



*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) 6 Held on 2 APRIL 2019**

Below is a summary report of the main conclusions of the WG6 meeting.

#### **PART I: WG GOVERNANCE**

##### **Approval of Minutes of 11-12 March 2019**

Minutes and the summary reports of WG4 and WG5 were approved.

##### **Action points arising from the minutes and previous meeting**

- The Authorities were aware of the unanimous and strong market view that the migration should be by way of legislation due to the risks associated with Schemes of Arrangement and Euroclear's view that an uncoordinated migration presented very high levels of market and systemic risk. Euroclear was meeting imminently with the Authorities to review the detailed legal advice and options on the matter and the engagement would continue thereafter. To date, the Authorities had indicated that legislation on this matter would not be straightforward and could not be guaranteed.
- A workable solution on Stamp Duty application by EB was agreed in principle between key market players and was currently under review by the Revenue Commissioners (RC) and the Department of Finance. All market stakeholders believed that the proposed solution would improve the efficiency of the reclaims process going forward.
- A technical detailed workshop on SWIFT connectivity was held with the Registrars and their advisors. It focused on the requirements of a SWIFT connection and messages relating to issuance and settlement. A follow up workshop focussing on the corporate actions SWIFT messaging will be organised after the publication of the WP
- The Registrars were now confident that the SWIFT connectivity could be achieved on time. Smaller Registrars had been kept informed along the way through the Registrars Sub Group.
- There remained some diverse views in the legal community around the EB model. Some further legislative change would be proposed by the legal community probably via the Business Law Committee of the Law Society, to the DBEI and the Central Bank of Ireland (CBI). It was noted that this committee could not issue submissions without the approval of the Law Society Council. The legal community was aiming at putting this in place as soon as possible despite the lack of an established mechanism for this kind of consultation.
- Euroclear had received comprehensive external legal advice on Irish law and it was preferable to align on the issues with the legal community before a submission was made.
- More feedback from the Co. Sec. Group was expected to make sure the full extent of issuer views were represented. The distribution of the WP to that group and to issuers generally would be the catalyst for further feedback and engagement.
- The issuers were working with their legal advisors, in particular for those companies which were Irish incorporated and listed only on the London Stock Exchange. Companies were also concerned about the recent ESMA publication on MIFIR Article 23(1) which although not directly related to the change of CSD was an additional complexity for Irish issuers to have to deal with.

- Legal issues would be categorised between potential “showstoppers” and issues which could be looked at in a second phase. To the extent that “showstoppers” were identified, Euroclear would need to be made aware in the next couple of days as it would impact the timing of the WP. It was indicated that nothing on the list was expected to be a “showstopper”.
- The move to EB was a change necessitated by Brexit. However, there were opportunities in the new model such as the breadth of the collateral and multi-currency offerings in EB and the scope for rationalisation of the Stamp Duty regime.
- There had been two sessions with AFME since the last WG. One on asset optimisation and the other on asset servicing. AFME wanted more details on how EB would operate some of the Corporate Actions and how it would be different to EUI. Euroclear would engage in more detail during the implementation phase. It was noted that many international and domestic players, including Custodians and Investment Banks, had a very busy schedule of development themselves over the next two years and were therefore asking for the change requirements to be shared as soon as possible.

## **PART II MIGRATION**

- All options for migration would involve a high degree of coordination from all stakeholders, who would have to work on the same approach for all securities for the migration to work including the Authorities, with defined and agreed roles and responsibilities.
- Migration would happen over a single weekend.
- While a migration could be done by existing Scheme of Arrangements or by legislative act, the latter was the strong preference of both the market and Euroclear Bank. This point was still under discussion with the Authorities.
- EB had to ensure that the EUI eligible Irish securities were EB eligible before the proposed migration date. If for whatever reason it was determined that a particular security was not eligible, then there would be an immediate discussion with the issuer to resolve it.
- Euroclear proposed to perform weekly a full reconciliation of Irish securities between the Registrars and EUI starting a month prior to actual migration date.
- Issuance of new securities in the period immediately leading up the migration should be avoided.
- SLOs would remain in EUI and unless they were cancelled, there would continue to be mark-to-market generated. Participants could cancel SLOs which would terminate the obligations of mark-to-market.

