

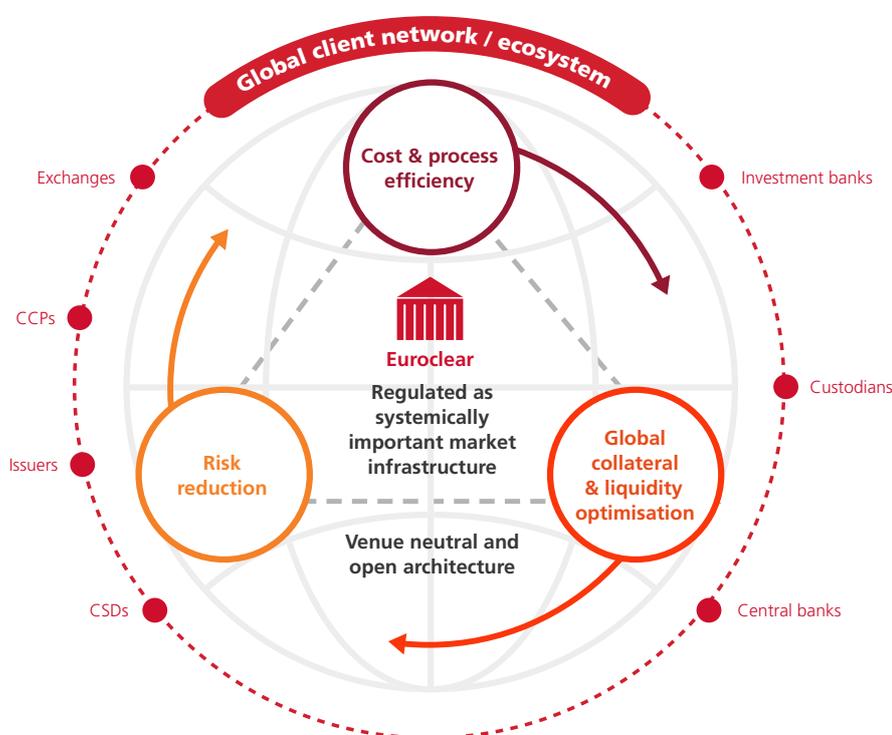


# **Euroclear**

ANNUAL REVIEW 2019

# Our strategy for evolving capital markets

Our business strategy builds on Euroclear's position as a systemically important infrastructure, at the centre of the global financial market ecosystem.



Our strategy is focused on three strategic objectives:

- **Strengthening our network** in Eurobonds, European securities and fund asset classes
- **Growing our network** by expanding internationally and by connecting global collateral pools
- **Reshaping our network** by exploring innovative value-add solutions that ensure our long-term relevance to clients

An open-architecture approach has enabled Euroclear to build an important network of issuers, intermediaries and investors around the world.

By bringing together this network, we aim to facilitate financing in capital markets by reducing risk, increasing process efficiency in post-trade activities, and optimising collateral mobility and access to liquidity.

Delivery of these strategic objectives will help clients safely navigate a rapidly changing operating environment, while contributing to a sustained long-term financial performance. In 2019, Euroclear further built on the record operating metrics and financial performance in 2018, which is testament to the group's strategic progress and attractive customer proposition.

## Strengthening our core European network

We continually invest in providing robust and relevant market infrastructure services for the markets we serve through our international CSD (Euroclear Bank) and the group's six domestic CSDs.

Euroclear has a long-lasting commitment to Europe, holding 60% of Eurobonds and 50% of European capital market securities. The group also provides significant coverage of the European funds industry, with access to over 1,200 fund administrators and 145,000 funds. Our core European network generates approximately 75% of the group's business income.

### Embracing regulatory change to drive efficiency and safety

For over half a century, Euroclear has been relied upon as a trusted and safe provider of financial market services. The global financial crisis of a decade ago triggered new regulatory initiatives, all aimed at safeguarding capital market efficiency and safety. Since then, participants have been embracing a stronger regulatory landscape that has been established in Europe.

