



Post-trade made easy

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

Report of the Irish Working Group (WG) 4 Held on 11 MARCH 2019

Below is a summary report of the main conclusions of the WG4 meeting:

PART I: WG GOVERNANCE

- The third-country CSD equivalence application for EUI had been approved by ESMA. This confirmed that EUI would be able to carry on providing its existing services for Irish securities for a limited time only.
- The work to ensure continuity for EUI for Euros was on track for migration over the weekend of 29th March regardless of what happens with Brexit. The ECB had made clear that that was being done for two years only to help the Irish market through the period until the long-term solution was in place.
- The WG heard that Minister Donohoe had made clear that the move from a UK based solution was no longer dependent on Brexit alone and that the Irish authorities certainly expected a move to EB within the Brexit timeline.
- The WG reiterated that a core objective was to arrive at a position where the Market understood and supported the EB operating model for Ireland and this would form the basis of EB's White Paper for Ireland.
- The WG members were invited to give feedback from their constituencies on the model and to indicate whether any major impediments had been noted so far:
 - ETF issuers: are supportive of the model and many had moved to the iETF structure independently of Brexit. Others were currently finalising their decisions and the timing and modalities of such migration. It was felt that smaller ETF issuers were less well informed of the change and that migration would pose more difficulties for them. ETF issuers had a strong preference for a bespoke migration by legislation.
 - International banks and custodians: AFME was looking for more details on the EB model before concluding on how the model compared to EUI. There would be dedicated asset optimisation and corporate actions workshops between EB and AFME members to which Irish stockbrokers would also be invited. It was also agreed that the WG had to be realistic in terms of the level of detail that would be available prior to the White Paper being issued. All the details for every type of corporate actions could not be included in the White Paper and would be worked through with the community after the White Paper was issued as part of implementation.
 - CCPs: were supportive and had been actively engaged on trying to find a solution on Stamp Duty for cleared transactions. It would be too complex for the CCPs to replicate the Stamp Duty service today in EUI. Different options had been defined between the CCPs and EB and the discussions were continuing to finalise the alternative solution. A further session would be set up together with the Irish Authorities to work together through the options.
 - Euronext supported the model and had organised a session with the Issuers to raise awareness among the Issuer community and to discuss the potential impact on their side.
 - The Registrars were working very hard to support the EB model and the intense interaction with Euroclear would continue to be able to conclude on more of the details that was necessary to the registrars.

- Registrars, Issuers and the Brokers would prefer to see dematerialisation as part of this process in the name of market efficiency. The Registrars sub group did not believe in decoupling dematerialisation from this process. While Euroclear supported the dematerialisation objective, it had a different timetable (2023-2025) and it would be too risky to put it on the critical path for the migration to EB (as this was an already stretched and complex project for the entire market).
- The current consensus from the legal community was that the new EB model was sub-optimal compared to the existing EUI model although no major legal impediments had been identified. A further session was planned with the Irish legal community to work through Company Law impacts of the model and any outstanding legal questions.

PART II: CORPORATE ACTIONS PART II

- An internal transaction is a transaction between two EB Participants. A cross-border transaction referred to a transaction between an EB Participant and someone outside of EB. A bridge instruction refers to a transaction settling with a Clearstream participant. In the context of Ireland, it was not envisaged that bridge transactions would be possible for equities.
- Market claims on the Irish market were processed on settlement of the original instruction. The majority of market claims in EB were in case of dividend/interest payments.
- In case of a takeover, a corporate action notification would be issued by EB and would be sent to all shareholders. EB aimed at releasing on the same day any notice received before 4pm.
- Communication between Issuers, Registrars and EB in case of corporate actions was critical. In case of non-standard corporate actions it is essential that the Issuers liaise with Registrars as soon as possible which in turn should liaise with EB immediately so it can be standardised and sent on to the market.
- SWIFT messaging was critical to this process, for the Registrars and the whole market. Existing EB participants would already be familiar with EB's use of SWIFT messages.
- The WG concluded that as far as corporate actions were concerned, there were no major gaps to bridge from its first review. However, additional detailed review would be needed by the experts in this field, for which having a dedicated workshop was the logical next step.
- SLOs could be replicated in EB by an outright delivery. There was no market to market in EB. EB had a triparty securities lending service which enabled triparty stock loan and mark to market. It was however a different concept than an SLO as it was a different contract that needed to be agreed between the buyer, the seller and EB.
- In EB, voting instructions were released on a continuous basis. This meant that EB released the instructions as soon as received for the amount instructed by the participant. Euroclear and the Registrars would investigate how the discrepancy between the two voting instructions processes, incremental vs cumulative could be resolved.
- There was no need as far as EB was concerned for the EB participant to reregister the securities in the name of the EB Participant to attend a general meeting and it should be able to attend on the basis of a letter of representation issued by EB.
- Nationality declaration could be accommodated in EB and further discussions would be held with the impacted issuer to conclude how best this should be handled.
- EB is currently implementing changes to become fully compliant with SDR II which is scheduled to complete before the migration of the Irish market to EB (it is largely already compliant today).

PART III: TARIFF FRAMEWORK FOR IRISH CORPORATE SECURITIES

- The Irish market would be charged in line with the standard tariff structure in EB which was different to EUI.
- The key benchmark behind the new tariff was to ensure that Ireland was in line with other European equities markets pricing in European CSDs.
- For Equities, UK and Irish equities would be priced together. If EB participants were holding Irish equities and UK equities in EB, they would be grouped together from a tariff perspective and benefit from scale.
- There were no Irish corporate bonds currently in EB today so they would have a new tariff.

- Domestic ETFs would follow the domestic ETF fee schedule in EB.
- The price for domestic would be in line with the price of other domestic ETFs in EB.
- CDIs were considered as foreign instruments in EUI and had a separate tariff structure in EUI.
- Safekeeping fees were a basis point charge on the value of the security. It would not be as low a fee as it is today in EUI.
- The other fees in EB were explained: communication, account fees, etc.
- The total fees in EB would double for the market as a whole compared to EUI. Different market segments would be impacted differently and this would be discussed bilaterally between Euroclear and impacted clients.