



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

Minutes of the Market Implementation Group, Meeting 13 Held on 2 December 2020 via Webex

Members Present:

Chairman: Brian Healy
Issuer representative: Ronan Deasy, Kerry Group
International banks representative: Peter Stewart, Citi
Broker representative: Aidan O'Carroll, Davy
ETF Issuer representative: Paul Young, Vanguard
Registrar representative: Joe Molony, Computershare
Registrar representative: Pat O'Donoghue, Link
Legal community representative: Paul Egan, Mason Hayes & Curran
CCP representative: Bradley Arrowsmith, EuroCCP
Euroclear representative: Sandra Aboutboul, Euroclear

In attendance:

Mason Hayes & Curran/Legal Drafting Group: Justin McKenna
Euronext Project Manager: David Fitzgerald
Euroclear: An Mestdagh
Euroclear: Olivier Lefranc
Euroclear: Niels Watzeels
Euroclear: Sebastien Deprez
Euroclear: Kathleen Seurinck

Apologies:

Stock exchange representative: Eric Bey, Euronext

The Chairman opened the meeting at 13:30 and welcomed the members to the thirteenth meeting of the Market Implementation Group (MIG). He also welcomed Mr. McKenna (Mason Hayes & Curran) who had again been invited to attend the meeting.

The Chairman highlighted that a critical juncture in the project had been reached. Much of the desired clarity and certainty on some long-outstanding matters had recently been obtained following the publication of:

- the 2020 Finance Bill;
- the Brexit Omnibus Bill; and
- the European Commission's Implementing Act determining EUI's equivalence for a limited period of time.

The distribution of the revised template circular to the Issuers, he added, had also been an important deliverable and major milestone achieved since the previous MIG on 22 October.

GOVERNANCE MATTERS

The Chairman highlighted that, given the key role played by Registrars for the Issuers, and with Registrars being central to overall project delivery, the MIG had approved in March 2020, the designation of Mr. Pat O'Donoghue as a MIG member to also represent the Registrar constituency, for a time-limited period until the end of Q3 2020. As this period had now come to an end, the Chairman suggested, and the MIG members agreed, that it is appropriate to extend Mr. O'Donoghue's membership until the end of the project.

APPROVAL OF MINUTES

The MIG approved the minutes of 22 October 2020, as presented.

UPDATE ON ACTION POINTS

The MIG reviewed the open action points and the Chairman noted that updates on these actions would be given throughout today's discussion at the MIG. These covered:

- documenting the changes for corporate actions timetables (AC 271) and the process for handling certificates between Brokers/Registrars (AC 296); and
- analysing the feasibility of extending the 24 February 2021 deadline for notification to Euronext that shareholder approvals on the migration resolutions have been secured (AC 295).

The MIG also noted that several actions had been closed, as outlined in the presentation.

PART I: OVERALL PROGRAMME UPDATE

The Chairman asked Ms. Mestdagh to provide an update on the main programme developments and the MIG considered and discussed the following points:

- Issuers had received the **revised template circular** which they know must be customised to their own company's requirements and shareholders' needs. With a deadline to pass the migration resolutions by 24 February 2021, Issuers need to focus on setting the dates of and then prepare for their individual EGMs/AGMs. So far, one large Issuer had posted the Shareholder Notice and circular, and had scheduled its EGM in mid-December.
- The **Brexit Omnibus Bill** had been published which includes changes to the Companies Act relevant to the migration project and amendments for the Euroclear Bank model to work efficiently. Some further changes have been suggested, including by the CLRG, however the Authorities after a number of interactions had determined that these were not of sufficient significance to warrant legislative amendment at this point in time.
- The **2020 Finance Bill** had also been published, with section 61 dealing with the various tax amendments, including Stamp Duty. The Stamp Duty section however is not final and further amendments have been proposed. Ms. Mestdagh pointed out that, at the Steering Board earlier in the day, the Authorities had been asked as to whether a more precise timeline could be given for addressing these proposed changes and they had responded that these would be presented to the Seanad, the Upper House of Parliament, this week. They had also mentioned that the 2020 Finance Bill was expected to be enacted before year-end.
- An agreement with the Revenue Commissioners (RC) had been reached regarding the high level **dividend withholding tax** and **market claims changes** which are needed to finalise the development in Euroclear Bank. The details are now being worked out and the RC confirmed this was one of their top priorities. Once finalised, these changes will be included in the final versions of the Investor and Registrar Service Descriptions and a webinar detailing the changes would be organised for Euroclear Bank's clients.