Recent pan-European legislation such as MIFID II, EMIR, the CSD Regulation (CSDR), SRD2, and new banking regulations continue to lead to new industry needs as clients adapt to the new regulatory requirements. Euroclear has made considerable investments to remain at the forefront, adopting those rules that directly affect our business, such as CSDR whilst actively supporting participants as their expectations evolve.

As a single, pan-European rulebook for CSDs, CSDR applies directly to every (I)CSD in the group and adapting to the new regime has entailed significant investment over the past years.

We were therefore delighted to have been granted licences from the competent authorities for six out of seven operating entities in 2019. Euroclear Bank, the ESES CSDs (Belgium, France and the Netherlands), Euroclear Sweden and Euroclear Finland all received

their CSD licences. Such progress places Euroclear amongst the most advanced in Europe and reinforces our role as a provider of a safe and efficient financial market infrastructure.

In addition, we have continued to prepare for the changes that are expected to come with the United Kingdom's decision to leave the European Union. In particular, we have focused on ensuring continuity for the Irish non-gilt securities settlement services after Brexit since these are currently provided from London by Euroclear UK & Ireland. Euroclear is well placed to continue its Irish securities settlement services after Brexit, having secured recognition for Euroclear UK & Ireland by the European Securities and Markets Authority (ESMA), until 30 March 2021. By this time, the Irish non-gilt securities market will have migrated to Euroclear Bank as its Issuer CSD, in addition to its existing role as CSD for Irish gilt securities. This transition will happen regardless of trading and listing arrangements.

### Sustained investment to upgrade our technology capabilities

Given our role at the core of global financial markets, clients rely on us for efficient and safe technology solutions. During 2019, we defined a strategic vision, comprised of a number of transformation themes, to progressively upgrade our technology capabilities across the entire group.

First and foremost, we ensure that operational risks remain strictly controlled, with continued investment in cyber defence and business resilience. At the same time, we are selectively modernising our core systems, while avoiding a 'big bang' approach. This is further supported by efforts to modernise the group's IT infrastructure, providing solid foundations for future developments.

We also continue to invest in new digital solutions that support clients' evolving needs. As part of this objective, we are increasingly looking to cloud-based solutions, digital interfaces and blockchain solutions to support innovative services.

Moreover, we continue to strive to progressively become more data-driven, increasingly adopt agile ways of working across the whole organisation, and optimise our IT operating model leveraging group capabilities and global partners.

Such efforts continue to make Euroclear an appealing place to work for ambitious and skilled technology professionals, ensuring that we attract and retain talented people.

### Supporting Europe's ambitions for a single capital market

Over the past years, European financial markets have been shaped by a sustained low-interest rate environment and the effects of stronger pan-European regulatory regimes, for all participants. These conditions have increased clients' appetite for access to an efficient, robust and harmonised European post-trade network that goes beyond the traditional domestic borders. Furthermore, these clients expect an environment where they can reduce their liquidity and credit costs, via an accessible, common and seamless marketplace.

The European Union has held a long-standing policy ambition for a Capital Markets Union. One of the most important developments in reaching this goal was the setup of the European Central Bank's T2S platform in late 2016, which established a single settlement platform for Eurozone securities. As an integrated settlement model for Europe, T2S has aimed to reduce European fragmentation and make securities settlement more efficient.

## Scale provider of post-trade services

**€31 trillion**  
assets held in our  
custody for our clients



**€837 trillion**  
in turnover

**+6%**  
y-o-y growth

**239 million**  
transactions processed  
**+3.9%** y-o-y growth

**>1.5 million**  
securities  
worldwide

Euroclear has supported the T2S initiative with the ESES CSDs (domestic CSDs for Belgium, France and the Netherlands) joining in 2016 and contributing c. 40% of total value of T2S-eligible securities. We continue to consider how best to further support clients' evolving needs for an efficient European post-trade network, including initiatives to increase interoperability between ESES and Euroclear Bank.

