

PUBLIC

**Minutes of the Meeting of the UK User Committee
of Euroclear UK & Ireland ("EUI")
("UK UC" or the "Committee")
held on Tuesday, 12 February 2019 at 1:30pm
at the offices of
EUI, 33 Cannon Street, London EC4M 5SB, United Kingdom**

PRESENT: Marye Humphery (Chair); Richard Barber; David Berry; Philippe Castelanelli; David Daniell; David Gaselee; Tony Jones; Michael Kempe; Mark Louis; Jason Phillips; Richard Turrell.

APOLOGIES: Richard Barrett; Judy Price.

IN ATTENDANCE: Ian Dowglass, Deirdre Feely; Rachael Leith; Paul Miles; Jennifer Parker (Committee Secretary); Charles Pugh; and Eric Zapita.

1. Welcome by the Chair

Marye Humphery, the Committee Chair, welcomed all attendees and declared the meeting open.

The Chair noted that Mr Trundle, EUI CEO, was unable to join the meeting and sent his apologies.

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. Each of the Committee members confirmed they had no conflicts to declare, other than Mrs Humphery who noted that she was conflicted in respect of agenda item 5.1: Proposed Chair Re-appointment and accordingly she would not participate in the discussion or vote on the resolution.

3. Approval of Minutes

The Committee **APPROVED** the minutes of the Committee meeting held on 3 December 2018.

4. Matters Arising

The Committee **AGREED** to close the actions items proposed for closure. The matter relating to the initial scoping document regarding settlement discipline would carry to the May meeting.

5. Governance

5.1 Chair Reappointment

Ms Parker reminded the Committee that Mrs Humphery was appointed as Chair of the User Committee at its inaugural meeting held on 30 October 2017 and that her initial letter of appointment was in respect of a one year period. She noted that it was proposed, with recommendation from the independent non-executive directors of EUI, that Mrs Humphery be re-appointed for a further one year period, to 31 October 2019.

The Committee (other than Mrs Humphery, who did not vote) approved the re-appointment of Mrs Humphery as Chair of the Committee to 31 October 2019.

Mr Barber joined the meeting.

5.2 Terms of Reference ("TOR")

Ms Parker presented the proposed updates to the Committee TOR, together with the CSD User Committee Conflicts of Interest Policy (the "**Conflicts Policy**") as appended. These were subject to annual review, with the current changes minor in nature. She stated that, in accordance with CSDR, the Committee minutes and TOR would be published on the EUI website.

The Committee **APPROVED** and **ADOPTED** the updated Committee TOR and Conflicts of Interest Policy.

6. Post-Brexit CSD and Settlement Arrangement Updates

Mrs Leith reminded the Committee that she had previously spoken to them regarding two main issues for EUI as a result of Brexit – Irish securities settlement and Euro settlement. In order to be in a position to continue to provide settlement of Irish securities, ESMA recognition of EUI as a third country CSD was required. EUI hoped to have its application to ESMA determined well in advance of the Brexit deadline. She referenced the public statement issued on 4 February 2019 by ESMA in relation to their agreed memoranda of understanding.

With regard to Euro settlement, progress was likewise being made on the proposed solution for EUI to move Target 2 settlement from the Central Bank of Ireland (the “**CBoI**”) to the European Central Bank (the “**ECB**”). The revised agreement was being negotiated with the ECB and would run for a two year period. EUI was currently conducting internal assessments and governance. EUI also needed to consider consequential amendments to its agreements with the settlement banks and Mrs Leith reported that there was strong engagement with the settlement banks, with comments received regarding the back-to-back agreements being reviewed.

Mr Miles noted the current political and legal uncertainties, but confirmed the positive direction regarding euro settlement. Mr Jones agreed that any threat to euro settlement would require rapid communication to the market. Mr Gaselee observed that, from the settlement banks’ perspective, the back-to-back agreements would have to be reflected through to the settlement banks’ customers through updated terms and conditions. If the ECB demanded full end-to-end testing, the settlement banks were already liaising with customers to set up appropriate test environments, but this would represent a significant challenge alongside other priorities. He added that, in the event that not all settlement banks were ready to go live on the launch date, an interim solution was under consideration.

Mrs Leith reiterated that the ECB agreement remained dependent on internal and external factors.