Ms. Mestdagh added that it was hoped that the update of the Service Descriptions is completed before year-end but this could possibly extend into January.

- **EUI's Third country recognition:** On 25 November, the European Commission published the Implementing Act regarding the time-limited equivalence for EUI, which surprisingly extended until the end of June 2021 (rather than the anticipated end of March). Subsequently, EUI had submitted their application to obtain Third Country CSD recognition to ESMA. The MIG noted that ESMA had meanwhile considered the application as complete and they had begun the formal recognition process which they were hoping to conclude in the next few weeks (ESMA in theory has six months to do so but it was expected that this would happen far more quickly). Assuming ESMA confirms EUI's time-limited equivalence until the end of June 2021, the MIG considered what this could mean for the migration and the following aspects were discussed:
 - Some market stakeholders may feel that the equivalence decision until the end of June grants greater flexibility to the migration timeline, despite the Authorities' steadfast position regarding the migration in March and the view that the March-June period to be strictly for contingency purposes only.
 - A big-bang migration is a must to limit transition and market risks. The MIG fully endorsed this view as a phased migration would have a significant impact on market liquidity and would be a serious ordeal for market stakeholders as the location of securities would be unknown and operational procedures for EB acting as Issuer CSD are different than those for EUI acting as Issuer CSD. The Chairman noted that the big-bang approach had been unanimously agreed by all stakeholders from the outset of discussions on the migration workstream.
 - Importantly, EUI received confirmation today from the ECB that their formal application to maintain long-term Euro access beyond 29 March 2021 (when the agreement with the ECB expires) has been refused. EUI continues to analyse alternatives but in the absence of any further agreement this means that settlement or asset servicing in EUI can no longer happen in Euro beyond 29 March 2021. If migration were to be delayed, Issuers which are constituents of the EuroStoxx index could suffer far-reaching consequences as a result of this.

A full discussion ensued and the following questions were raised and observations made:

- Mr. Stewart sought to understand what would happen with open transactions in Euro on 29 March and Ms. Mestdagh responded that EUI still needs to finalise the operational approach with regards to EUI no longer having access to Euro. Upon completion, this information will be shared with the market. She also mentioned that EUI continues to analyse alternatives, one of which could be seeking an extension for Euro access until the end of June. In addition, even if ESMA confirms the equivalence decision next week, the discussion at ECB level may not result in an immediate decision (e.g. the Third Country CSD Recognition process has taken over half a year). This uncertainty is a risk that the project cannot afford.
- The Chairman pointed out that obtaining clarity on both equivalence and continued Euro access has taken many months. However, clarity has eventually been received, albeit with dates for the time-limited equivalence and access to Euro settlement not being aligned. The extension until June 2021 was a scenario that none of the MIG members had anticipated. Although the timeline of the Euro access may be subject to some degree of flexibility, receiving such certainty may take more time than the market has available within the constraints of the project.
- At the Steering Board earlier in the day, the Authorities had clearly expressed that they had no intention to extend the March migration deadline (this date has been hard-coded in the Migration of Participating Securities Act 2019) and this view was fully supported by the Steering Board. The Chairman added that it was important to clearly communicate this to all market constituencies in the coming week and before year end.
- Mr. Molony remarked that a staggered approach is not what the market would want and all market stakeholders are proceeding according to the March migration deadline.

He queried whether the non-engaged Issuers were a cause for concern for the big-bang approach and Ms. Mestdagh responded that the Steering Board today had actioned Euronext to work with Registrars, and to also liaise with the LSE, on a comprehensive list of non-engaged Issuers and to ensure that these Issuers are brought up to speed and that they make the necessary preparations. Mr. Fitzgerald felt that assessing the level of engagement encompasses a degree of subjectivity. He also remarked that less engaged Issuers may not have picked up on the communication from the ECB on Euro settlement or may even have misinterpreted the time-limited equivalence extension until end June. In any case, Euronext has just issued a Monthly Bulletin re-iterating the firmness of the March migration deadline and they will engage with the LSE for the relevant less-engaged LSE-only listed companies with whom Euronext has no direct relationship. The Chairman commented that this point is also one of the next steps outlined in the presentation and clarified that within the Issuer constituency, the non-engaged Issuers are either LSE-only listed small caps or non-listed Issuers – each of whom needs to be proactively dealt with as a priority.