In November, as the first ICSD in the industry, Euroclear Bank announced that it is closely exploring whether to connect to the T2S ecosystem. By providing access to both central and commercial bank money, Euroclear Bank would be the sole global post-trade provider to provide access to central bank money on top of its commercial bank money environment.

Such a move would greatly assist financial institutions to manage their risk and increase efficiency, while also optimising liquidity. This also creates a single pool of collateral liquidity across multiple currencies and market jurisdictions and fosters more attractive European capital markets.

### Better connecting European issuers to investors

Whilst we continue to focus on providing investor CSD solutions to global financial market participants, we also seek to make our issuer CSDs more attractive for local issuers, including in the asset management sector. Issuers are looking to distribute their securities to a broad range of potential investors, and to know and engage more closely with their shareholders.

Corporate governance has a crucial role to play in the entire end-to-end cycle, be it for the issuing entity or the end investor. Both sides of the chain expect high levels of transparency and higher engagement. This can be attained by embracing new regulatory conditions and technology to understand investor viewpoints, e.g. voting trends through electronic voting technology, shareholder analysis, etc.

We have a particularly strong issuer franchise in Finland and Sweden where we provide a range of

services, including helping issuers to manage their general meetings. We continue to develop these services through new product developments such as electronic voting solutions.

With the ESES markets now connected to T2S, we have the opportunity to attract new issuers to our CSDs from other European markets. For example, Euroclear France has been appointed issuer CSD for two Spanish equities listed on Euronext trading venues via its Tech Hub initiative.

In addition, we are developing new solutions that meet the new requirements of the incoming shareholder rights directive (SRD II). By creating new transparency requirements, SRD II provides issuers with the opportunity to better identify and engage with their shareholder base, and therefore strengthen corporate governance.

### Providing efficient, global access to funds

Asset managers' objectives as funds promoters are similar to those of corporate issuers in enabling broad and efficient access to their issuances. We support their distribution strategies by developing a range of funds-specific post-trade services, known as Euroclear FundsPlace.

Our platform provides automated order routing, settlement, and asset servicing for fund assets. With our network of over 1,200 fund administrators, we routed 11.2 million funds orders in 2019, an increase of 2.6% year on year. We continue to deliver a more flexible service while allowing clients to leverage automation to reduce the cost, risks and complexity associated to processing fund trades.

The funds industry is embarking on a period of significant evolution. New innovative business models are being created to meet the expectations of an increasingly global and technologically savvy customer base and pressures to increase transparency and efficiency throughout the investment chain. Euroclear is supporting the industry to adapt to these changes.

For example, Legal & General Investment Management (LGIM) selected Euroclear UK & Ireland's CREST Investment Fund Service to benefit from full automation of settlement for its UK investment funds. The CREST Investment Fund Service delivers end-to-end automation from order placement to settlement and asset servicing. It reduces operational and counterparty risks, improves liquidity management and ensures certainty of settlement. Clients benefit from clear visibility of their settlement obligations and are able to manage cash flows effectively and efficiently.

In Sweden, a number of the country's leading fund management companies, have selected Euroclear Sweden to digitalise fund order flows, and so reduce the cost and risk associated with manual processing of fund administration. This follows on from the decision to add the Danish krone to its Exchange Traded Products service offering. Euroclear Sweden now provides a service for issuance, settlement and payment of Exchange Traded Products in Danish krone, Euro and Swedish krona.

A major trend in the fund management industry in recent years has been the rise of passive management. We have been at the centre of innovation in the Exchange-Traded Fund (ETF) market by developing the international ETF structure.

With its simplified issuance structure, the international model is attractive to both ETF issuers and global investors. Today, an important part of the European ETF industry is in the international form and major asset managers continue to migrate their ETFs to the structure. In an industry first, Euroclear Bank and Hong Kong Exchanges and Clearing Limited (HKEX) have collaborated to enhance the distribution of European ETFs in Asia. HKEX has become the first stock exchange in Asia to adopt the ICSD ETF settlement model in Euroclear Bank.

