



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

Minutes of the Market Implementation Group, Meeting 17 Held on Thursday 15 April 2021 at 13:30 IST via Webex

Members Present:

Chairman: Brian Healy, Independent
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
Stock exchange representative: David Fitzgerald, Euronext Dublin

In attendance:

Mason Hayes & Curran/Legal Drafting Group: Justin McKenna
Euroclear: An Mestdagh
Euroclear: Olivier Lefranc
Euroclear: Marta Moura
Euroclear: Niels Watzeels
Euroclear: Sandra Aboutboul
Euroclear: Kathleen Seurinck

Apologies:

Stock exchange representative: Eric Bey, Euronext
Issuer representative: Ronan Deasy, Kerry Group

The Chairman opened the meeting at 13:30 and welcomed the members to the seventeenth meeting of the Market Implementation Group (MIG), exactly one month after the migration. He also welcomed Ms. Marta Moura who will be replacing Ms. Mestdagh and will be the liaison with the Irish market going forward and Mr. McKenna (Mason Hayes & Curran), who he had invited to attend the meeting. Apologies had been received from Mr. Deasy and Mr. Bey.

The Chairman highlighted that the CSD migration had been a true success. The path to migration had been long and complex but resources had been marshalled and barriers removed, the last one being a lack of legislative clarity on the definition of "relevant securities" which had been resolved with a Statutory Instrument on 11 March.

The Chairman remarked that today's meeting is likely to be the last meeting of the MIG and another one in May would probably not be needed, but this would be considered at the end of this meeting. He noted that time would be provided at the end of this meeting to reflect on the MIG's and project team's accomplishments over the past two years.

Before turning to the first item of business, the Chairman proceeded with the governance related matters of approving the minutes and covering the action points.

APPROVAL OF MINUTES



The MIG approved the minutes of 24 February and 11 March (of 11:00 and 15:30 IST) 2021, as presented.

UPDATE ON ACTION POINTS

The MIG noted that all the actions since the previous meeting had been closed, as outlined in the presentation.

PART I: MIGRATION: POST-IMPLEMENTATION REVIEW

The Chairman then invited Ms. Mestdagh to update the MIG on how the first month of business and operations post-migration had unfolded and she highlighted the following points:

- The migration on 15 March had been a success and business since then had continued seamlessly. As highlighted by the Chairman, an important issue on the definition of “relevant securities” had been addressed and the Authorities had been able to issue the required legislative amendments via a Statutory Instrument prior to the migration.
- Registrars had been fully ready, with all testing successfully completed before migration. The CSD migration represented significant changes for the Registrar constituency and the collaborative effort between Registrars and Euroclear Bank had definitely paid off and contributed to a very smooth migration.
- Processes for clients are different in EB versus EUI and also within EB for Ireland specifically. Despite the combination of processes being documented in detail, the explanatory webinars and the bilateral meetings, clients will need more time to fully adapt to the new environment, as seemingly the information has not always reached their back office. As a result and as expected, settlement efficiency was impacted, significantly in the days immediately post migration. Another factor that negatively impacted settlement efficiency was the development of two liquidity pools (one in EB and one in EUI) as settlement can happen in either CSD, hence clients need to ensure that they send their settlement instruction to the correct location. More recently the settlement efficiency level has increased to the high nineties, although not as high yet as it was before migration. The increase is mainly attributable to the implementation of corrective coding changes to some clients’ and one large broker’s internal systems.
- The cleared settlement flows were being sent to the correct destination and these transactions settled correctly as of day one.
- Important to note is that not all Irish securities were part of the Big Bang migration (one will de-list and others did not migrate due to corporate restructuring or re-materialisation. These securities continue to be held as domestic securities in EUI as Issuer CSD but they will have to be moved out of EUI by the end of June 2021, when EUI’s Third Country CSD recognition expires. This is closely being monitored by Euroclear. Mr. Fitzgerald added that the one remaining listed security will de-list later this month.
- The corporate action season is well under way, with a significant number of standard corporate actions but also some non-standard events being processed successfully. The Registrars’ determination to carefully review all corporate actions with Euroclear Bank, and not just the standard ones, has proven beneficial considering that there are also a few more complex corporate actions happening or due to happen in the coming weeks. Meeting notifications have started with the first AGMs to take place in a few weeks’ time. Ms. Mestdagh reiterated that, when anticipating a non-standard corporate action, it would be useful for the Registrar, Issuer and/or their legal advisor to contact Euroclear Bank to discuss and to ensure that there are no challenges ahead.
- Corporate actions processing in EUI is different from that in EB. From an EUI perspective, standard buyer protection on open transactions in CDIs will be offered by EUI on Irish CDIs, unlike in EB. Also some finetuning of the corporate actions processing as regards CDIs is currently being analysed and discussions are continuing with the LSE to establish a smoother process, especially regarding the last trading date.

