- either voting will be done through EB or at the meeting itself. EB will block the securities for which the clients would vote at the meeting;
- changing a voting instruction, previously been processed through EB, at the meeting itself is not possible. Mr. Egan remarked that the voting process would need to be reviewed as a vote does not actually count until at the meeting.

Ms. Mestdagh concluded that these concerns will be looked into and further clarified at the meeting of 10 October with the Registrars and Mr. Egan agreed that he would participate in this meeting. An update would be given to the MIG at their next meeting (**Action point**).

PART V: UPDATE ON CORPORATE ACTIONS

In light of the above, it was agreed to cover the update on corporate actions at the next MIG meeting (**Action point**).

PART VI: ANY OTHER BUSINESS

There was no other business raised.

The Chairman noted that the next MIG meeting was planned for late November and asked whether a MIG in October might be warranted. After consideration all agreed that the next MIG meeting should be in November in view of the many other meetings that were going to take place in the next few weeks, however, to advance it to earlier in the month (**Action point**).

The Chairman thanked the members for their active participation and closed the meeting at 16:00.

Summary of new/outstanding actions:

Action item ID	Description of action items	Date of Analysis/ Discussion	Assigned to	Planned Closure Date	Status
AC103	Quarterly Issuer briefing sessions to be added to the timeline	25/06/2019	Euronext	05/07/2019	Ongoing
AC108	Euroclear to confirm clients have started to be approached about tariffs	25/06/2019	Euroclear	05/07/2019	Ongoing
AC187	Ms. Mestdagh to send details 10 October meeting with Registrars to PIMFA Chair	25/09/2019	Euroclear	01/10/2019	New
AC188	Ms. Mestdagh to confirm the ETF migration dates to Mr. Young	25/09/2019	Euroclear	01/10/2019	New
AC189	Document the full end-to-end process for Issuers	25/09/2019	All		New
AC190	Invite Mr. Egan to the 30/9 meeting with Registrars and Brokers	25/09/2019	Euroclear	26/09/2019	New
AC191	Extend the 15 October Issuers briefing session invite to Registrars	25/09/2019	Euronext	30/09/2019	New
AC192	Send copy of the update sent by Euronext to Issuers re-confirming status on equivalence, legislation and milestones to the MIG	25/09/2019	Euronext	30/09/2019	New
AC193	Update on voting concerns to be shared at the next MIG meeting	25/09/2019	Euroclear	November 2019	New
AC194	Update on corporate actions at the next MIG meeting	25/09/2019	Euroclear	November 2019	New
AC195	Advance the MIG from late November to earlier in November	25/09/2019	Euroclear	04/10/2019	New