Mr. O'Donoghue informed the MIG of a meeting he had with the LSE regarding the non-engaged LSE-only Issuers for which Link is the Registrar, and he was of the opinion that a bilateral communication with these companies was warranted. LSE had sent out a letter to all their listed Issuers already. Even though the letter focused more on the share trading obligation and the possibility for Irish Issuers listed on LSE to change their trading currency to GBP, it did highlight the need for listed Issuers to have their security issued in a CSD and hence the necessity of migration to Euroclear Bank.

The Chairman welcomed LSE's proactive approach and wanted to ensure that the MIG was fully satisfied that there are no other non-engaged Issuers beyond the aforementioned LSE-only small caps and unlisted securities. Mr. Fitzgerald specified that Euronext had been speaking with all dual-listed Issuers and those were not the ones of concern, mainly LSE-only Issuers and some non-listed Issuers. Considering that the year-end holiday season is just a few weeks away, the Chairman underlined that there is no time to waste to move forward on this point; now was the critical moment to get these Issuers moving.

- Responding to a question from the Chairman to provide a view at this stage on the Co. Sec. Group of Issuers' desire to delay the March migration provided that the Euro capability is also extended, Issuer Representative Mr. Deasy commented that there was broad agreement that there was no other option than to proceed as previously agreed. Work continues on the circulars and Mr. Deasy hoped that, through that process, consistency can be maintained throughout the circulars (different approaches are arising with regards to shareholders rights).
- Mr. Egan highlighted that he anticipates that as soon as a number of big Issuers post their circular, others will follow suit quickly.
- Mr. Arrowsmith remarked that CCPs feel the need to communicate a contingency clearing timetable in case EUI would not receive Third Country CSD recognition in the coming days. The Chairman and Ms. Mestdagh stressed that this would be an unhelpful communication which could cause disquiet in the market, and could even be misinterpreted, and it was agreed that it would hopefully not be necessary if ESMA responds in a timely manner.

The Chairman summarised the main points expressed so far in this regard, namely that:

- from the discussions with the Co. Sec. Group of Issuers, most recently on 27 November, it was understood that there was a clear dependency on continued Euro settlement in EUI;
- from today's discussion at the MIG there seems to be little appetite to consider an extension of migration now that it became clear that EUI's Euro settlement will stop after 29 March; and
- the Issuers should now focus on the March migration date.

He then proceeded to a “tour de table” on the matter with each of the constituency representatives, and the following was added to the above:

- Mr. Deasy said he would need to consult with the Issuers on the news that EUI’s long-term Euro access has been refused and on the outcome of the MIG discussion;
- Mr. O’Carroll highlighted that Brokers are in favour of an extension, as a facilitation to their Issuer clients, if possible to have the Euro date changed, even if only for a short period of time. Regardless, Brokers are working towards the 15 March migration date, and continue to be confident in that regard;
- Mr. Egan, as Legal constituency representative, favoured an extension as this had been a consistent message that he had heard from clients;
- Speaking on behalf of International banks, Mr. Stewart was comfortable with the 15 March deadline and there seemed to be no real significant push from other Custodians either. However he had no objection to an extension. He queried if at the time of migration a non-day in settlement discipline would be considered similar to how EUI sometimes declares such a day for important corporate events. Ms. Mestdagh clarified that ESMA has replied that they cannot exclude a specific market from the settlement discipline however she would check with EUI if this could be discussed during the next Settlement Discipline Committee (**Action Point**). The Chairman pointed out that another avenue to address this point, other than an a non-day, is through the SD regime process;
- CCP representative Mr. Arrowsmith commented that migration timing was a client decision but noted that CCPs are ready for the March migration date and are proceeding as planned;
- Mr. O’Donoghue confirmed that Registrars were aiming for the March migration but pointed out that the timeline is very tight; and
- Mr. Young had just left the meeting but since migration of ETFs will be completed before year-end, the migration date question seems irrelevant for the ETF constituency.
- Ms. Mestdagh highlighted that even if a postponed migration deadline would be the desired way forward, the Department of Finance would need to agree and issue another Ministerial Order to allow such a delay. She re-iterated that the Authorities had clearly pointed out that they would only consider to delay the migration if there were a material operational market incident that would prevent migration.