Mr Kempe provided an update on the proposed long term solution for Irish securities settlement, which was being developed by Euroclear Bank. He noted that the Euroclear Bank CSD Working Group (the “**EB CSD WG**”) was meeting regularly, with a White Book due for release by end Q1 2019. Ms Parker confirmed that matters were moving well on the Irish side and through the Irish User Committee and EB CSD WG. Mr Kempe noted that whilst the previous EB model had not been fully supported by the market, the current Euroclear Bank proposition was progressing well.

7. CEO Update

Mr Miles presented the CEO update on behalf of Mr Trundle and reported that both operational reliability targets had been reached in 2018. The service resilience target of 100% was achieved, with 99.90% reached in respect of the system availability (target 99.80%)

Mr Miles confirmed that there had been a brief (8 minute) settlement outage in January, when there had been a delay in the Earmark with the Bank of England (the “**Bank**”) but there had been no systemic impact on services.

8. Shareholder Rights Directive II (“SRD”)

Mr Kempe provided a presentation on the SRD. He stated that Europe-wide consistency was being sought regarding information rights to shareholders and under the SRD. The scope of the SRD was to cover the exercise of certain shareholder rights including those attached to voting shares in general meetings and requirements to encourage shareholder engagement (particularly cross-border), specifically regarding:

1. Identification of shareholders – This was already enshrined in UK statute and regulation, although it was acknowledged that uncertainties remained as to how new requirements might interact with existing regulation and processes.
2. Transmission of information – The facilitation of shareholder rights via the intermediary chain may bring significant new responsibilities and actions for intermediaries. Generally, underlying shareholders would get access to information directly from the named shareholder.

3. Facilitation of exercise of shareholders rights and vote confirmation – Where votes were cast electronically by proxy, electronic confirmation of receipt of votes was sent to the person that cast the vote. It should be ensured that the end investor had access to their rights, to include vote confirmation. A shareholder in general meetings could request confirmation that their vote was validly recorded and counted, up to 15 days after the general meeting.
4. Transparency of institutional investors – This related to pricing transparency, etc.
5. Disclosure requirements for asset managers and proxy advisors – Stewardship considerations should ensure that the asset manager was clear what they were advising regarding voting and that this was done in good time. An example of this would be the use of proxy advisors where it was not clear as to the manner of voting. These disclosure rules for Proxy Advisors come into effect on 10 June 2019.
6. Remuneration of directors and related party transactions – More transparency was required in this regard.

Mr Kempe stated that the SRD sought to facilitate the exercise of voting by: machine-readable and standard format use, which presented difficulties in the UK such as for pension funds; and by allowing shareholders to respond in a reasonable time using widely available methods which enabled straight-through processing by intermediaries.

Mr Kempe noted with regard to the impacts of SRD II, the market generally needed to focus on potential solutions. CREST could potentially adopt an ISO message and response to address shareholder identification. Registrars each had their own way of doing so but there was no standard process. Automation and standardisation should be considered as previously suggested by European working groups.

In respect of the facilitation of shareholder rights, Mr Kempe stated that an underlying investor was required to go through the intermediary in order to obtain certain information, and for which the intermediary could only facilitate such requests from the registered shareholder. CREST could potentially create a broker/registrar message hub to facilitate such communications, essentially to provide an information exchange. CREST already held functionality regarding vote collection, but could not verify casting of votes at the meeting.

With regard to vote confirmation, Mr Kempe noted the 15 day post-meeting lapse for which a shareholder could request confirmation that their vote in general meeting was validly recorded and counted. Presently, there was no market standard as to how this was to be processed or the associated costs and this is likely to represent a considerable hurdle to full implementation.

The Committee continued with discussion regarding the market wide issues around voting, and identification. They agreed as to the benefits of standardisation and noting the considerations required Europe-wide. There may be a potential SWIFT standard in such regard. However, some requirements were country specific and could not be standardised through SWIFT on a pan-European basis and further deliberation would be required. The global custodians, where this was more so of a growing issue were also considering other digital solutions.

Mr Zapita joined the meeting.

The Committee noted the benefit of reaching industry level solutions for the issues raised.

ACTION: CREST Solutions: Regarding Mr Kempe's SRD II presentation and the questions raised therein, PM to consider future opportunities and where CREST can potentially address some of the market concerns, to include specific UK/Euro wide solution – **PM**

Mrs Leith left the meeting.

