

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

Report of the Irish Working Group (WG), Meeting 2 held on 6 FEBRUARY 2019

Below is a summary report of the main conclusions of the WG2 meeting:

1. Governance and Follow Up from WG1

- Minutes of WG1 were approved and follow up points were addressed.
- WG approved the Report of WG1 for publication on Euroclear and Euronext websites. It can be found at <https://www.euroclear.com/about/en/regulatorylandscape/Brexit.html> and <https://www.ise.ie/Products-Services/Quoted-Companies/>
- The role of the Central Bank of Ireland (CBI) and Department of Finance (DoF) in the process to change the CSD was discussed and it was noted that no formal approval was required from either of those Authorities for the move of CSD to EB. Both CBI and DoF were being fully briefed by Euroclear on progress and to ensure alignment and to enable the Authorities to fulfill their oversight role on systemic and market risk aspects of the project. Representatives of the CBI and DoF were also observers on the Project Steering Board.
- The WG heard that CBI and DoF had confirmed to Euroclear that the move of the Irish securities market CSD to EB from Euroclear UK and Ireland (EUI) was agnostic to the actual Brexit outcome and must be secured by the market for completion in March 2021, at the latest.
- The WG requested that a large part of the next following WG meeting (WG3) be dedicated to a review of the legal model that underpinned EB acting as issuer CSD for Irish Corporate Securities, in particular the impacts on Irish corporate, securities and other relevant laws. An invitation to that WG3 session would be extended to other external lawyers, including from the Law Society's Business Law Committee and from the CLRG/Dept of BEI.

2. Securities Acceptance Process in EB

- Existing Irish Corporate Securities: 78% already eligible in EB, of the remaining 22% half pass the eligibility criteria and will be made eligible, and the other half are undergoing a detailed eligibility review (these are mainly short term securities, REITs and corporate bonds).
- All equities listed on the main Euronext Dublin market are eligible in EB.
- New securities to be set up in EB: eligibility will be assessed based on set criteria following receipt by EB of the security prospectus (24-hour turnaround). Set criteria for eligibility relate mainly to fungibility, regulatory and tax considerations.
- Once a security is deemed eligible in EB, it can be issued and held in EB

3. Issuance Process in EB

- New issues of Irish equities can be distributed in EB by way of non-syndicated or cross border distribution mechanisms.
- For each mechanism, it is assumed that the relevant Registrar will act as the Issuer and Paying Agent on new issues and the respective roles and responsibilities of the CSD and Registrar are clearly defined and agreed.
- ETFs can be issued in the iETF international model involving the common depositary mechanism with EB and Clearstream. The majority of Irish ETF issuers have already moved to this model.

4. Irish Physical Securities

- EB will offer no service for Irish Corporate Securities held in physical/certificated form.
- It will be possible to hold certificated/physical securities directly in the investor's name on the register as a portion of the securities issue will be held outside of EB and reflected directly in the register of members operated by the relevant Registrar. This is a service to be defined and provided by the relevant Registrar.
- EB will be able, upon receipt of a SWIFT message from the relevant Registrar, to mark-up or mark down the number of securities held in EB to accommodate the dematerialization and any requested re-materialization of securities

5. Settlement in EB of Irish Corporate Securities (including CREST Depositary Interests "CDI")

- The EB processing platform times and settlement deadlines for Irish corporate securities were outlined.
- The trading and CCP flows for Irish Corporate Securities were illustrated.
- The trading and settlement flows, including where relevant, the realignment and settlement as a CDI in EUI were also outlined in detail.
- Trading in Irish Corporate Securities taking place on Euronext Dublin or the International Order Book of the London Stock Exchange will be routed to EB for settlement, trading in Irish Corporate Securities on the London Stock Exchange SETS order book are currently routed to EUI for settlement as a CDI (with a possible realignment back in to EB).

6. Ensuring the Integrity of the Issue in EB

- EB will guarantee the integrity of the issue of that portion of Irish Corporate Securities issued within EB.
- EB will perform daily reconciliation of EB balances versus the balances reported to EB by the relevant Registrar via SWIFT messages in standard format.

7. Other matters

- The WG noted that a timeline for implementation of the new solution was being developed and would be presented at the next meeting.
- The first working draft of the White Paper was circulated and it was agreed that time would be dedicated at the next Working Group meeting to review the draft so far.

