

PUBLIC

**Minutes of the Meeting of the UK User Committee of Euroclear UK & Ireland Limited
("UK UC" or the "Committee")
held on 30 January 2020 at 15:00pm
at the offices of
EUI, 33 Cannon Street, London EC4M 5SB, United Kingdom**

Present: Marye Humphery - Chairperson
Tony Jones - JP Morgan
Mark Louis - Bank of England
Jason Phillips - DMO
Judy Price - Investec Wealth
Richard Turrell - LCH.Clearnet

Apologies: Richard Barber - Citibank Europe Plc
Richard Barrett - DST
David Berry - Brewin Dolphin
Philippe Castelanelli - HSBC
David Daniell - UBS
David Gaselee - Barclays
Michael Kempe - Link Asset Services

In attendance: Chris Elms; Jennifer Parker (Secretary); An Mestdagh (item 5); Paul Miles; Charles Pugh (CP); Cevdet Sumbultepe; Eric Zapita (item 6).

1. Welcome

The Chair welcomed the Committee members to the meeting.

2. Conflicts of Interest

The Committee members were reminded of their duties to avoid conflicts of interests, to disclose any potential conflicts and to confirm any material changes, with regard to the business being discussed at the meeting. Committee members confirmed that they had no conflicts to declare.

3. Approval of minutes for the meetings held on 5 November 2019 and 16 January 2020

The minutes of the meeting held on 5 November 2019 and 16 January 2020 were **approved**.

4. Matters Arising

The Committee considered the open actions list and noted that all matters falling due would be discussed during the meeting. The Committee agreed to close the items proposed for closure.

Mr Miles gave an update on Action UKUC20190903/5 regarding whether EUI and/or the market could mandate the use of CREST for income payments. Mr Miles updated the Committee on the *Dividends in CREST* functionality and noted that EUI would continue to assess market feedback, including from issuers.

5. Irish Migration

The Committee considered the *Irish Securities Settlement Post Brexit Update* paper and the following matters were noted:

- Euroclear considered the track project to be on track overall, but recognised that the registrars had requested further information;

- the Migration Bill been signed into law by the Irish President on 26 December 2019. This removed the need for issuers to go through individual schemes of arrangement, although further legislative changes were required prior to the start of the 2020 AGM season. There was a risk that legislative clarity would not be obtained ahead of the 2020 AGM season and discussions were ongoing with issuers and their legal advisers regarding the approach;
- the Irish authorities had confirmed March 2021 as the migration date for Irish securities out of CREST, irrespective of the outcome of Brexit and any transition arrangements;
- the status of the Service Descriptions for Euroclear Bank participants (published) and registrars (to be published in early February) was noted;
- Euroclear had replied to the consultation on Irish dividend withholding tax, including its views on the proposed implementation date of January 2021;
- the stamp duty offering had been finalised with the Irish Revenue Commissioners and approved by the CCPs and AFME;
- the Committee noted that the proposed meeting and voting service offering to be provided for Irish securities by Euroclear Bank would require legislative change and was currently under discussion with the issuers and the Irish authorities.

Ms Mestdagh emphasised to the Committee that the programme was in full implementation mode and the implementation timeline was noted. She confirmed that stakeholder readiness was being closely monitored and provided an update on stakeholder status, including engagement with the registrars and noting the dependency on registrars to be ready for the migration.

The Committee noted that there remained a difference of opinion between Euroclear and the LSE regarding the need for equivalence of a CSD act as an issuer CSD for European securities only listed outside the EU and that ESMA had been approached for clarification. Action: share ESMA feedback when received [*post meeting note: completed*].

Ms Mestdagh reiterated the short timeline and the need for continued focus and progress across the market. She confirmed to the Committee that Euroclear would provide further clarity on pricing – both CDIs in CREST and Irish securities in Euroclear Bank - in the coming weeks.

A member asked whether the stock deposit and withdrawal process would facilitate dematerialisation. Ms Mestdagh replied that, ultimately, this would be the case but added that dematerialisation was a separate and distinct project. Euroclear was not solving for dematerialisation but aimed to put in place a solution that would be workable for dematerialisation.

The Chair provided an overview of the feedback received from a Committee member who was unable to join the meeting and AM responded as follows:

- *the project was not on track*: Ms Mestdagh replied that Euroclear's programme was on track, whilst recognising the following issues at market level – legislative status (currently rated amber); registrar readiness (currently rated red). She noted that some registrars were seeking further clarity on CSDR settlement discipline requirements and confirmed that Euroclear would include certain assumptions regarding settlement discipline to enable the project to move forward;
- *the issuers were also not happy with progress*: AM countered that, whilst correct for some issuers, this was not the case for all;
- *progress on voting arrangements*: Ms Mestdagh noted that good progress was being made, with agreement reached the previous day regarding nationality declarations. She noted that some registrars had requested the use of a particular market utility for voting and although Euroclear had decided against mandating the use of such utility, it would build a solution to facilitate it if required;
- *consideration of a different approach*: Ms Mestdagh reminded the Committee that Euroclear was not mandating the move to Euroclear Bank. However, Irish securities must be moved out of EU by the end of March 2021.

The Chair noted that the member's feedback also recognised that constructive progress had been made in recent months and that all were working hard to achieve the desired outcomes. The member requested ongoing transparency, including in relation to the risks and issues associated with the programme.