## The place for funds

# 145,000

investment funds  
processed by Euroclear

# >1,200

fund administrators

# €2.4 trillion

funds under custody

# 11.2 million

funds orders routed annually

## Growing our network globally

As an open financial market infrastructure servicing multiple currencies, we support the evolving requirements of our clients as they look to benefit from the opportunities created by an interconnected global economy.

We are growing our network globally by supporting financial market participants increasing requirement to mobilise collateral across borders and time zones, as well as by connecting international markets to Euroclear. Together, these programmes have grown substantially over recent years and now contribute to around 25% of the group's revenues.

### Providing global collateral management solutions

Through Euroclear's Collateral Highway, we support the financial market's requirement for a neutral, interoperable utility to source, mobilise and segregate collateral. It provides a comprehensive solution for managing collateral, offering clients a complete view of exposures across the full spectrum of their asset classes and enabling collateral optimisation opportunities.

In addition to more traditional collateral management activities (typically repos, securities lending, derivatives and access to central bank liquidity), our range of collateral management solutions includes dedicated services for corporate treasurers, and a specialised equities collateral management service.

By the end of 2019, the average daily collateralised outstanding on the Collateral Highway reached €1.3 trillion, despite challenging market conditions in the securities lending and borrowing market during the period.

The demand for collateral management services is expected to continue to accelerate, driven by the end of quantitative easing and the impact of new global regulations which require clients to post margin across transactions to reduce counterparty and systemic risk. One area of regulatory change is the new regime for initial margin requirements for non-cleared derivatives, and we have been accompanying clients in their transition since 2016.

During 2018 and last year, we continued to assist market participants to successfully on-board clients who transitioned to the new regime. Preparations are underway to support the broader range of clients who will do so in the years ahead. For example, we launched the Collateral Portfolio Service enabling our custodian clients to offer a triparty collateral management solution to their buy-side clients, making triparty a truly portable service offering, agnostic of the settlement and custody location.

Euroclear is now the sole owner of the GlobalCollateral entity, having taken over the 50% previously owned by DTCC in March 2020. In doing so, we enhance the efficiency and delivery model of the Collateral Margin Utility product that helps meet the industry's needs to manage collateral movements across borders.

### Euroclearability – making an impact

Across the globe, growth economies are seeking to attract foreign investors to help fund long-term development needs. At the same time, international investors are seeking opportunities to diversify and increase the profitability of their investments around the world, particularly during a period of historically low yields in Europe and North America. Euroclear works closely to support local economies that wish to connect their domestic capital markets to a global investor base, aiming to bring more efficient capital flows and providing stability to these financial markets. Some emerging markets are also profoundly impacted by the global COVID-19 health crisis, and we continue to support these economies in accessing a global investor base now, and over the longer term.

Last year PwC, in cooperation with Euroclear Bank, published the white paper "Impact of Euroclearability" examining the benefits markets can achieve when they become Euroclearable. These include increased

liquidity in domestic sovereign bond markets, directly prompting higher trading volumes and lower bond yields in primary and secondary markets.

Markets that are Euroclearable illustrate a number of features that enable international investors to access domestic bond markets, such as efficient and secure asset ownership, an investor-friendly tax and regulatory environment and other features which enable connectivity between domestic bond markets and international investors.

Controlling for wider factors, PwC finds that Euroclearability is associated with a reduction in sovereign borrowing costs of 28 basis points (bps) in primary bond issues. This is broadly equivalent to the yield differential of one credit rating notch (i.e. the difference between A- and BBB+).

For six countries that have recently obtained Euroclearability, the potential gain from lower borrowing costs is associated with a GDP boost of US\$3.8 billion over 10 years. These countries reported a rise in spending on areas that benefit society, such as infrastructure and healthcare.

During 2019, Euroclear worked closely with four growth markets, China, Egypt, Israel and Saudi Arabia. Signing a Memorandum Of Understanding (MOU) with China Central Depository & Clearing, the intention is to work towards enhancing cross-border services and eventually establishing an efficient link to support further opening of the Chinese Interbank Bond Market.

