

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

Report of the Irish Working Group (WG), Meeting 1 held on 24 January 2019

Below is a summary report of the main conclusions of the WG:

1. Governance

- Terms of Reference, composition and chairmanship of the WG were approved. Full details can be found at <https://www.euroclear.com/about/en/regulatorylandscape/Brexit.html>
- Important to clarify in the scope of the WG that the discussions relate to the CSD solution for March 2021 and assume EUI will be able to continue for a limited period under the Commission's emergency equivalence (or transition if there is a Brexit deal).
- Modus operandi for the WG agreed, critical to stick to the defined scope given the very short time to agree on the framework for EB to become Issuer CSD for Irish corporate securities.

2. EB Holding Model as Issuer CSD for the Irish Corporate securities (Equities, Corporate Bonds and ETFs)

- Objective is to provide a world-class, future proof CSD for Irish corporate securities. The Model will replicate the operating and holding model in place for Irish government bonds already held in EB in so far as that is possible and will see all sovereign debt and Irish corporate securities issued in one CSD.
- Legal register remains in Ireland and is operated by the Issuer or its registrar.
- EB's nominee company is an entry on the register for that portion of the securities issue to be issued into EB.
- Possibility remains to hold securities outside EB through separate arrangements with the relevant Registrar. Those securities may be subject to trading/settlement restrictions.
- No physical securities to be held in EB, those investors wishing to retain physical (certificated) holdings must have separate arrangements with relevant Registrar or broker.
- Irish corporate securities must meet the eligibility criteria of EB to be held in EB as issuer CSD. Analysis done by Euroclear shows that the vast majority of Irish corporate securities will be eligible in EB.
- Securities held in EB are held on a fungible basis and transactions in such securities take place on the books of EB.
- EB operates in commercial bank money and settlement can take place in any of the currencies available in EB (approx. 50 currencies) regardless of the currency of the securities issue.

3. Becoming an EB Participant

- All current holders of Irish corporate securities who want to hold those securities in EB will have to be admitted to EB as a "participant" or make other arrangements to have these securities held on their behalf.

- Euroclear analysis shows that a large portion of EUI users holding Irish corporate securities in EUI are already participants in EB (holding over 95% in value of Irish corporate securities currently in EUI). Those EUI users who are not yet participants in EB and who wish to hold their Irish corporate securities in EB will have to go through EB admissions process to become a participant.
- Alternative holding arrangements are available to those investors not wishing to become EB participants (e.g. holding via a custodian, agent bank, registrar) and will be discussed with existing EUI participants holding Irish securities as part of the implementation phase.

4. EB Participant Account Structure and Communications

- EB participants will have at least one securities account and one cash account (in which they can operate in different currencies). Other combinations are possible depending on the nature of their business.
- EB is a single purpose bank, all banking activity must relate to settlement.
- Participants must use SWIFT, EUCLID or Easyway for all communications with EB.

5. Legal Framework

- EB will not be an “operator” of a “relevant system” for the purposes of the Irish USRs, moving away from the name on register model to the Euroclear Bank model whereby securities are held and settled within the Euroclear Bank system in an “intermediated” CSD set up.
- Legal title to the shares will be by EB’s nominee and would not change as a result of settlement between participants in Euroclear Bank’s system.
- EB participants will have a co-ownership right over a pool of fungible book entry securities held in EB under Belgian law.
- EB participants holding Irish corporate securities will do so under the Belgian asset protection regime in place for EB.
- Euroclear Bank’s participants would not be able to directly enforce the rights that members enjoy under Irish Company Law, and contractual arrangements in place with Euroclear Bank will facilitate the exercise of these rights by Euroclear Bank on their behalf. This is the standard structure in EB and other CSDs who operate based on an intermediated model.
- Further legal analysis to be shared to clarify the interaction of Irish law with how the model EB operates under Belgian law including in relation to corporate actions, issuer services and stamp duty (in subsequent WG meetings). The Operating Model and services provided by EB to the Irish market will be fully in line with the Shareholders Rights Directive and other relevant regulation.

APPROVED BY THE WORKING GROUP ON 6 February 2019