9. Disclosure of Relevant Audit Findings to the Committee

Mr Zapita presented the process surrounding disclosure of relevant audit findings to the Committee. He outlined the Article 52 CSDR requirements related to the sharing of relevant audit findings with the Committee. This was required where the findings: (i) related to the criteria for accepting issuers or users to their respective securities settlement systems operated by the CSD; (ii) related to any other aspect of the Committee's mandate; or (iii) may impact the level of provision of services by a CSD, including ensuring business continuity. There was one qualification to the provision of relevant

audit findings: these would not be provided to members of the Committee where it would place them in a position of competitive advantage.

Mr Zapita confirmed that the Internal Audit plan was reviewed annually at both EUI Audit Committee and Board level, with approval provided by the EUI Board. Where any relevant findings were identified in an audit, a draft report would be prepared, following the process outlined in the presentation. This would include: (i) consideration by the EUI Management Committee, including an assessment against the competitive advantage consideration; and (ii) presentation of the audit findings to the EUI Audit Committee. Relevant audit findings would therefore be reported to the Committee a quarter in arrears to ensure the full EUI governance process was followed.

Mr Zapita left the meeting.

10. CSDR Update

Mr Pugh reported that work continued on the CSDR application. The first set of articles had been delivered to the Bank at the beginning of February 2019, with work progressing on subsequent submissions through to mid-2019.

The Committee discussed the time taken to complete the application and Mr Pugh acknowledged that it was a learning process for both Regulators and CSDs alike. Mr Miles added that from management's point of view, work had commenced some time ago around priority matters such as outsourcing and governance and EUI remained on track with its plan and delivery deadline. The Committee would be updated as to developments. Mr Jones observed that EUI stood in a similar situation to its peers and their current status with their respective regulators and this provided comfort to the Committee.

With regard to settlement penalties, Mr Pugh confirmed that design work had commenced, with IT requirements now being baselined. Mr Pugh advised that the Settlement Penalties Working Group (the "SPWG") was expected to recommence in Q1 2019, with client roadshows occurring throughout 2019 and 2020. Discussions at the SPWG would include planning, the November 2019 software release and new messaging for CCPs. Mr Pugh confirmed a live date of 14 September 2020 in respect of settlement penalties.

Mr Pugh observed that there would be only one SWIFT release - in November 2019 - before the published go live date in September 2020. However, there was only one message - MT537 - necessary for the required reporting. The majority of client facing changes were currently planned to be delivered in the software release in November 2019 together with the SWIFT change, followed by a business launch in March 2020. Certain changes to the system would require additional work, such as tolerance matching, with this release anticipated in June 2020.

Mr Miles noted the importance of active client engagement to ensure the process was straightforward for clients and to consider the impact on the market in general. Mr Miles proposed that the User Committee act as an escalation forum in the event of escalations from underlying working groups. Mr Turrell welcomed this engagement from a CCP perspective.

With regard to Brexit, Mr Pugh confirmed that the third country equivalence application had been submitted to ESMA on 23 January 2019, following approval by the EUI Board. As of the prior day, ESMA had declared the application complete. ESMA would consider EUI's application at their Board of Supervisors on 26 March next, which was close to the Brexit deadline.

Mr Kempe observed that CSDR equivalence legislation had been published in draft form in the UK, with certain provisions requiring clarity. Mr Phillips noted that the DMO had engaged with HMT and offered to share (to the extent that he was able) relevant information with Mr Twemlow.

ACTION: Mr Twemlow to liaise with Mr Phillips – CT

11. Default Guidelines and Market Engagement

Mr Dowglass stated that the Default Guidelines were a new public facing document which had been written in the context of CSDR and ESMA guidelines and drew heavily on EUI's practical experience with Lehmans. The key phases in the process related to notification of default to EUI and whereby clients of EUI would communicate any act of default, either of themselves or their underlying clients.

Included in the Default Guidelines were the formal methods of notification to EUI in the event of default, together with details regarding the convening of the crisis management team at EUI, the related impact assessment and the formal requirement for EUI of formal onward notification to ESMA. Further details related to the ongoing actions during the life cycle of a default event and how this was closed out by EUI.

Mr Dowglass noted that as part of CSDR, the Default Guidelines ensured that participants were aware of the steps that EUI were required to take in an event of default. He requested that members of the Committee ensure that their firms, staff and market sectors were aware of the procedures as espoused by the Default Guidelines.

Mr Dowglass reported that the ESMA guidelines outlined a requirement for testing to ensure that the market were aware of their obligations under the regime. In this regard, he requested that each Committee member nominate someone from their firm or sector to assist EUI and evolve market wide testing of the procedures in Q2 2019. The actual testing phase would be run over Q4 2019, to be aligned with the annual testing of EUI's business continuity procedures.