- Stamp Duty is an area where some misunderstandings have surfaced and a significant number of Stamp Duty reclaims are being raised directly with the Revenue Commissioners (RC), despite the available explanatory documentation and the various bilateral meetings held on the subject. The RC have been very forthcoming in helping clients on some Stamp Duty matters for which a process will need to be put in place, and they have indicated this to be one of their priorities. Euroclear Bank does not offer this service for the time being and the RC has been approached to reopen this discussion, which is expected now to resume after the summer. Responding to a question from Mr. O'Carroll, Ms. Mestdagh highlighted that reclaims have to be directly addressed to the RC. She recommended that Mr. Stewart and Mr. O'Carroll contact their relationship manager to help accelerate Stamp Duty reclaims as a temporary process has been set up with the RC, although there is as yet no committed timeframe to do so. The MIG noted that, once the significant backlog is cleared, the RC will consider automating the process for it to be more suitable for the new environment.
- A point that remains outstanding with the RC is a difference in understanding around Dividend Withholding Tax (DWT) remittance on market claims, and more specifically who would be the accountable person to remit market claims (which the market and Euroclear believes to be the QI closest to the beneficial owner rather than the first QI in the chain). The RC's understanding was noted to impact all Qualified Intermediaries (not just EUI as QI in Euroclear Bank) and clarification is ongoing in this respect. The MIG will be kept informed on how this evolves.

Post meeting note: The RC have confirmed Euroclear's understanding regarding the remittance of DWT on market claims and their Dividend Withholding Tax ("DWT") & Duty Manual has been updated accordingly and published on the RC's website.

Mr. Stewart sought to understand the handling of market claims by Euroclear Bank and EUI and Ms. Mestdagh responded that dividends are debited gross and credited upon the tax status of the client. He also asked for an update concerning the issuance of Irish tax vouchers by EUI and if EUI, in its discussions with the RC, are considering the removal of Irish tax vouchers for CDIs. Ms. Mestdagh replied that there was a delay in the tax voucher service to be offered by EUI as they are awaiting clarification from the RC regarding the accountable person. Ms. Mestdagh emphasised however that it was indeed EUI's aim to forego tax vouchers for Irish CDIs and offer a service similar to that of Euroclear Bank, i.e. based on transaction references.

- Some misunderstanding regarding mark-ups/mark-downs had surfaced, despite the process being discussed and agreed between Brokers and Registrars, and documented accordingly. Following some further discussion, a clarificatory document had been published by Euroclear clearly showing which information needs to be entered in the instruction and where.
- By and large, the market is gradually becoming more familiar with the different operating environment as between Euroclear Bank and EUI and the market will continue to be briefed and informed of any further clarifications and potential changes.
- EUI has launched the new Euro Settlement arrangements, providing central bank money-based settlement on 29 March 2021. The way that EUI participants instruct Euro settlements and the settlement process itself, remains unchanged.

Following this update, the Chairman asked the MIG whether they had any observations to add to the above, after a month of operating under the new EB Issuer CSD model and the following was noted:

- Mr. O'Carroll asked whether the Euroclear Bank system is being used as it should in case of market transfers whereby the Single Matching Account (SMA) uses different accounts and Ms. Mestdagh explained that it all depends on the SMA's setup and how the custodian/client is organised. It was very possible that a custodian had opened segregated accounts for different underlying clients and hence different SMAs were to be used for the same custodian. However the reverse, one omnibus account for multiple clients, was also a real possibility. The setup differs by underlying client.