## Collateral Highway

€1.3 trillion

average collateral outstanding mobilised daily

+8% y-o-y growth

## Euroclearability



\$3.8 billion

Potential GDP boost to real economies for 6 recently Eurocleared countries over 10 years

+1.2%

increase in the annual education budget



or

+1.0%

in the annual healthcare budget



At IMF/World Bank spring meetings, the Egyptian Ministry of Finance (MoF) and Euroclear Bank also signed a MOU, looking to create the appropriate market conditions for local currency sovereign debt issuance. The intention is for the market to eventually become Euroclearable, creating a cross-border link to enable international investment in Egyptian domestic debt instruments. Euroclear signed a similar agreement with Saudi Arabia.

Later in 2019, Euroclear became a custodial member of the Tel Aviv Stock Exchange, enabling it to provide settlement and asset services for domestic Israeli securities through its direct account in the CSD (TASECH). The benefits to international investors include a higher level of asset protection, increased market proximity and faster access to securities.

In addition, we will support demand from global issuers and investors as they look to incorporate Environmental, Social and Governance (ESG) factors into their securities profile. Green finance reached record levels in 2019, with issuances of green bonds estimated to reach €250 billion according to the rating agency Moody's. With sustained investor demand, Euroclear actively supports standardisation of ESG indicators to help issuers prove their credentials and for investors to efficiently screen their investments.

## Reshaping our network

Our strategy extends to exploring opportunities to support our clients' evolving needs in new areas that reflect our ambitions to increase safety, efficiency and global liquidity optimisation in capital markets. By combining new technology with new business models, we believe that there are exciting opportunities to reshape our network and deliver long-term sustainable business growth.

### Investing in digitalisation and data

We continue to invest in connectivity and communications products that benefit clients' experience and increase efficiency. EasyWay™ is Euroclear's web-based interface that offers clients the ability to have a clear overview of settlement, collateral management and corporate actions activity. With accurate, real-time data at their fingertips, EasyWay helps users work efficiently and make fast, effective decisions to manage operational risks. We continue to see increasing usage of the EasyWay platform with over 870 active clients on the platform, up from 250 in 2018.

A further example is Taskize, which was acquired in 2017. Taskize's innovative messaging tool helps back-offices across our network to manage and resolve their post-trade activities more efficiently, particularly important in light of CSDR. Client demand for the service has steadily increased, with over 200 active clients in 50 countries reporting high levels of user satisfaction. Taskize is well suited to helping clients meet their incoming CSDR obligations, particularly in reporting and resolving settlement failures, whilst keeping their relationships confidential.

We continue to consult financial market participants to understand their evolving requirements to ensure that we enhance the end-to-end user experience as we upgrade our own digital capabilities. Indeed, we are also exploring how certain technologies, such as cloud-based solutions, smart automation and robotics, might help to enhance Euroclear's own operating efficiency with several pilot projects already proving successful.

Given its role as financial market infrastructure with over €31 trillion of assets under custody, Euroclear today manages a vast amount of financial transactions data. Euroclear is looking to extend its role in bringing greater transparency and liquidity in global capital markets by harnessing this untapped data. By bringing new, valuable and actionable insights to clients, we commit to support the development of safer, more efficient financial markets.

In the course of 2019, we were encouraged that our reference data products have been gaining client traction and generating some initial revenues. Preparatory work has also been completed for Euroclear's first cloud-based liquidity data solutions, with commercial phase scheduled for mid-2020.

### Exploring emerging technologies

We continue to take a collaborative approach to innovation and in assessing the opportunities that may be captured from new technologies such as distributed ledger technology (also known as Blockchain).

For example, we have an investment in Liquidshare, a collaboration to develop a blockchain-based infrastructure for European small and medium-sized enterprises, that is now reaching the pilot stage. In 2019 we have also worked with the European Investment Bank (EIB), Banco Santander, and EY on an end-to-end Blockchain solution for the issuance and settlement of European Commercial Paper.



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