ACTION: Co Sec to communicate with the Committee members to collate details of willing market participants. Copy of Default Guidelines to be provided to UK UC – **ID/PM/Co Sec**

Mr Barber commended the utility of the Default Guidelines by having all requirements set out in one place and to provide guidance, especially to insolvency practitioners. Mr Dowglass confirmed that there were no changes to the process and the Default Guidelines were subject to annual review. In response to a query from Mr Daniell, Mr Dowglass confirmed there had been consultation across the Euroclear Group in preparation of same. The Committee continued with discussion regarding the practicalities of annual testing, given that the settlement banks were across multiple jurisdictions and in cognisance of local insolvency laws. From a strict point of view, the procedures under the Default Guidelines applied equally across all jurisdictions.

12. 2018 Client Satisfaction Results

Mr Miles presented the main trends of the client satisfaction results, noting that EUI remained stable with the positive evolution of +1.5%. The target response rate had not been reached (72 contacts representing 69 companies had participated), but the number of responses and comments still provided an adequate basis for analysis. Whilst there had been focus from the EUI Board on funds strategy, there had not been as much traction in funds as anticipated over the course of the year.

Mr Miles stated that for the first time, software suppliers had been included in the survey in 2018 as a separate category and were benchmarked at 83.3%. This was to ensure that client needs were sufficiently met in such regard.

With regard to the net promoter score ("**NPS**"), Mr Miles stated that this was utilised as a target to ascertain which clients would recommend EUI again, who may be dissatisfied with their service and to understand client concerns. He noted that LCH responses over 2016-2017 had represented a change. There had been some significant outages and whilst these did not have a major impact on the orderly close of day, they attracted the focus of some clients on communications during these outages. He confirmed that EUI was now back above the service resilience threshold.

Mr Miles noted that there had been general comments regarding inflexibility, EUI not thinking forward on business developments and the digital experience as a whole. He stated that Euroclear as a group were moving forward on modernisation, increasing investment in business strategy, assessing priorities regarding business development, etc. As to key highlights and compared to 2017, EUI showed a positive evolution. The overall score increased by 1.5% to a high of 82.1%. The NPS increased by 12.2 points to 39.1 and the share of detractors decreased significantly. There would be focus as to how the scope of funds and clients could be increased, as a key priority for EUI. Communication with clients would remain a focus also, as well as increased level of engagement with the Committee.

13. Date of Next Meeting

The Committee **NOTED** the date of the next meeting was 21 May 2019.

14. Any Other Business

Transfer Agency Issue

Mr Berry advised as to a recent change of transfer agent ("TA") for a fund manager and the related timing, which was resulting in issues with how the fund manager could continue to provide CREST services. If the fund manager had to switch off the service to facilitate the change in TA, this would result in a three week fund settlement outage. Mr Miles noted that this was essentially a timing issue and he would liaise with the TA, noting that the EUI relationship with the fund managers was not usually directly held but managed through third parties.

ACTION: PM to liaise with Brewin Dolphin regarding the TA/fund manager issue – **PM**

USD Settlement – Takeda Shire Transaction

Mr Dowglass reported the successful execution of a US dollar based corporate action effected 22 January 2019 relating to the Takeda takeover of Shire with a cash outturn of US\$27.1BN and total daily flow of US\$324BN. This had all been settled under the new central bank money arrangements and had been viewed as a success by both the Federal Reserve Banks and the Bank. Mr Kempe observed potential issue and related market rumours on the Registrar side regarding extra settlement bank funding to cover the GBP pre-funding for contingency arrangements. Mr Dowglass provided comfort that the corporate action had run smoothly and highlighted that engagement was required to educate the market as to how the model regarding USD settlement worked and how the pre-funding flows should be accounted for as treasury movements. The PRA had given some helpful guidance to the settlement bank concerned. EUI would be happy to facilitate any further market engagement.

Mr Miles stated that a step back would be conducted in relation to the international service and for which EUI would liaise with clients for input. The Committee could assist in this regard.

ACTION: PM to reach out to UK UC members to invite presentations from interested members, for future presentations also (potential: personal membership of CREST) – **PM**

ACTION: PM to confirm if ad hoc (by teleconference) required near to 29 March 2019 for Brexit considerations – **PM**

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



**Signed: Marye Humphery
Chairman**