Following the MIG’s exchange of views, the Chairman summarised the outcome of the discussions: he noted that the only constituency formally seeking to push the migration deadline to June are Issuers, but equally they had conveyed a clear message that a key priority for them is continued access to Euro settlement. Other constituencies have indicated a degree of support for Issuers’ wishes but have also noted their ability to deliver to the March migration date. Now that clarity had been received, today from the ECB/EUI, on the Euro access topic, the Chairman concluded, and the MIG agreed, that a discrete follow up needed to be done with the Issuers, as soon as possible, in order to conclude on the migration date and he actioned Euronext and Euroclear to do so (**Action Point**).

Issuer progress

Ms. Mestdagh then proceeded with the other programme updates and in terms of Issuer progress, the MIG noted the following:

- 27 equity Issuers out of 49 have contacted Euroclear Bank to confirm the securities which are to be subject to the migration.
- Debt Issuers need to decide on the applicable legal process to change Issuer CSD as they cannot rely on the Migration of Participating Securities Act 2019. Similar to equity Issuers, they also need to reach out to Euroclear Bank to request acceptance of their securities in

Euroclear Bank, advise Euronext by 24 February 2021 that they will migrate, and follow the same migration process as for equities.

- Following the request expressed at the October MIG (AC 295), Euronext and Euroclear have analysed the possibility to extend the 24 February 2021 deadline for notifying shareholder approvals to Euronext. Ms. Mestdagh informed the MIG that this deadline could potentially be postponed by a further week or ten days, however, such later deadline would only be confirmed if specific logistical challenges would be identified with the overall EGM planning. In this respect, Mr. Deasy requested whether Euronext could send a dashboard on the EGM planning progress to the MIG members and Mr. Fitzgerald confirmed he would share it on a weekly basis with the MIG (**Action Point**).
- ETF migration into iETFs or iETPs in EB was nearly complete (99% of EUI's AuM migrated). The two ETF migrations that remain to be completed are planned before the end of December (and one remaining fund will be closed in January).

Registrar progress

The MIG noted that Registrar process had been significant. Both the bilateral contract with Euroclear Bank as well as the Service Description for Registrars had been signed by all Registrars and testing was continuing and on track. Another round of meetings though was required on the business contingency measures to find a compromise between the four Registrars and Euroclear Bank. Ms. Mestdagh clarified that this revolves around a Euroclear Bank systems failure with an important market deadline within the committed 2-hour Recovery Time. Should no common ground be found, this will have to be referred to Euroclear Bank's Risk Committee for formal consideration/acceptance. The Chairman asked Mr. Molony and Mr. O'Donoghue whether an agreement was in prospect in this regard, who in turn responded that Registrars could not risk having duplication as a result of an additional non SWIFT development and that no such contingency set up was needed in CREST today, however it was also noted that discussions with EB continue.

Client progress

The Chairman then asked Ms. Mestdagh to proceed with the client update, she highlighted briefly the following points:

- a final update of the Service Description for Investors is forthcoming to include the Revenue Commissioners' clarifications on outstanding tax matters;
- a webinar focusing on migration will be scheduled in January;
- clients that wish to realign their positions from EUI to EB prior to the migration date will need to take into consideration that the service described in the Service Description for Investors is only applicable as of 15 March 2021, the time at which the new safekeeping and transaction fees will be charged (until then, the existing EB tariff applies). Clients should also note that the CCPs will continue to send netted cleared transactions to EUI until 16 March 2021;
- in response to client feedback, the intended online training modules will be replaced by FAQ documents that will cover more technical questions around reporting, tax and settlement input and reporting as the case may be;
- to ensure that clients are prepared for the migration, an intensified communication campaign is ongoing, which fortnightly calls with most clients; and
- client testing is foreseen to start in January 2021 but this is optional.

Timeline

The MIG took note of the project timeline included in the presentation which is entering into a crucial phase with just over three months to actual migration.

PART II: EURONEXT/EXCHANGES' UPDATE

The Chairman then invited Mr. Fitzgerald to provide the Exchanges' update, who in turn elaborated on the following points not already covered as part of the foregoing discussion.