There were no further questions for Ms Mestdagh.

Ms Mestdagh left and Mr Zapita joined the meeting.

6. CEO Update on recent system performance and relevant audit findings

Mr Elms introduced himself as EUI Interim CEO and summarised his key focus areas, He noted his intention to use the UK User Committee as a sounding board to support EUI's future developments.

The *CEO Update* report was noted. Mr Elms highlighted that EUI's 2019 operational performance stood at 99.92% (target 99.8%) and funds performance was at 99.84% Operational resilience remained an ongoing and continuous focus.

Mr Zapita presented an update on recent audit findings, as requested at the previous meeting. He noted that one finding remained outstanding, with the remainder having been closed.

Action: Mr Zapita to update the Committee when the remaining action closes.

Mr Zapita left the meeting.

7. Client Satisfaction Survey Results

The Committee noted the results of the EUI 2019 Client Satisfaction Survey, including the positive evolution of the overall satisfaction score to 83.1% (2018 82.1%) and increase in the net promoter score to 41 (2018 39.1).

Mr Miles noted the following areas highlighted by clients for EUI attention:

- further development and communication of EUI's business strategy, particularly the digital client experience;
- increased client engagement by EUI's senior management;
- funds.

A member propose that EUI consider further the role of the CSD in the crypto currency environment.

Action: Mr Miles.

8. Product and Services update

Mr Sumbultepe provided an overview of the impact of the Shareholder Rights Directive (**SRD2**) on EUI's domestic and international services. He outlined EUI's plan to deliver enhancements to the domestic service to achieve SRD2 compliance by September 2020, for example, new functionality/enhancements to voting and corporate actions. For the international service, and taking account of EUI's intermediary role, EUI was reviewing enhancements to provide ISO 20022 capability and engagement was underway with the User Committees and relevant industry bodies.

The Chair asked whether users would have sufficient time to make the necessary changes to their systems. Mr Sumbultepe replied that EUI would make relevant services available for domestic securities to achieve compliance in the first phase, with a longer term aim of providing additional value added services. A member questioned cost management and Mr Elms replied that costs were constantly monitored. EUI was acutely aware that regulatory requirements have a cost impact and this was an area of ongoing focus for the Board.

Mrs Price joined the meeting.

Mr Sumbultepe drew the Committee's attention to the recent LIBOR publication on changes to the reference rate and sought views from the Committee. A member asked about potential impacts on users, for example, would re-papering be required due to changes in the reference rate? Mr Sumbultepe noted that an impact review was ongoing. **Action:** Mr Sumbultepe to update at the next meeting.

Mr Sumbultepe referred to the recent Operation Bulletin regarding the expiration of the current CCSS contract. He highlighted that the current stock deposit/stock withdrawal model was likely to change, which would have an impact on users. In response to a question from the Chair, Mr Miles noted that volumes had declined materially over the years. EUI aimed to make a smooth transition and would update the Committee at the May meeting.

Mr Sumbultepe noted that EUI was rationalising its CSD links. EUI aimed to remove its current link with SIX-SIS and move the depot to Euroclear Bank. This represented a small proportion of EUI's overall international business and would be subject to a client consultation. A further update would be provided at the May meeting.

9. CSDR Update

The *CSDR Update* presentation was noted and Mr Pugh highlighted the following points:

- the status of EUI's CSDR application;
- settlement discipline – Mr Pugh noted that a new version of the RTS was expected shortly. Market feedback had been provided by a number of European trade associations to the EU Commission and ESMA on the implementation and timing of both settlement discipline and buy-in requirements and Mr Pugh referred the Committee to the link set out in the presentation;
- the status of ongoing discussions between EACH, ECSDA and ESMA regarding Article 19 and penalties on CCP transactions was noted;
- EUI's November 2019 release had been successful and a mandatory business launch was foreseen on 4 May 2020. Mr Pugh expected clients to be able to receive settlement data as of September 2020 to assess and monitor the impact of the new requirements during a parallel run period.

The Committee briefly considered the impact of Brexit. It noted that it remained unclear how the UK would treat the CSDR settlement discipline requirements if these were not in force on 31 December 2020.

10. Effectiveness Review – Results

The Committee noted the results of the 2019 Committee Effectiveness review and discussed the key comments raised:

- *New DvP links*: the Committee requested that there be a twice yearly check on whether there was a user requirement for consideration of new DvP links;
- *Feedback on communications to/from the EUI Board*: the Chair noted that she provided a report from each Committee meeting to the Board. The Committee requested that the link with the Board be strengthened further, eg by INED attendance at the Committee;
- *Personal membership*: management requested to review the approach to personal membership;
- *Alignment/standardisation with other markets*: some members would like to see closer alignment of EUI's product and services strategy with other parts of the Euroclear Group;
- *Delegated attendance*: the Chair explained her strong preference not to allow alternates as, in her experience, this often resulted in the dilution of a committee's membership. However, additional invitees and SMEs could be invited on an as-needed basis;
- *Committee composition and sector representation*: the Chair noted that the Committee composition would be reviewed following two recent departures and to ensure balanced sectoral representation. Members were invited to make recommendations for consideration.

Action: Mr Miles/Ms Parker/Mr Pugh.

11. AOB

There being no further business, the Chair closed the meeting.

Date of Next Meeting – 6 May 2020

Signed: Marye Humphery