- Considering that the AGM season is fully underway, dividends are being paid and more complex corporate actions are also upcoming, the Chairman highlighted that it will be key to ensure that everyone is aware of the processes to follow. Adding to this remark, Mr. O'Donoghue said that Link is receiving many inquiries on the voting process to be followed for holdings in EUI, at a larger scale than anticipated, and despite EUI giving detailed advice, this information does not seem to have reached all Custodians' Operations staff. Ms. Mestdagh recommended to refer these clients to EUI's website where they can find the information needed. The Chairman added that it will take some time for the relevant information to permeate through all levels of the market and recirculating documentation is helpful, as it was for the mark-up/mark-down process as Ms. Mestdagh mentioned earlier. He noted that market participants, now in full operational mode, will give even greater attention to the available documentation to ensure they fully understand how to proceed in practice. In this sense Euronext's recently issued Bulletin was also very helpful, referencing various of the key resources and documents available.
- Mr. Arrowsmith asked to have a view on the split in the Dublin/London liquidity pool and Ms. Mestdagh highlighted that the portion of migrated Irish corporate securities settling in Euroclear Bank is over 50%, however, this varies on a security by security basis. Detailed information can be obtained by issuing a Section 1062 request to Euroclear Bank, and so far not many requests had been received. It was noted that Euroclear Bank will only disclose the details at Euroclear Bank level to the Issuer or its agent, and EUI only at EUI level. Therefore both entities will have to be approached to have the detailed view given that Euroclear Bank will only report the total holding by EUI, not the holding per individual EUI member.

PART II: IRISH MARKET COMMITTEE

The Chairman then introduced the second topic on the agenda, highlighting that there had been a unanimous belief from the MIG, the Irish User Committee and relevant other stakeholders that there should be a dedicated engagement and feedback forum for Ireland, post migration to Euroclear Bank, as such an engagement has proven to be of key value and beneficial for all concerned over the past two decades. The MIG, being a project related structure, is winding down and so too is the Irish User Committee under the auspices of EUI now that the migration to Euroclear Bank has been successfully achieved. The merits of this form of governance structure has also been fully accepted by Euroclear Bank.

The Chairman briefed the MIG and outlined the work done to date on the future governance structure for the Irish market. Referring to the draft Terms of Reference of the Irish Market Committee (IMC) included in the MIG's supporting material, it was noted that these are similar to the Terms of Reference of the Irish User Committee and also draw upon aspects of the MIG structure, with a clear remit, a transparent approach and provide for full engagement by representatives of all relevant market constituencies within the new market committee. The Committee will not be a User Committee within the meaning of CSDR but rather a market committee which will address the above objectives and which will facilitate substantive and ongoing engagement between Euroclear Bank and the Irish market. It was noted that this structure also gives more flexibility for non-users of Euroclear Bank to participate (in contrast to a more strictly defined User Committee). The members of the MIG welcomed the development and indicated their continued support to finalising the establishment of the IMC.

He then invited Ms. Mestdagh to provide some further detail on the IMC and she highlighted the following:

- The purpose of the IMC will be to discuss relevant issues and strategic developments with a primary focus on:
 - assessing and aligning on proposed changes to Euroclear Bank's service for Ireland;
 - alerting Euroclear Bank to key changes or emerging developments that might impact the Irish market; and
 - discussing legislative and regulatory changes relevant to the Euroclear Bank service.

- The members of the IMC will be:
 - one representative per constituency, except for the Stock Exchanges, where there would be one representative each from Euronext and LSE;
 - four Euroclear members, being one representative from Product Management, one from Commercial, one from Operations and Ms. Moura, who will take over from Ms. Mestdagh, and will be the primary liaison for the Irish CSD in Euroclear Bank;
 - the Legal community; and
 - the National Treasury Management Agency (NTMA).
- The Chairman has been approached by Euroclear Bank and has agreed to be the Chairman of the IMC, he will also be a member of the Euroclear Bank User Committee, continuing to act as a link between those two governance bodies.
- The IMC will normally meet on a quarterly basis.

The Chairman then asked if there were any further observations and Mr. Young queried how ETFs and funds would be considered in terms of membership to have an optimal representation as there is a marked difference between the two (most ETFs are aligned with ICSDs and Stock Exchanges). Ms. Mestdagh responded that the idea was to start with a representative of the ETF industry but that Euroclear Bank was open to have a representation from the more traditional funds industry too. The Chairman agreed it could be useful to have a wider funds representation in the IMC but highlighted the strong role played by ETFs during the migration project and further noted that having continuity of ETF representation would be beneficial; he suggested starting with ETFs and then in due course it could be considered if representation should be widened. In response to a question from Mr. McKenna, the Chairman highlighted that a communication around the establishment of the IMC will be done upon finalisation of the arrangements.

Following the discussion and consideration by the Committee, the Chairman asked if the MIG members had any comments on the draft Terms of Reference, and it was noted that there were none. He mentioned that the intent is to have a first meeting of the IMC in June (subject to finalising the membership) which, in light of the last Irish User Committee yesterday and today's MIG, would be timely to discuss a.o. further clarifications, alignment on de-materialisation effective 1 January 2023 and further service developments.