- Since Ryanair has posted the circular and scheduled a December EGM, Euronext has noticed increased engagement from Issuers and has received an indicative response from one proxy advisor to be agreeing with all migration resolutions.
- There seemed to be a concern that some smaller companies without institutional shareholders may not get sufficient retail shareholders to vote, ensure a quorum is reached, and approve the migration resolutions. There was consensus in the MIG that concerns should be addressed by each company individually during their EGM planning and shareholder engagement, as would be the case for any other general meeting.
- The remaining outstanding point in the mark-up/mark-down process is to clarify whether EUI can be used as counter for physical certificates. A formal update had yet to be received which hopefully would be in the course of next week. Once clarified, the process will be documented in a stand-alone document by Euronext (AC 296).
- Work on documenting the timeline changes for the more complex, less frequent corporate action events was nearing its end, with an aim to publish it before year-end (AC 271).

PART III: TESTING UPDATE

Ms. Mestdagh then presented the good progress made on the testing side. The three first phases (A, B & C) of Registrar testing had been completed and phase D is about to start next Monday, 7 December. She highlighted that the voting scenario has been removed from phase C following Registrars' and Issuers' demand to use Proximity for sending meeting notifications to Euroclear Bank, as this too needs to be tested. This would be done in January. Phase D will be extended by two weeks to adequately test corporate actions and, at the end of phase D, three weeks have been added for Registrars to re-test should they so wish. Registrars' readiness will be communicated to the market in due time.

Client testing remains optional and is scheduled to start on 21 January, until after the migration weekend. A newsletter will be released in the following weeks clarifying the scenarios that can be tested. The MIG noted that currently Euroclear had no clear view on how many clients intend to use the testing feature but this is being closely followed up.

Mr. Arrowsmith queried whether EUI would perform regression testing to which Ms. Mestdagh responded that this is not the case as there is no change for EUI. The testing option is really a bilateral testing between the client and Euroclear Bank, on new features such as Nationality Declaration.

PART IV: NEXT STEPS

Ms. Mestdagh then referred the MIG to the next steps outlined in the presentation and highlighted that, first and foremost, alignment was needed on the migration date and this would be sought in the coming days. Further areas of focus are for:

- Issuers to decide on the EGM date and contact EB to confirm securities eligibility;
- EB to close outstanding points with the RC;
- EB and Registrars to finalise the business continuity discussions;
- Registrars to continue testing;
- Clients to progress preparations; and
- Euronext to document the remaining set of corporate actions timeline changes (AC 271) and the process for handling share certificates (AC 296).

The Chairman remarked that it was probably timely and would be beneficial to have a webinar or further communication in December regarding the migration timeline to draw a line under the discussions in this regard. Mr. Fitzgerald argued that a webinar may not be the correct forum but some kind of communication, he agreed, was warranted. He noted that the Monthly Bulletin had just been published and the next Bulletin is due to be issued before the end of December. The Chairman said that this point should definitely be addressed in all Issuer communications by Euronext once there was full clarity on the migration timeline.

ANY OTHER BUSINESS

No other business was raised by the MIG.

The Chairman highlighted that the next meeting will take place on Tuesday 19 January. Meanwhile he noted that the MIG will be kept informed, in writing, on the outcome of the above discussions.

He thanked the members for all the time they have dedicated to the project over the past year and looked forward to working together in Q1 to achieve a successful and seamless migration and he closed the meeting at 16:25.

Summary of new/outstanding actions:

Action item ID	Description of action items	Date of Analysis/ Discussion	Assigned to	Planned Closure Date	Status
AC 271	Identify areas of market practices which will change as a result of the move to EB or need to be documented (incl. certificated shareholders process, some corporate action timetables etc.) and publish	13/05/2020	Mr. Fitzgerald	End November	Ongoing
AC 296	Document process for handling certificates between Brokers and Registrars	22/10/2020	Mr. O'Carroll	End November	Ongoing
AC 299	Dashboard EGM planning progress to be sent to MIG members on a weekly basis	02/12/2020	Mr. Fitzgerald	Recurrent	New
AC 300	Check with EUI the possibility of having non-day in settlement discipline at the time of migration	02/12/2020	Ms. Mestdagh	TBC	New
AC 301	Discrete follow up on the migration date with the Co. Sec. Group of Issuers in view of ESMA's announcement not to extend Euro settlement to EUI beyond 29 March 2021 and the discussion held at the MIG	02/12/2020	Euronext/ Euroclear	Mid December	New