On the Friday of the migration weekend, there would need to be a full reconciliation between the Registrars and EUI late afternoon with a view to signing off on the full reconciliation by around 9pm.

### **Proposal 1 whereby all Irish corporate securities held in EUI are moved from the member account on the register to EB nominee with onward credit to the identified EB participant**

- The default action in case Registrars had not been informed by members could either be that the position remained in EUI or became a physical position. It was a decision that would have to be made by Euroclear and the market together prior to the migration.
- A significant co-ordinated effort was required throughout the migration weekend, especially from the registrars who would have to debit every entrance on the register and credit every position to EB Nominee for onward credit to a specified EB participant account.
- The position of a CREST member would go to zero on Friday evening after the reconciliation based on the activity from the Registrars. On Monday morning, while the position would be reflected in EB, the underlying client of a Custodian would not be able see that position until the Custodian had reflected the bookings.
- As Equities and iETFs could not migrate on the same day as they would follow a different process, the working principle of migrating all securities over one single weekend would not be met. As a consequence, the effort required would be doubled and so would the risk.

Euroclear confirmed that while this scenario was operationally possible, it was not the preferred option.

**The WG agreed that this proposal represented a significant market and operational risk.**

**Proposal 2 whereby the Registrars would debit the positions on the register held by EUI participants, credit these into EB Nominee in the register for further credit into the IPA account of the Registrar in EB.**

- Once the position had been credited in the EB Nominee account, the Registrars would need to send an MT544 confirmation. The main difference compared to proposal 1 was that the positions would be credited to the paying account of the Registrars, as opposed to the individual EB participants' accounts in proposal 1.
- Similarly to proposal 1, a reconciliation would need to take place at the end of the evening based on which EB would reconcile the credits into the EB Nominee account with those in the EB participants' accounts.
- Once credited in the IPA account, the Registrars could then enter onward delivery instructions to the individual participant accounts (requires matching).

**The WG noted that the conclusions for proposal 2 were the same as for proposal 1**

**Proposal 3**

- Proposal 3 was based on the migration process already followed by iETFs which was discussed in WG5.
- Registrars would reflect the change of legal owner by debiting the relevant accounts on the register and crediting EB Nominee on the register. Registrars would confirm the credits into EB Nominee account and to advise EB to credit the CREST International Nominee account. Although those securities would be held as CDI, EB would become the Issuer CSD for those securities at this point.
- On Monday morning, the CDI would be delivered from EU to EB participants in a real-time environment so that positions in EB could be traded and settled in EB as of day one.
- It would all happen on the same day and therefore represented the least risky option. The rollback strategy was also less complex than with proposals 1 and 2.
- It could be viewed with this proposal that Irish stocks would not be immediately available to trade on the Irish stock market first thing on Monday morning. While this represented a significant issue, this proposal was by far the cleanest with regards to reconciliation and control. For the Irish stock market it would be key to move the assets from CDI form to EB as quickly as possible and it was expected that Euroclear would put in place a procedure to facilitate this.
- It was expected that the majority of investors would end up by holding Irish securities in EB as soon as it becomes the home CSD.
- It was expected that investors would be looking to move all Irish securities out of CDI to EB on Monday or Tuesday and if underlying clients wanted to subsequently hold assets as CDIs they could transfer them back.
  
- There would be a process for unsettled transactions over the migration weekend.
- Open transactions and open corporate actions would require more detail discussions.

While proposal 3 represented some challenges, it was operationally more efficient and less risky. **The WG agreed that proposal 3, as outlined, was the most desirable option.**

**PART III: DRAFT WHITE PAPER**

- The WG walked through the last version of the WP to discuss and took various comments to be incorporated in the next draft.

**Next steps to finalise the WP:**

WG members to circulate next version of the White Paper to their constituent groups for input before finalisation and publication.  
Euroclear to send the White Paper to the Authorities for input.