The Chairman also highlighted to the MIG Euroclear Group's planned acquisition of the MFEX Group, a leading global digital fund distribution platform, headquartered in Stockholm. He also noted that Ms. Urbain will become the Chief Business Officer of Euroclear Group and Mr. Sneyers will become the new Euroclear Bank CEO, as of 1 July. More changes in the market are ahead post-COVID, among others Central Bank Digital Currencies developments, blockchain/DLT commercial applications, growth of digital channels, Sustainable Finance and ESG - many of which will be featuring on the agendas over the coming years.

PART III: NEXT STEPS

The Chairman then proceeded to the next steps which, apart from the establishment of the IMC, will also require reflection. This includes some other committees and structures in EUI that span across the UK and Ireland for which it is key to ensure that there are no gaps in terms of governance while avoiding any unnecessary duplication. Ms. Mestdagh provided her thoughts based on a few concrete examples:

- The Stock Exchange Working Party (SEWP), which is chaired by EUI, will cover EUI related matters. Does the Irish market wish to keep a combined SEWP meeting organised in two parts, one for EUI followed by another for Irish securities in Euroclear Bank, or have a separate SEWP for Ireland?
- It might be beneficial to have a separate Corporate Actions Joint Working Group (CAJWG) for Ireland.

- For some other committees it will be important to ensure the right Euroclear representation, covering Euroclear Bank and EUI for the CDIs, as appropriate.
- Other committees to reflect on are the Registrar Committee, the Receiving Agent Committee, the Custody Working Group and the Settlement Discipline Committee.

Messrs. O'Donoghue and Molony added that, in their view, the composition of the SEWP is adequate and duplication seems unnecessary, however it would benefit from the presence of a Euroclear Bank representative. Mr. Stewart's take on the SEWP was the same.

The Chairman asked the members if they had other committees in mind that have not been highlighted above and the MIG confirmed there were none that they could think of at this point. The Chairman recommended, and the MIG agreed, that this topic should be subject to a fuller discussion at the first IMC and an outline proposal will be prepared by Euroclear in this respect. The Chairman added that now was also a good time to draw together any open points from the migration to be tackled in the IMC going forward. Points he had in mind were the change in the legislative definition of Record Date from the 72 hour timeline to three Business Days, operational issues, strategic issues such as the de-materialisation of Irish equities and the Chairman invited the MIG members to revert if there are any other items on their constituency's radar.

Ms. Mestdagh highlighted that there is still an outstanding issue concerning meeting adjournments, whether or not the Record Date will change. To this point, Mr. Egan remarked that this would depend on the duration of adjournments. This triggered another question by Mr. Molony on whether the votes will then be carried forward, and it was noted to be impossible as the positions may have changed between both Record Dates. Mr. Egan agreed to take this point forward and provide a view on what should happen with Record Date and with the votes submitted already.

ANY OTHER BUSINESS

As part of any other business matters, Ms. Mestdagh inquired if the MIG members are aware that a change request for the SWIFT November 2021 release had been introduced by an Irish market representative concerning Irish voting instructions via ISO 20022 whereby Investors will no longer be able to cast a discretionary vote per resolution. She informed the meeting that Euroclear had not been consulted in the matter and this would need to be discussed considering the impact it would have on Euroclear Bank, Investors and potentially Issuers too. The MIG members confirmed that this was news to them with none of those present aware of the proposal. The Chairman asked if this change request had been agreed upon given that there seemed to be a complete lack of consultation with market participants. The Committee members confirmed that there appeared to have been no such consultation. He suggested that enquiries be made to gain more of an understanding of the origin of this request as soon as possible, and asked Ms. Mestdagh to forward the extract of the change request to the MIG members and have a further discussion on the back of this information.

To conclude the meeting, the Chairman reflected on the many interactions and the achievements of the MIG over the past couple of years and he sincerely thanked the MIG members and each of the members of the Euroclear project team, individually and collectively, for the quality of their engagement and commitment throughout the entire project. This had been instrumental in achieving the successful migration of Irish Issuer CSD. He noted that it had been an absolute pleasure and privilege working with a team of professionals that functioned so well and which steadfastly worked for the greater good of the market. The MIG members in turn thanked the Chairman for being a rock for the team in this exciting but demanding project and in ensuring that all parties were aligned towards achieving a common goal.

The Chairman added that the market environment continues to change and it will be key to continue to discuss and engage, in future through the IMC if the MIG members agree that there was no need to hold another MIG in May. The MIG were fully aligned with this view and that this meeting would be the last of its kind.

There being no further business, the Chairman wished all the members of the MIG and the Euroclear team well and he closed the meeting at 15:10.